Committee Name: Cabinet

Committee Date: 06/04/2022

Report Title: Procurement of HR and Finance System

Portfolio:	Councillor Kendrick, cabinet member for resources
Report from:	Executive director of corporate and commercial services
Wards:	All Wards

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Purpose

To request that Cabinet delegate approval to the Executive director of corporate and commercial services, the award of a contract for the replacement of the Council's HR and Finance systems with a single Enterprise Resource Platform (ERP) system.

The current contract for the HR (MHR iTrent) and Finance (Advanced E5) systems expire in June 2022 although they are being extended in accordance with the contract provisions for a further 2 years to June 2024 to facilitate the implementation of a new system. During this period a new combined ERP will be procured and implemented. The proposed go live date for a new ERP system will be confirmed during the clarification period with the preferred supplier but the project timelines are currently assuming an 18 - 24 month implementation.

Recommendation:

Cabinet is recommended to:

1) enter into a contract for the replacement of the Council's HR and Finance systems
2) delegate approval to the Executive director of corporate and commercial services to award the contract to the most economically advantageous tender following submissions through the G-Cloud 12 framework.

Policy Framework

The Council has five corporate aims, which are:

- People live independently and well in a diverse and safe city.

- Norwich is a sustainable and healthy city.

- Norwich has the infrastructure and housing it needs to be a successful city.

- The city has an inclusive economy in which residents have equal opportunity to flourish.

- Norwich City Council is in good shape to serve the city.

Having effective management systems including the Council's HR and Finance systems supports the delivery of all the Council's corporate aims.

Report Details

Background

1. The council currently administers its personnel and financial information through separate but integrated systems. Provision of payroll services are provided externally through Sefton council and several other line of business systems interface with the council's financial system. The council also maintains financial records on behalf of its wholly owned company, Norwich City Services Limited; future options to include other council companies will also be possible.

2. The current arrangements are provided through what is known as an on-premise solution; this means that the council maintains the software on its own servers, it implements software updates and patches itself and considers at what point system enhancements or upgrades are implemented. The council is supported in these activities through having maintenance contracts with the core system supplier.

3. The council procured its current HR and finance system through a contract which is scheduled to expire in June 2022, although it has provision to be extended by up to a further two years. The systems were procured through Advanced Financial Services Limited who provided their E5 financials product which integrates with the MHR iTrent HR system.

4. The intention at the time was that these 'best of breed' systems would enable more effective provision of support services through for example, manager and employee self-service both in the delivery of human resource and financial management and reporting functions.

5. However, the expected benefits have not materialised. For example, budget holders are expected to forecast the financial position of the areas which they are responsible for and are supported to do this through collaborative planning which is a module within the E5 solution. This module does not provide real time information for budget holders. As a result, it has proved difficult to truly reap the benefits from this aspect and additional finance input has been required to support this area of work.

6. Similarly, within the HR service it has not proved possible to integrate payroll reporting into the system given the use of an external payroll provider; and as a result, payroll review checking and reporting is manually intensive and time consuming. Errors are also higher than would normally be expected or acceptable.

7. It is apparent that the current configuration does not support the Council's ambition for enabling services to support the effective delivery of front-line services. Several opportunities are available to the Council to support delivery in better ways, and these have been considered as part of the options for replacement of the existing HR and Finance systems. These are further explored in this report.

Timeframes

8. There are several drivers which are informing the timeframes for delivering this project:

- It is considered desirable, although not essential, for financial systems to be implemented at the beginning of a financial year. The timescale for implementation will be confirmed during the clarification questions prior to an award of the contract. . It should be recognised that this is a major system implementation which will also require significant business change and transformation to achieve full potential. The current project timeline is approximately 18 – 24 months although this will be clarified with the preferred supplier.

- As highlighted earlier in the report, it will be important to replace the current system before the end of the existing contract arrangements.. The achievement of the corporate benefits of the new system will continue to be reviewed and prioritised alongside all other change projects as they evolve. Precise implementation timescales will be determined set against the resources required to deliver this and other competing system priorities, including the proposed Civica CRM system. It is possible to have a go live date other than at the start of a financial year and so once a project plan is in place alongside the successful supplier this aspect will need careful review and consideration.

- Ideally external audit information is accessed via the financial system where the detailed transactions were made and are held. Recent audits have been significantly delayed because of audit resourcing issues, therefore transition to the new system will support a more effective closure process. Implementation will focus on the safe transition from one solution to another and costs will be monitored throughout.

