Corporate Policy and Resources Committee	
Wednesday 4th December 2019	

Subject: Enterprise Resource Planning (ERP) - FINANCE SYSTEM

Report by:	Executive Director of Resources
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Purpose / Summary:	To replace the current finance system with a product which will allow for future integration to provide a modern, mobile with self service functionality, informative enquiry and reporting capabilities, with the expectation of efficiencies and value adding integrations for the authority

RECOMMENDATION(S):

1 To approve the acquisition of a new Enterprise Resource Planning (ERP) system for Finance, and incorporating Performance Management from the Capital Budget of £270k funded from the Project Investment Reserve.

2. To support the development of the ERP system to enable future integrated corporate systems to transition to ERP at a suitable time

IMPLICATIONS

Legal: None from this report

Financial : FIN/130/20/TJB

Within the Capital Programme there is a £270k budget for the acquisition and implementation of a finance system funded from the Project Management Reserve. It is envisaged this budget is adequate to fund the implementation of both a Finance and Performance Management modules of an ERP system. All costs are estimates based on information provided by suppliers.

The Costs of project management (£45k) and backfilling staff £30,400 would require funding from the revenue project support budget.

In terms of the finance system ongoing costs can be met from the current licence and system maintenance support costs. In addition to the reduction of one Finance Business Partner (this is a 3 year fixed term post and it was anticipated that with the implementation of this system cashable efficiencies could be made)

There is the potential for a fully developed system to create the Financial Statements, and notes including which could also result in a reduced need for additional resources for the closedown process saving a further £30k, which could contribute to the wider implementation costs of future modules.

To implement the whole ERP suite could cost circa £312k in further capital expenditure and result in an estimated additional revenue cost of between £34k-£64k. A business case for this wider development will be undertaken to ascertain further efficiencies reflecting the capabilities of the system and will be reported back to this Committee.

Staffing :

There will be the need for project management resourcing in addition to staff involvement in the project which will result in back fill support being put in place.

The project will have wider implications for budget managers and other stakeholders who undertake financial transactions. Staff will be consulted, engaged in the project and fully trained prior to roll out.

Equality and Diversity including Human Rights :

This will be undertaken as part of the project plan

Data Protection Implications : None from this report, however the Data Protection officer will form part of the Project Team

Climate Related Risks and Opportunities: There may be a small reduction in electricity usage as our servers would no longer be used as the system is Cloud based.

Section 17 Crime and Disorder Considerations : None from this report

Health Implications: None from this report

Title and Location of any Background Papers used in the preparation of this report:

Risk Assessment :

Procurement risk will be mitigated through the use of Government Frameworks to reduce the potential implications of system selection.

A full risk assessment will be undertaken as part of detailed project planning, and reviewed and maintained throughout the project. This will be a major project and the risks will vary as the project progresses.

A number of key overarching risks are noted below, with possible mitigations:-

Risk: The implementation project may not deliver to time, cost and/or quality**.**

Mitigation: A project manager with relevant experience will be engaged. Key finance and user staff will be included on the project team. The Project governance will be undertaken by the ICT board.

Risk: Approval for ‘go live’ may be given before the system is ready.

Mitigation: A comprehensive testing programme will be followed. An issue log will be maintained. Data will be cleansed before upload and reconciled afterwards with extensive testing undertaken before ‘go live’. Advice and support for these processes will be sought from the supplier and project manager.

Call in and Urgency:

Is the decision one which Rule 14.7 of the Scrutiny Procedure Rules apply?

i.e. is the report exempt from being called in due to urgency (in consultation with C&I chairman)	**Yes**		**No**	x

Key Decision:

A matter which affects two or more wards, or has significant financial implications	**Yes**	x	**No**	

1. Executive Summary

1.1 A number of key corporate systems have been identified as either requiring replacement or implementation to achieve improved customer experience, efficiencies from automation and integration in addition to business intelligence capabilities. After a process of market engagement it has been determined that our best solution would be to acquire an **Enterprise Resource Planning System (**ERP); this is a type of software that connects day-to-day business processes including: accounting, budget planning and monitoring, human resources, payroll, procurement, performance and project management and asset management to name a few.

