



To: Executive Councillor for Finance & Resources:
Councillor George Owers

Report by: Head of Finance

Relevant scrutiny committee: Strategy & Resources
13 July 2015
Scrutiny Committee

Wards affected: All

CAPITAL DELIVERY APPROVAL – Replacement financial management system

Key decision

1. Executive summary

This project relates to a replacement for the financial management system. Initial work indicates that a capital budget of up to £242k and an additional revenue budget of up to £105k each year ongoing will be required. These figures reflect the upper end of the indicative price range obtained from suppliers and are before any contributions that may be received from partners or savings achieved as a result of the implementation. Based on average costs from suppliers and a conservative saving assumption, this project should deliver net savings in future years. Further information on the financial implications of the project is set out in Appendix 1 – B1: Estimate the project costs, and in Appendix 3 – Financial case summary.

The new capital project approval process requires projects with a value of greater than £300k to obtain Executive Councillor approval before consideration for funding as part of the Mid-Year Financial Review (MFR) or Budget Setting Report (BSR) process. Below £300k, the Capital Programme Board (CPB) review the project to ensure that it is properly planned and ready for delivery before it goes forward for funding consideration. As the process is new the CPB is yet to be convened, so this project has been reviewed by the Strategic Leadership Team (SLT).

Funding approval by Council is required as soon as possible (July 2015) to enable the project to commence without delay. The new system will be

critical in delivering savings and efficiencies, in supporting the transformation of the council and underpinning proposals for the sharing of the Finance Service. Approval at this point should allow procurement to be finalised by the end of November 2015, with the system implemented for 1 October 2016. As the project progresses, it will be possible to estimate both capital and revenue costs and savings with more accuracy and the resulting adjustments to budgets will be requested through the MFR and BSR as appropriate.

Details of the project, including financial and other implications are set out in Appendix 1.

2. Recommendations

The Executive Councillor is recommended:

- to approve the replacement financial management system project, as detailed in the attached appendices, which has been properly planned and is ready for implementation
- to recommend that Council approve capital and revenue funding for the replacement financial management system project

3. Background papers

These background papers were used in the preparation of this report:

Replacement financial system - Project Control Document (PCD) Parts A and B

4. Appendices

Appendix 1 – Project details, extracted from the PCD

Appendix 2 - Capital prioritisation form

Appendix 3 – Financial case summary

5. Inspection of papers

To inspect the background papers or if you have a query on the report please contact:

Author's Name:	Caroline Ryba
Author's Phone Number:	01223 - 458134
Author's Email:	caroline.ryba@cambridge.gov.uk

Appendix 1 – Project details extracted from the Project Control Document

A1. Project Brief - Purpose

The project will replace the Council's current financial system, Oracle Financials, with a modern, flexible and appropriate system. The system selected and implemented will be cloud-based, in line with the emerging ICT application delivery strategy. It will enable / support the Council's transformation through the provision of self service functionality and intuitive enquiry and reporting capabilities. As such, it will be a key driver of change.

A2. Project Background

The Council currently uses Oracle Financials version 11.5.10.2. This version is on extended support (new patches only released for systems critical issues) until at least December 2015. It is expected that support from independent consultants (not Oracle) will continue to be available after this date. The Council has a concurrent user licence. Oracle no longer provide this type of license, so there is a risk that Oracle will require the Council to change licensing model leading to increased costs.

The current system meets our basic accounting requirements. However, it is traditional in design, inflexible, and cannot be changed easily and cost-effectively to support the business. For example:-

- The coding structure was designed during implementation in 1997, and does not support current structures and reporting requirements effectively
- Workflow functionality e.g. to support P2P, is available but expensive and time-consuming to implement
- A reporting tool, Business Objects, is used as reporting directly from the system is not user-friendly, and the reports that are available from Oracle itself cannot be easily manipulated in spreadsheets
- It is not possible to maintain a separate 'Period 13' for year-end accounting adjustments
- The budget process and associated modelling has to take place outside the financial system

A high level options appraisal was performed in 2013. A summary of the options considered is given below.