- There are some elements that could be implement before the Finance/ HR system. For example, the recruitment element is an area where earlier benefits could be achieved across the organisation by moving forward sooner rather than later.

- There is a balance to having an ambitious and challenging implementation deadline, against a longer implementation period. Personnel can change and continuity be lost if projects take too long, additional 'nice to have' requirements can be included and lose the focus of the implementation.

- The external environment within which Councils operate is fast changing and it is far better to implement quickly a good basic system that can be adapted subsequently to changes, rather than having to enhance and add in requirements which have changed during implementation.

- If an April 2023 go live was not possible, the detailed transactions for 2023/24 would either continue to be held in E5 which would require an extension to the Advanced contract to enable transactions for audit to be extracted from E5, or all detailed transactions and supporting information would need to be extracted and imported into the new system. There would be a further cost to that process.

9. Using a framework arrangement as described below, is an excellent way to reduce procurement timeframes by relying on the preparatory evaluation and entry requirement work undertaken by the framework provider.

Enterprise Resource Planning (ERP)

10. An enterprise resource planning system (ERP) provides an alternative to separate integrated systems. The main advantage from an ERP is that all its functionality operates from a single database of information. As the name suggests this type of system is used to maintain oversight, reporting and control across all an organisation's resources. Typically, that includes its human resources, financial resources, and physical assets. An ERP provides and links together all the primary enabling service functions including, for example, financial and management accounting, procure to pay, income receipting and cash management, project and capital accounting, recruitment, establishment control (starters, movers, and leavers), performance management as well as absence management.

11. Reporting functionality sits across the system allowing for information to be consolidated and reported across the organisation without separate reporting tools, although exporting into products such as Power BI, Excel or in PDF format is also available.

12. The Council's core finance and HR system is a key corporate IT and digital system as it manages our total resources – people, money, and physical assets. It supports the statutory accounting information provided externally to stakeholders and regulators and supports effective decision making within and across the organisation. It also supports the management of our staff from initial recruitment to their leaving, providing the payment of salaries, management of leave and other absence and supporting their training and development. Implementing this system will create the platform to deliver more streamlined and efficient enabling services across the organisation.

Software as a Service (SaaS)

13. In contrast to an on-premise solution many suppliers now offer software as a service (SaaS) – this essential means a 'cloud' solution as opposed to a physical server on NCC or other premises. The Council's IT strategy reflects a need to move to smarter services through investment in modern infrastructure, and the decommission of legacy systems; this approach will utilise cloud-based solutions where appropriate, especially at the point of contract renewal. It also proposes the integration of services and systems by investing in web services and API (application programming interface)

14. A move to SaaS also provides significant benefits to support the Council's business continuity as the fully resilient service will be constantly monitored and supported by the supplier.

15. The SaaS approach also differs to an on-premise approach in several ways:

- The underlying software is held and maintained within the cloud; this means that it is no longer necessary for physical servers to be maintained by an organisation.

- The software is maintained, kept up to date and made available by the supplier; this means that it is no longer necessary for software updates improvements or patches to be undertaken by an organisation's IT staff. Regular system enhancements, patches and updates for regulatory changes are made according to schedules (typically twice yearly) and with no additional implementation costs.

- Security of the software and the underlying data rests with the supplier rather than the organisation itself needing to maintain external access security controls; this does of course, require assurance that the level of system security is appropriate.

16. The main advantages of SaaS over on-premise are those associated with maintaining an up-to-date system in a cloud hosted environment. Elsewhere on the Cabinet agenda the report in respect of the CIVICA upgrade highlights that their on-premise offer has recently been withdrawn and the only option for that service going forward is via cloud-based SaaS options.

17. Over time the move to SaaS products will deliver savings to the Council both in terms of reducing the need to purchase and maintain hardware such as servers and other infrastructure components but also in terms of the human resources needed to maintain up to date applications including security and other patches, version updates, access, and security controls.

18. The financial model underpinning the purchase and ongoing maintenance of system costs changes from an initial upfront purchase and implementation cost including hardware costs (typically capital in nature) to a subscription-based model (typically revenue in nature) with capital implementation costs. It also avoids the direct costs of purchasing and replacing servers on a cyclical basis, although clearly the costs of cloud storage are built into the subscription model.

Benefit Realisation

19. The main benefits to be achieved from the implementation of a new HR and Finance system come from the business changes aligned to applying a standard approach to common financial and HR processes and these being embedded within the new system. This business led transformation is supported by tools and functionality within the system such as workflows, integrated reporting and manager and employee self-service.