1.2 This report details the Business Case for such an acquisition.

2. Background

2.1 In March 2018 the Finance Team undertook a thorough review of the service, with the aid of Chartered Institute of Public Finance (CIPFA) Financial Model.

The Model used a scoring system to provide an objective measure of financial management performance including the identification of strengths, weaknesses and areas for improvement. Importantly the review measured the whole organisation's attitude to financial management not just the performance of the finance team.

2.2 The main conclusion of the review was that the team were performing well, had strong internal controls, high quality standards and commitment of staff, and assurance of existing governance arrangements. However too many resources were tied up dealing with transactional issues rather than the identification of potential efficiencies and the implementation of change programmes or other initiatives. As a consequence, the Finance function had a tendency to be reactive rather than proactive resulting in a risk that bottlenecks might arise which would lead to delays with key initiatives.

CIPFA commented "We welcome the intention to re-organise the finance function and financial system within West Lindsey DC and our recommendations are intended to feed into the consideration of such plans."

2.3 There were six areas identified for improvement including;

- Resilience of the Finance Team
- Introduce Finance Business Partners to provide a more strategic rather than transactional role.
- Improve the functionality of the Council's finance system with modern system capabilities.
- There is a lack of experience/knowledge within the Finance team of how to make the best use of the Finance system.
- Financial awareness of budget holders
- Demonstrating added value of the Finance Team

2.4 A number of initiatives have been implemented to address the improvement areas and these are identified below:

- The implementation of a new structure for the Finance and Business Support team has now been finalised.
- Redefined roles from Accountants to Finance Business Partnering with recruitment based on skills, knowledge and ability. Training and support has been delivered over the past year, and the Team Leader has recently passed the CIPFA Level 7 Accreditation in Finance Business Partnering.
- Introduction of a Principal Systems Accountant to develop and improve system capabilities.
- E-Learning and in-house training courses on Financial Management, have been developed and delivered to relevant staff.

2.5 In relation to the finance system the current legacy system, which was originally implemented in 1999 and upgraded in 2008 meets our basic accounting requirements but is no longer considered best value when taking into account the labour intensive processing resources required to undertake budget managing and forecasting, reporting, insight, reconciliations with other systems, management of the coding structure and financial reporting.

Specifically

- The coding structure does not meet our current structure needs and reporting requirements effectively. In addition it was created as a “flat” structure which does not have the functionality to drill down to lower level detail.
- Some workflow functionality has been built into the Purchasing module, but further investment would be required to widen this functionality with our suppliers for example.
- The Medium Term Budget forecast is built outside of the system, with a lot of manual intervention required and manipulation of data. This results in the need to undertake regular reconciliations on movements and is both time consuming, inefficient and prone to errors.
- All reporting from the finance system is based on downloads into excel and manual intervention before it is issued, this is extremely labour intensive.
- The preparation of the Statement of Accounts is a manual function, which could be automated with the right system capabilities
- The production of government returns are undertaken from exported data, manipulated to correspond to data requirements, rather than a structured approach
- The current system requires programming expertise in the use of Crystal Reporting. The service does not have this expertise, albeit some training to staff has been provided. Modern systems utilise a modern drag and drop functionality

- Investment is required to provide added value insight i.e. dashboards which can be created in modern systems to provide up to date business analytics in real time and at different levels of the organisation.
- As other data sources sit outside of the General Ledger reconciliations are required with other systems i.e. HR establishment, Property Asset Register, Income Management System

2.6 The Corporate Policy and Resources Committee previously approved the procurement of a replacement Finance system and a joint procurement exercise was undertaken Newark and Sherwood and Melton Councils. Unfortunately this procurement was abandoned due to the market not accepting Terms and Conditions. However, this allowed the organisation to consider the wider possibilities for a system which would better meet the ICT Strategy.