Upgrade Oracle to R12	
<p>Advantages</p> <ul style="list-style-type: none"> • Future legislative changes included in system patches • Current cost levels maintained • Retain current reporting through Business Objects – well used and understood 	<p>Disadvantages</p> <ul style="list-style-type: none"> • One-off costs of £120-150k (2012/13 prices) • Limited opportunity to re-engineer processes • Not scaleable as council reduces in size • Any additional functionality e.g.P2P, will be costly to implement and designed for larger organisations than the Council
Run existing Oracle on extended support	
<p>Advantages</p> <ul style="list-style-type: none"> • Little / no time required to put in place • Retain current reporting through Business Objects – well used and understood 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Limited developments possible at a cost • No system updates available for significant future changes (statutory etc) • Exposed to above inflation increases in support costs as fewer Oracle customers run this 'old' version • Not scaleable as council reduces in size • Time limited solution
Outsource to non-Oracle support model	
<p>Advantages</p> <ul style="list-style-type: none"> • Cost approximately 50% of Oracle support cost (saving~£20kp.a) • Retain current reporting through Business Objects – well used and understood 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Developments, patches etc would be possible, but at a cost • No system updates available for significant future changes (statutory etc) – unless specified as bespoke changes at a cost • Unlikely to be able to revert to Oracle support, if this model not satisfactory
Outsource service provision (Oracle hosted or cloud-based)	
<p>Advantages</p> <ul style="list-style-type: none"> • May provide some revenue savings 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Would require upgrade to R12 – disadvantages as

	above
System replacement (cloud-based in line with emerging ICT strategy)	
<p>Advantages</p> <ul style="list-style-type: none"> • Provides opportunities for transformational change – processes, self-service, mobile-working • Best practice process in-built • Scalable (costs) as council reduces in size, costed on usage levels • Hardware, systems support, disaster recovery costs etc consolidated into one cost model, with expectation of overall savings • Improved system resilience • Opportunity to leapfrog to current ‘best of breed’ solution • Provides platform for finance shared service offering 	<p>Disadvantages</p> <ul style="list-style-type: none"> • Significant one-off costs to implement – external consultancy, internal time and probable back-fill costs of finance staff involved • High risk project, but with significant benefits if well-delivered • Will require significant cultural change (both advantage and disadvantage(risk))

Given the analysis above, and the functionality and opportunities for process improvement provided by the implementation of a modern system, this project will procure and implement a replacement financial system.

The project will have implications for, and dependencies on a number of other existing and potential projects:-

- **Finance shared services:** At present neither SCDC (shared service probable within 12-18 months), nor HDC (possible shared service partner in a later phase) are committed to change financial systems. However, for the maximum benefits to be gained from a shared service, a common financial system will be necessary.

SCDC have indicated that they understand and support the proposition with regard to shared services and want to be involved in the project through representation on the project team.

HDC have been briefed on the project and are considering their involvement.

- **Support Services Review (SSR):** Although a new financial system is likely to be delivered after the new structures arising from the three phases of SSR are in place, it will enable the streamlining of processes within the new teams, provide access to the financial system from any location through desktop and mobile devices, and provide readily available information to track the performance of transactional services. The project itself will provide an opportunity to develop relationships and working practices with the new ICT support function.
- **Alternative delivery models:** A modern, flexible financial system will better support the changes to the structure of the organisation arising from the implementation of alternative delivery models. It will also provide an attractive platform from which to offer financial services to services being externalised.

A3. Objectives

- To procure and implement a new financial system to replace the existing Oracle Financials system
- To deliver the benefits outlined in A4
- Further objectives relating to potential shared service partners – to be agreed

A4. Benefits

The project will support the transformation of services and culture change within the organisation. It will :-

- support the achievement of savings throughout the council
- facilitate shared services in ICT support and finance
- empower users to take responsibility for their budgets
- enable accountants to spend more time on value-added tasks
- enable innovation in the delivery of finance services
- up-skill finance staff
- automate / streamline processes
- eliminate the risk of running an unsupported finance system
- provide systems resilience
- move to a software as a service basis allowing IT costs to reduce more easily