20. In addition to the overall reductions in the hardware, software and people costs associated with maintaining an on-premise solution referred to above, there are several further areas in which cross council benefits can be achieved which will over time support and feed into the savings required to meet the additional on-going revenue costs from the current system approach. The move to a new system has the opportunity to unlock efficiency savings across support services and wider council teams in the following areas:

- Efficiencies – supporting the shift from transactional services through self-service to a business partnering approach enabling more time to be spent on strategic planning functions.

- Efficiencies – in managing workloads and understanding performance using dashboards and reporting.

- Efficiencies – through the streamlining of business processes, based on best practice and supported through effective workflows linked to the organisation's hierarchies and establishment.

- Efficiencies in the identification and reduction of off contract or maverick spend.

- Effectiveness – in workforce planning and improving organisational change management processes.
- Effectiveness - through the automation of business processes.
- Effectiveness – through better debt management oversight and collection processes.

Procurement

21. Having considered other procurement options such as a formal invitation to tender to several suppliers against a detailed specification, we have concluded that the Government's G-Cloud framework is the most appropriate method to access services quickly and effectively in a way which meet the Council's needs. Terms and Conditions are provided by the framework and cannot be amended which also shortens the time to award contracts and move to implementation phase. The framework also allows for a direct award.

22. The G-Cloud framework allows public sector customers to buy commoditised cloud-based solutions through a framework that is compliant and regularly refreshed allowing Crown Commercial Services (CCS) to provide customers with access to up-to-date innovative solutions.

23. Within the Digital Marketplace (DMp), customers can find supplier service information, including detailed service definitions, pricing documents and suppliers' terms & conditions which enable organisations to evaluate their capabilities.

24. Services span across 3 lots. These lots are defined as follows:

- Lot 1 – Cloud hosting: Cloud hosting suppliers provide cloud platform or infrastructure services that can help customers deploy, manage, and run software onto the cloud. They provide processing, storage, or other computing resources where the customer can deploy and run software, which can include operating systems and applications.

  The customer does not manage or control the underlying cloud infrastructure including network server, operating systems, or storage. They have control over the deployed applications and possibly configuration settings for the application-hosting environment.

- Lot 2 - Cloud software: The capability provided to the customer is to use the provider's applications running on a cloud infrastructure. The applications are accessible from various client devices through either a thin client interface, such as a web browser (for example, web-based email) or a program interface.

  The customer does not manage or control the underlying cloud infrastructure including network, servers, operating systems, storage or even application capabilities, except for limited user-specific application configuration settings.

- Lot 3 – Cloud support: Cloud support provides services to help customers set up and maintain their cloud services.

25. We have concluded that the Lot 2 Cloud software option provides the most appropriate way forward. Using the approach set out in the G-Cloud customer guidance we narrowed the search using 'key words'. This highlighted 2 separate

systems, one of which was linked to several value-added implementation partners, the other which provides for implementation by the software provider themselves.

26. Soft market testing has been undertaken on both the identified systems. So far this has been through a demonstration of the features of the HR and Finance elements of the system including procurement, financial planning, recruitment, and self-service functionality. Additional sessions have been held on the system administration functions and the more technical system requirements including security access and integration with other Council systems.

Conclusions and Next Steps

27. Having identified two suppliers and reviewed the functionality of their systems it is currently considered that both can deliver the requirements of the Council. Both have critical mass presence in the local authority market and informal site reference requests have confirmed their ability to deliver.

28. The G-Cloud process precludes the use of mini competitions, Invitations to Tender (ITT), Request for Quotations (RFQ) or similar. Clarification questions on functionality and price are allowed and it is proposed to issue a series of clarification questions which will be based on the feedback from the demonstrations and overall system requirements. These will be scored to ascertain a quality index score.

29. A pricing clarification based on the Council's demographic information will be sought to ensure that it is in accordance with the G-Cloud pricing offered and the basis understood, before making a recommendation to award to the contractor offering the most economically advantageous tender based on a 60:40 quality to price weighting. The quality weighting includes 5% attributable to any Social Value benefits offered

Consultation

30. Several stakeholders within the Council have been involved in the soft market testing exercises with the two suppliers selected through the government's G-Cloud framework. these include representatives from finance and HR services, procurement services, IT applications support and IT infrastructure teams.

31. The views of these stakeholders are being considered as part of the final evaluation and supplier selection process.

Implications

Financial and Resources

32. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan and Budget.