2.7 The ICT Strategy was approved in 2018 and includes the following Principles;
The Principles proposed for our ICT service, informed by staff consultation, are as follows:

- Our ICT service exists to support our strategic business objectives and Corporate Plan;
- Our ICT service and related projects will help ensure that we can deliver cost effective, efficient and excellent customer facing services;
- Our business requirements will drive the technical solutions we adopt, not the other way around;
- We will adopt Cloud and digital enabled solutions as a default position for all new investments in ICT;
- We will support business teams with up to date and reliable IT tools and facilities which will enable them to deliver excellent services, not constrain them;
- We will use technology to provide excellent communications, both internally and externally;
- We will process and secure customer data responsibly to ensure it being used in accordance with local policy and wider legislative requirements

2.8 In view of the above, a number of officers from across a variety of services, led by the Strategic Lead of Customer First have been engaging with the market to assess capabilities and applications which meet our vision for a fully integrated ERP system.

3 Supplier Engagement and Procurement Process

3.1 At the start of 2018, the Authority (with the support of Alysium Consulting) developed a high-level ICT Strategic Roadmap. The roadmap was written following extensive consultation with staff and customers of the Authority to ensure any reasonable requirements were incorporated into the new ICT arrangements.

3.2 The roadmap identified the need to consider the application portfolio at the Council and contemplate ways of using enterprise software to deliver both more joined up end to end services in pursuit of customer excellence, and more commercially-minded business support and management functions.

3.3 Following the approval of the roadmap, a Soft Market Testing exercise was completed to allow the project team to understand the possibilities and opportunities available in the market and to help the scope of this project be developed.

3.4 Since that time, as a result of other drivers, the Authority has evolved its strategy for the Corporate Enterprise Solution, to include some Business Support functions, including Finance, HR, Payroll, Asset Management, Performance and Project Planning.

3.5 In November 2018, the Authority undertook a Supplier Engagement Event with a range of suppliers operating in this business market, to better understand the route to market, in order to refine its procurement approach and relevant documentation.

3.6 On the basis of that feedback, the Authority has revised its approach and developed a Procurement Strategy to facilitate the achievement of its Corporate Enterprise Solution aspirations in light of the market capabilities, through the delivery of a CRM solution and an ERP solution.

4. Enterprise Resource Planning System (ERP)

ERP is a category of business management software – typically a suite of integrated applications that the organisation can use to collect, store, manage and interpret data from many business activities and which could replace current standalone systems such as Finance, Human Resources and Payroll, Asset Management etc. A typical ERP would include;

Financials – General Ledger, Budget Forecasting and monitoring, Debtors, Creditors, Bank Reconciliation, Procurement, contract management, risk management etc.

Asset Management – Project Management, Asset register, work programming, inventory management

Human Resources – Recruitment, Safety, Training and Development Management, Performance Management, Payroll, time sheets etc.
Corporate Services - Performance Management Reporting, Risk Management,
General: Integrated reporting, workflows, document management and mobile capability, tailored business intelligence dashboards, access and security levels.

5. OPTIONS CONSIDERED

Do Nothing	
Advantages	**Disadvantages**
No additional costs	Does not meet ICT Strategy
	No efficiencies can be made
	Cost of an additional Finance Business Partner from 2021/22 (current saving in Medium Term Financial Plan (MTFP) £38.5k)
	Numerous processes remain inefficient

Develop Existing System	
Advantages	**Disadvantages**
Improved efficiencies from reporting albeit not to the level that can be achieved through modern systems	Limited opportunity to redesign processes
	Any additional functionality will be costly to implement
	There will be no corporate benefit of integration
	Unable to amend structure - can create new but would not then link with history
	Modern and better quality systems available on the market

Standalone Finance System Replacement	
Advantages	**Disadvantages**
Efficiencies from processing and reporting	Does not meet corporate ICT strategy aspirations
Cashable saving through Finance Structure - 1 FTE	Ability for transformational change limited to Finance service only
Improved Financial reporting extraction	Continued inefficiencies through no integration with related systems
Improved flexibility for reporting and enquiring	
Budgeting and Forecasting system would integrate with General Ledger	
Budgeting system more automation with better controls	