B1 Estimate the Project Costs		
Area of Expenditure	Capital £k	Proposed Funding Source
Implementation consultancy	65 - 150	Reserves
Project manager	29 – 44	Reserves (6 – 9 months , 3 days/week at £750/day)
Back fill for finance staff involved in the implementation project	23 - 33	Reserves (2 people at CPB6 for 6-9 months, 5 days per week – assume 50% capital)
ICT support	15	Reserves (50 days at £300 per day)
Total capital	132 - 242	
	Revenue £k	Proposed Funding Source
Annual subscription for system usage	35 - 160	Each year
Back fill for finance staff involved in the implementation project	23 - 33	2 people at CPB6 for 6-9 months, 5 days per week (year 1 only) – assume 50% revenue
Revenue	58 – 193 (year 1) 35 – 160 (ongoing)	
<p>Existing revenue budgets directly supporting Oracle, and available to fund the new system are £59k p.a. An additional amount of £30k (one-off) is available, from income earned from sharing the Head of Finance with SCDC. Additional funding will be sought from SCDC (and possibly HDC) on the basis that implementation at the City Council will reduce subsequent implementation costs for these councils (for example, system and process design will only be done once).</p> <p>Appendix 3 sets out a financial case summary, using average costs from the summary above and indicative savings to illustrate how this project would impact the Council's revenue budgets in future years.</p> <p>As described in A4, replacement of the financial system will have considerable non-cashable benefits, as well as acting as an enabler for a number of cashable benefits in the future. These future cashable benefits will include:-</p> <ul style="list-style-type: none"> • Reduction in the number of finance and business support staff 		

through the automation of processes, the roll-out of self service, and enabling of shared services (e.g. 10% of current finance department employee costs would be ~£80k p.a. – expected saving post implementation and embedding of new processes should be higher than this). This saving is additional to savings already taken through the Support Services Review of ICT Support and Financial Support.

- Savings achievable though sharing of finance team with SCDC, enabled by the system replacement
- Reduction in ICT support costs, including system and server administration, and Oracle DBA support
- Reduction in ICT running costs, including electricity, office space, server replacement
- Reduction in paper and printing costs through the use of electronic workflows and reports designed for use on screen
- Reduction in accommodation costs from reduced need for document storage and no on site server required

The funding for this project will require approval. It is proposed to take this through the new capital project approval processes, to be agreed at S&R Scrutiny Committee in July 2015. This will require review of the full business case by the Capital Programme Board to ensure deliverability and proper planning, followed by budgetary approval by Council.

It is proposed to present the project through the July committee cycle (i.e. to treat it as an exception rather than delay until October and include it within the MFR), to enable implementation to be completed for 1 October 2016, between peaks in workload for the Finance Team.

B2. Procurement Strategy

In line with the emerging ICT strategy, the finance system will be procured as a service (Saas – software as a service). The application will be hosted ‘in the cloud’ and accessed through a browser. Therefore procurement will cover 2 aspects – implementation costs, typically consultancy, and on-going subscription, or usage costs. Over a typical life cycle of 5+ years, the total cost is expected to exceed OJEU thresholds, and therefore the use of a framework contract is recommended, to shorten and simplify procurement process, whilst ensuring compliance with procurement and legal requirements.

We have identified two suitable frameworks:-

G-Cloud (available through the Government’s Digital Marketplace) - framework agreements with a large number of service providers; services listed on a publicly accessible portal known as the Digital

Marketplace. Public Sector organisations can call off the services listed on the Digital Marketplace without needing to go through a full tender process.

The SaaS / Accounting and Finance category on G-Cloud lists 473 suppliers, covering a wide range of finance-related applications. All major finance system suppliers to the local government sector are represented, either directly or through implementation partners. The call-off contract duration is limited to two years without extension, however in practice repeat contracts are possible, protecting initial investment in systems implementation.

Framework Agreement RM1042, available through Crown Commercial Services, will enable the council to use a mini competition to procure our requirements through a call-off contract. The framework is entitled 'Corporate software solutions'. It has been developed as a pan-government agreement in association with strategic partners from central government, the wider public sector and Pro5 buying organisations. It provides a procurement vehicle for customers to access a specialist supply base for complex business needs based on common software products. Under the agreement suppliers are able to provide Enterprise applications software and related services to include design, development, installation and commissioning of systems; ongoing support, training, enhancement and maintenance and some related business process support services. The relevant lots feature 14 suppliers, but do not include all of the key suppliers within the local government marketplace.

We have recently become aware of further framework, made available by LGSS, through which we would be able to obtain the Agresso ERP system. This system is one of the market leaders.

Work is in-going to determine the preferred route to market from the above options.

Tony Allen will act in a procurement project management role, with support from legal services (Peter Geach) and procurement (John Bridgwater).