33. As set out in para 14 above a move to SaaS typically involves an increase in revenue costs. The supplier will be spending capital to maintain the hardware, security, and connections etc. but this approach will be financed by payments from the revenue budget. The Council's capital investment, aside from the initial costs of migrating to the cloud service, will reduce as we will no longer have to maintain, service, upgrade, or replace the 'on-premise' hardware currently hosting the system.

34. The Council currently has a total base revenue budget amounting to £52,000 (£36,000 NCC and £16,000 NCSL) to pay for the maintenance and support of the existing HR and Finance system. Because the move to a SaaS model tends to increase the revenue costs; subject to the final contract award price it is anticipated that there will be an increased on-going budget gap estimated at £100,000 which will require the identification of additional stretch savings targets across the Council through the review of enabling services. An appropriate cost sharing agreement will also be agreed with NCSL.

35. Estimated capital implementation costs of £697,000 were approved within the 2022/23 capital programme approved by the Council in February 2022 over the years 2022/23 and 2023/24.

36. Resources will also be required from the Business Change reserve to support the implementation of the system in a way that achieves the delivery of the enabling services project including the required stretch savings targets. These costs are estimated at £100,000.

37. There will also be a need for a period of system dual costs whilst the existing system continues to be in contract. These are estimated at £120,000 and will be met from the Business Change Reserve or contingency.

38. The financial position is summarised in the table below.

£000	2022/23	2023/24	2024/25	Totals
Capital Costs				
Estimated implementation costs [1]	576	121		697
Revenue Costs				
Revenue (One-off) [2]	120			120
Funding – Business change reserve (One-off)	(120)			(120)
Additional SaaS subscription (on-going)[3]	100			100
Additional savings - stretch target	(100)			(100)
Savings reflected in MTFS (£75k on-going by year 3)	(15)	(25)	(35)	(75)

Note 1 – Capital costs included in 2022 Capital Programme.
Note 2 – One-off revenue costs funded from business change reserve.
Note 3 – Estimated additional costs prior to final price clarification.

39. The total estimated cost of the proposed four-year agreement is set out in the exempt appendix and is subject to final G-Cloud pricing being received.

Legal

40. The Council is using a recognised G-Cloud 12 framework, RM1557, for this contract. This is compliant with the Public Contract Regulations 2015 and allows for the Direct Award of a contract.

Statutory Considerations

Consideration	Details of any implications and proposed measures to address:
Equality and Diversity	Not considered relevant at this stage although this will be monitored through the implementation phase
Health, Social and Economic Impact	Although not a statutory requirement under the G-Cloud 12 framework the clarification questions will seek to ascertain whether any Social Value benefits can be offered as part of the contract. 5% of the overall evaluation will be attributed to this element
Crime and Disorder	None considered relevant
Children and Adults Safeguarding	None considered relevant
Environmental Impact	None considered relevant

Risk Management

Risk	Consequence	Controls Required
Required system functionality is not achieved	Impact on efficiency and effectiveness of functions.	Change controls for any departure from standard Local Government solution enforced through Programme Board.
Required system is not delivered to time or budget	Cost overrun implications	Senior Responsible Officer and Project Sponsor at Executive Director level. Programme Board and rigorous Project Management approach adopted
Knowledge transfer not embedded in organisation	Reliance on external training and support post go-live	Substantive staff seconded onto project team with BAU roles backfilled.

Other Options Considered

41. The continuation of the existing arrangement alongside consultancy work to

improve the user experience and remedy the existing system issues has been discounted. An integrated ERP solution is preferable to the existing arrangements.

42. Other procurement approaches have been considered but discounted as it is not clear that they offer any benefits over the framework approach which can deliver access to appropriate solutions more quickly and with the legal terms conditions and pricing models already agreed.

Reasons for the decision/recommendation

43. Contracts costing more than £500,000 are the responsibility of the Cabinet to approve.

44. To mobilise the project team and allow implementation to commence to achieve a potential April 2023 go live target date, award of the contract needs to take place in April 2022. The April Cabinet meeting is scheduled for the 6th of April and at that time it may not be possible to confirm the name of the preferred supplier.

45. It is unlikely that all the clarification questions and evaluation will have been completed before the meeting, however if the clarification questions and evaluation are completed prior to the Cabinet meeting, officers will update the Portfolio holder in advance and Cabinet orally on the day to seek an amended recommendation awarding the contract in the name of the preferred supplier.

46. However, if the clarification questions and evaluation have not been satisfactorily concluded prior to the Cabinet meeting, an oral update will be presented to the Cabinet meeting and the original recommendation requesting the Executive director of corporate and commercial services to take the final decision will stand.

Background papers: None

Appendices: Exempt Appendix - Financial Implications

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