ERP Finance System as replacement	
Advantages	**Disadvantages**
Provides opportunities for transformational change - mobile and self service	Significant one off costs to implement - external consultancy, in-house staff, project management and back fill costs
Best practice built into system	High risk project but with significant benefits if delivered
Cloud based therefore reduction in costs of storage	Significant culture change (both advantage and disadvantage (risk))
Improved resilience	
Efficiencies through integration	
Integrated reporting adding value and insight	
Dashboard monitoring for users	
Workflows all in one place for ease of manageability	
Promotes strategic planning	
Accuracy of data - one database	
Upgrades etc managed externally	
Facilitates data management	
Potential to for further cashable savings from interim closedown support	

Added Benefits of full ERP System Replacement	
Advantages	**Disadvantages**
Efficiencies from having one database – reconciliations, budget preparation, Budget Manager oversight for all areas	Cost and cost of change
Improved and integrated performance management reporting	Central resource may be required to manage system
Improved flexibility for reporting and enquiring	Payroll contract may be affected
Mobile capability	Significant culture change (both advantage and disadvantage)
Improved customer experience	High risk project but with significant benefits if delivered
Ease of use and access	
Efficiencies for ICT due to cloud capabilities – upgrades etc	
Standardisation and familiarity throughout for users	

5.1 The preferred option therefore is to acquire a Finance System with ERP capabilities and that the Council commits to future relevant corporate systems to be integrated at the most beneficial time.

6. Business Case

6.1 Strategic Case

The strategic ICT objectives to utilise technology that will add value to the Council. The solution will be cloud based with full integration, which will result in standardisation, simplicity, and efficiencies through a self service approach and through a one database approach.

6.2 Commercial Case

The procurement of an ERP Finance project will be funded from the Project Investment Reserve.

6.3 Financial Case

The Finance system was first implemented in 1999 and was upgraded in 2008. Whilst the system has had developments over time it requires significant investment to deliver our aspirations but lacks the capability to do so.
This report requests approval to acquire an ERP system and implement both Financial and Performance Management modules. An indication of future costs for other corporate systems is also provided for completeness as over time further investment will be required. The implementation capital costs and annual ongoing revenue implications are detailed in the table below;

Project Cost - Estimates						
		Finance, Procurement, Contracts, Reporting, Bank Rec, Performance Management	**HR and Payroll**	**Asset Management**	**Project Management**	**TOTAL**
Capital Costs - Implementation	Funded From Reserves	252,000	150,000	85,000	25,000	**512,000**
Project Manager	Project Manager Finance 3 days pwk for 9 months funded from Revenue - Other systems estimate 20%	45,000	30,000	17,000	5,000	**97,000**
Finance Staff	Back Fill Costs - Revenue	30,400	?	?	?	**30,400**
TOTAL CAPITAL EXPENDITURE		**327,400**	**180,000**	**102,000**	**30,000**	**639,400**

Ongoing Revenue Costs - Estimates					
	Procurement, Contracts, Reporting, Bank Rec, Performance Management	**HR and Payroll**	**Asset Management**	**Project Management**	**TOTAL**
Annual Licence and Support	75,000	45,000	27,000	6,350	**153,350**
Less					
Current Annual Cost of existing systems	-35,500	-6,000	-10,600	0	**-52,100**
Less cost of 1 Finance Business Partner - Efficiencies	-38,500	?	?	?	**-38,500**
Service efficiencies and added value	?	?	?	?	
Management efficiencies and added value (Corporate Wide)	?	?	?	?	
Future Potential Resource saving	-30,000				**-30,000**
	-29,000	**39,000**	**16,400**	**6,350**	**32,750**

6.4 Operational Case

There are a number of factors which are currently inefficient;