B3. Estimate the staffing resources required to deliver the project

(Note: the duration and timing of the implementation phase will depend on the system selected and drive the estimated number of hours)

Skill/Level/Person	Estimated Number of Hours	Estimated Duration	
		Start Date	Finish Date
Phase 1 – Procurement			
Project Manager	60	1 July 2015	31 October 2015
Accountancy (x2)	120	1 July 2015	31 October 2015
Income and payables	60	1 July 2015	31 October 2015
Non-finance users	60	1 July 2015	31 October 2015
Legal	35	1 September 2015	31 October 2015
Procurement	40	1 July 2015	31 October 2015
ICT support	60	1 July 2015	31 October 2015
Phase 2 - Implementation			
Project manager	600+	1 November 2015	30 September 2016
Accountancy (x2)	1200+	1 November 2015	30 September 2016
Income and payables	600+	1 November 2015	30 September 2016
Non finance users	100+	1 November 2015	30 September 2016
ICT support	300+	1 November 2015	30 September 2016

B4. Wider Staff Implications

The project will have a wide impact on staff and managers who undertake financial transactions or have budget management responsibilities. These staff will be consulted and will contribute to the project (see non-finance users above). They will principally be involved in specification, design and testing. The project will communicate to a wide audience, and significant numbers of staff will require training on the system and new processes as part of the implementation.

B5. Outline Your Approach to Consultation

A stakeholder analysis will be undertaken as part of detailed project

planning. As noted above, many staff will fall into key stakeholder groups and the project will need to develop a communications plan to ensure that stakeholders understand the impact of the project for them, its timescales and progress, and how to engage with it.

It is expected that there will be few external stakeholders, apart from the selected systems supplier, potential shared service partners (whose role / engagement with the project is to be agreed), and possibly suppliers of other systems which will need to interface with, or be replaced by the new system.

B6. Equalities Impact

An EQIA will be undertaken as part of the detailed project planning. At this stage, possible impacts are thought to be unlikely or minor and therefore manageable.

B7. Environmental Impact

Environmental impact (positive or negative) expected to be small, as this is a replacement system. For example, it will be hosted externally, so the Council's electricity usage will reduce, but will be substituted by increased energy usage for our supplier.

A larger positive impact should be achievable through reduction in the use of printed documents, with the use of electronic documents and automated workflows wherever possible.

B9. Risk Assessment

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:-

- **The solution (system, implementation support, ongoing support) chosen is not fit for purpose.** An output-based specification will be used and procurement will be undertaken through a framework agreement. References and site visits will be used as part of the selection process. Procurement and Legal support will be included on the project team.
- **The implementation project may not deliver to time, cost and/or**

quality. A project manager with relevant experience will be engaged. Key finance and user staff will be included on the project team. Project governance will follow the Council's project management methodology.

- **Approval for 'go live' may be given before the system is ready.** A comprehensive testing programme will be followed. An issue log will be maintained. Data will be cleansed before upload and reconciled after. Advice and support for these processes will be sought from the supplier and project manager.

B10. Anticipated Approach and Timetable

Note: this is an indicative timetable only. It assumes approval in July 2015. It also assumes a 10 month implementation phase. This timing will be subject to detailed planning with the chosen supplier, the amount of resource the Council can put into the project, the management of peaks and troughs in workload within Finance and other project dependencies. In practice, the stages shown within the implementation phase are likely to overlap.

Stage	Outcome / Deliverable	Date of Completion
Procurement		
Approval – funding and to commence	Capital Programme Board (S&R) Council	July 2015 July 2015
Solution chosen	Contract awarded and standstill period completed	October / November 2015
Implementation (duration dependent on solution chosen – indicative timetable below)		
Planning	Detailed project plans, including risks and issues, communications	November 2015
Design and build	Configured system and redesigned	June 2016

	processes	
Testing / Data migration	Approved system and verified data	August 2016
End user training	Training materials, user documentation, trained users	September 2016
Go live	System operational	1 October 2016

Capital Programme Board - Capital Project Prioritisation Score			
COMPLETE SHADED CELLS ONLY - select from drop-down lists where appropriate			
Project Name:		Replacement financial system	
Project Manager:		Caroline Ryba	
1	Do we have to do this project? - Is it a statutory requirement, e.g required to ensure health and safety of staff, customers? - Is it business critical, e.g. necessary to ensure continuing service delivery?	Y	Essential? Delete as appropriate
2	Does it address the council's objectives?	Project Score	
a	"Protecting essential services" including: reinstating the pest control service, protecting community grants to prioritise the disadvantaged and conducting an audit of all council spending to assess its impact on those in greatest need;	Does not support this objective in any way / works against this objective	0
b	"Sharing the city's prosperity and making Cambridge a Living Wage city" including: working to extend the Living Wage city-wide, expanding the council's apprenticeship programme, assisting credit unions, promoting energy-saving schemes and supporting those in need with water bills;	Does not support this objective in any way / works against this objective	0
c	"Tackling the housing crisis" including: maximising new council and affordable house building, working with partners to deliver more social housing, reviewing housing finance, increasing the fencing budget, increasing the number of repairs apprentices, reviewing policies on houses in multiple occupation, investigating the possibility of a social lettings agency and reviewing policies on homelessness;	Does not support this objective in any way / works against this objective	0
d	"Safety and quality of life" including: introducing public spaces protection orders to tackle problem drinking, working with the police to proactively use licence reviews of premises, introducing a "reduce the strength" campaign to tackle high-strength, low-cost alcoholic drinks, reviewing options for tackling domestic violence and action against punt touts, supporting the A14 upgrade, the City Deal and 20mph zones for residential streets, making improvements for cyclists and pedestrians and employing a Chesterton co-ordinator;	Does not support this objective in any way / works against this objective	0
e	"Making Cambridge greener and cleaner" including: doubling the public realm enforcement team, carrying out a "clean it up" anti-dog fouling campaign, doubling the programme of community clear out days, implementing a "cleaner Cambridge blitzes" campaign, tackling cigarette litter and improving maintenance and cleanliness in public places and parks;	Does not support this objective in any way / works against this objective	0
f	"Transforming the council" including: actively consulting with residents, improving area committees, supporting organisational transformation such as sharing services and other alternatives, reviewing financial processes and supporting a successful commercial property portfolio.	Aligned to this objective, either directly or provides necessary facilitation (eg computer system)	3
			0.5
3	Financial impact - how will the project, once delivered, impact on the council's revenue budgets?	Score	Amount (£k) - specify revenue or capital
	- Adverse financial impact - additional costs or reduction in income of more than £10k p.a.	-1	£39k p.a. revenue saving - see Financial Case Summary in PCD
	- Cost neutral - no expected impact on income or costs (+/- £10k p.a.)	0	
	- Favourable financial impact - increased income, decreased costs, or potential loss of income averted (£10k - £100k p.a.). Capital receipt of up to £1m	1	
	- Very favourable financial impact - increased income, decreased costs or potential loss of income averted (more than £100k p.a.). Capital receipt of more than £1m.	2	
		1.5	Total Score
4	Risks to delivering the project on time, to budget, and to quality requirements		
	- The outline business case (or similar document) adequately addresses how the project is to be delivered, timetable, costs and risks	Good quality outline business case	Low risk (Green)
	- Level of risk inherent in the deliverability of the project. E.g. reliance on third parties, partnership working, complex funding arrangements, possible planning issues, site surveys required, long delivery timescales with complex dependencies etc	Complex in a number of areas with significant dependencies	High risk (Red)

Appendix 3 – Financial case summary

Capital: There will be capital costs of £132 – 242k payable to cover implementation costs.

Revenue:

	2015/16 £k	2016/17 £k	2017/18 £k	2018/19 £k	Notes
Revenue implementation costs	9	19			Average cost £28k split between years 1:2
Annual subscription / usage costs	-	50	100	100	Average cost £100k, starting 1/10/16 (assumed implementation date)
Less: existing revenue budgets	-	(29)	(59)	(59)	Budget available from 1/10/16. In practice some legacy costs may not stop immediately. There may be costs of maintaining legacy data.
Less: one-off funding from sharing HoF	(9)	(21)	-	-	Assumes carry forward of some of this income into 2016/17
Total revenue costs	-	19	41	41	These figures assume no contributions from shared service partners or any reductions in price that might be available from suppliers on the basis of a larger implementation with these partners
Savings from finance team			(80)	(80)	10% of current cost assumed from 1/4/17 to allow for embedding of systems and processes. In practice these savings are expected to be larger but may be combined with savings from sharing finance services
Net revenue cost / (saving)	-	19	(39)	(39)	

See also B1, which lists a number of other savings that will become available as a result of this system replacement. As some of these savings rely on the move towards providing all ICT applications from the Cloud, and making savings in overheads as a result, they have not been quantified at this stage.