- Reporting is undertaken through Crystal reporting which requires technical skills in SQL (a computer programming language) this is a very dated and difficult system to work with. Modern system have an easy to use drag and drop selections through any coding structure hierarchy.
- The Budget and Medium Term Financial Plan is developed on individual budget working papers, which are then input to the main spreadsheet . This process carries the risks of error, therefore time is spent on reconciliations throughout the development of the new budgets. One officer has control, all reports for annual budget setting is undertaken by a number of pivot tables and manual interventions from the main spreadsheet. A modern systems are integrated with the General Ledger, would allow multi users, self-serve capabilities, retains full audit trails, has the functionality to enable documents and notes to be attached to budgets, in addition to being able to generate reports easily and flexibly.
- The enhancement of reporting will enable managers to see their budget monitoring reports updated at the push of a button and can provide additional insight when configured – there is more enhancement if other modules are purchased which can then enable a full service performance report to be generated.

Other benefits include;

- support the achievement of savings throughout the Authority
- will empower users to take responsibility for their budgets
- enable Finance Business Partners to spend more time on value-added tasks
- enable innovation in the delivery of finance services
- up-skill finance staff
- automate / streamline processes
- provide systems resilience
- move to a software as a service basis allowing IT costs to reduce more easily

6.5 Legal Considerations

There are no legal considerations to this acquisition

7. Soft Market Engagement

Following on from the original Market Engagement, and the Procurement exercise, the Authority reached out to the majority of applicable suppliers that showed interested through the SQ procedure. A total of 3 suppliers were invited to join a further market engagement exercise in order to assess the available products on the market that would be appropriate to a Public Sector environment.

The suppliers were invited to provide a demonstration of their products; and to provide information related to the commercial envelope in which they would operate, through a recognised government framework.

This commercial envelope identified the suppliers' preferred framework, and a method of understanding the relevant components of that framework that would need to be taken into account, in order for the Authority to understand an indicative cost envelope for the product. This exercise was not designed to ask for a 'formal price' as this will be part of any framework procurement process. However the estimated pricing is within our budget envelope.

Following the demonstrations and any subsequent clarifications, the Authority has been able to consider the quality differentials, which have included functional, technical and developmental components. The indicative cost envelope included Software, Hosting and Support and indicative implementation costs or range of implementation days, with indicative costs provided by suppliers.

In addition, the Authority has also identified the scope of the product, its advantages and its disadvantages in order to come to a conclusion as to which product or products would move forward.

8. Scope of Procurement options

It is proposed that a procurement is made via an approved framework.
It would be appropriate to consider whether we should procure other elements of the system at this time.

- The Performance Monitoring reporting is currently a very labour intensive process as the process has been developed using word and excel documents. The implementation of an automated system would therefore bring benefits in standardisation, integration, data access and therefore improve efficiencies.

- The current system contract for Human Resources and Payroll expires in March 2022. The payroll function is carried out by North Kesteven DC under a Service Level Agreement. Therefore a project business case and plan for implementation needs to be developed in line with the existing contract end date. The benefit of having integration with finance and performance management modules will produce efficiencies through ease of access to information, no requirement for reconciliations to other systems, integrated reporting, strategic and service organisational and development planning.

- Project Management is currently undertaken manually and is both time consuming.

- The current Asset Management system is on an annual rolling contract. It records all our property assets and their associated records, i.e. leases, condition surveys, valuations, maintenance and compliance records etc. In addition the Finance Team have an Asset Register held on spreadsheets for the purpose of the accounts, this holds records such as depreciation, historic cost and current cost (valuation). The benefit of integration will ensure that there is one data base, therefore there would be no requirement for reconciliations between the two current registers. Officers would have improved access to property and financial data in addition to more integrated and timely reporting requirements. Inventories for other assets could also be included and managed effectively i.e. vehicles, ICT equipment etc. It is planned that this be considered as a phase 2 project in 2-4 years.

9. Project Management

It is expected that the Authority will require additional resource to support this project in the form of a client Project Manager. For the implementation of Finance and Performance specifically at this time it will also require some dedicated support from Finance and Business Support/Performance teams; this support is likely to require posts to be back filled. An amount of £75k has been estimated for both these costs and which will be funded from the Project and Business Case Development revenue budget.