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| <b>Subject:</b>                 | <b>PROPOSED NEW FINANCIAL MANAGEMENT SYSTEM</b>   |
| <b>Date:</b>                    | <b>28 March 2019</b>  |
| <b>Decision to be taken by:</b> | <b>Councillor Michael Conolly, Portfolio Holder for Corporate Resources and Performance</b> |
| <b>Report of:</b>               | <b>Mike Davis, Strategic Director (Corporate Resources)</b>                                 |
| <b>Portfolio Holder:</b>        | <b>Councillor Michael Conolly, Portfolio Holder for Corporate Resources and Performance</b> |
| <b>Decision Type:</b>           | <b>Key</b>  |
| <b>Classification:</b>          | <b>Unrestricted</b>   |

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**Purpose of the report:** To purchase a new financial management system (FMS).

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| <b>Recommendation:</b> | <ol style="list-style-type: none"><li>1. To approve the purchase of a new financial management and budget monitoring system.</li><li>2. Delegate authority to the Strategic Director (Corporate Resources), in consultation with the Portfolio Holder, to take all necessary actions to deliver the project, including awarding the contract and implementing organisational changes to support delivery of the project.</li><li>3. To request that the Chairman of the Council suspends call-in of the decision due to the timing and urgency around signing the contract.</li></ol> |
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## 1. **Summary**

- 1.1 The Council has been using the same Financial Management System since 2001 alongside a bespoke Budget Monitoring system built in-house over 10 years ago.
  - 1.2 After several years of price increases with limited improvements to the existing FMS, and the loss of in-house expertise to maintain the bespoke budget monitoring system, Cabinet is being asked to approve the purchase of a new financial system.
  - 1.3 This proposal is replacement of an essential system that is no longer fit for purpose. It will introduce efficiencies, but is not a money-saving proposal.
2. The contract with the Council's preferred supplier needs to be signed by 29 March 2019 in order to take advantage of a discount offered on the annual maintenance costs which is only available until 31 March 2019. The Chairman has agreed to suspend call-in for this reason.

## 3. **Introduction and Background**

- 3.1 The Council currently uses Advanced Computer Software Group's (ACSG) eFinancials system as its financial management system (FMS). The FMS enables us to produce and monitor our budgets, produce the statement of accounts, invoice customers, pay creditors, manage our cash, receive financial information from other systems, undertake financial modelling and manage the Council's overall finances.

- 3.2 If the FMS is not maintained to modern standards, or is not developed by the supplier, or we do not maintain upgrades, then our ability to manage the Council's finances will start to become impaired and could be compromised.
- 3.3 The following paragraphs set out the main shortfalls of the current system, and the potential benefits of moving to a new system.

#### 4. **Shortcomings of the Current System**

##### Keeping the System Up-to-Date

- 4.1 eFinancials has been in use since 2001 and is operated from computers (called "servers") at TDC. It has to be upgraded approximately every two to three years in order to stay supported by ACSG and as a result the upgrades require a capital investment in expensive new hardware, the cost of the software itself, consultancy time from ACSG and significant officer time.
- 4.2 For the last upgrade in January 2018, one FTE was required for four months to project manage the core system upgrade. All members of the Accountancy and Finance teams were involved in testing over an eight week period. ICT support was also required for the duration of the project to build the servers, allow access for ACSG staff to the servers, to assist with testing and to help fix any problems that came up that the system administrators could not deal with.
- 4.3 Despite these upgrades, very few changes have been made by the supplier to the core system and it is now dated and not straightforward to use. It is probably nearing the end of its supported life and in order to access any new functionality in the system, there are associated costs. These include additional licence costs, software costs, increased ongoing maintenance costs and increased cost to upgrades.

##### Procurement

- 4.4 The aggregate spend over the last 18 years significantly exceeds the tender threshold for goods and services under the Public Contract Regulations 2015 and therefore, prior to purchasing a new budget setting and monitoring system, the Council will review its current position (and any future contract) to ensure compliance with the Regulations.

##### Costs

- 4.5 eFinancials has been in use at DDC for nearly 20 years. During this period, the maintenance and licensing costs have increased year on year with very little visible improvement in the system and its functionality. Combined with the periodic costs of upgrades, this means that the current system does not represent value for money.

##### Support and Quality

- 4.6 There are ongoing issues with the current FMS. The problems include receiving timely support from ACSG for problems logged with them, and issues that were not present in the test system appearing in the live system. These issues are preventing the system being used efficiently as we cannot utilise all the features that are available. Dealing with ongoing issues also takes up a considerable amount of staff time.
- 4.7 There is also a risk that the current provider will require us to move to a new solution (e.g. cloud-based) in the medium term in order to stay supported. This will effectively

be a new system implementation. DDC would have less control if this were the case as we would be working to the software provider's timetable as opposed to our own.

#### Budget Monitoring

- 4.8 The FMS has an integral budget monitoring system (BMS) called "Collaborative Planning". The Council has considered implementing this, but it is expensive and at the last review, it did not have all the required functionality. The council therefore uses its own in-house developed BMS, written by a member of ICT staff (who is no longer employed by the Council).
- 4.9 The level of expertise available to maintain the BMS has been significantly reduced due to staff leaving the Council and EKS over the years and there is a risk that the system will not be usable after the next FMS upgrade as the expertise will not be available to transfer it to the upgraded version of the software.
- 4.10 If the BMS fails before a replacement is put in place, the Council will have to accept a significantly lower level of budgetary control, or a significant and unsustainable increase in manual management of the budget data, impairing production of the quarterly budget monitoring and making annual budget setting become more complicated and time-consuming for all involved.

#### Asset Register

- 4.11 The current FMS package does not include an Asset Register. The unique statutory requirements for asset accounting in all local authorities make this a very complex area to administer. The Council currently utilises a separate asset register (called Logotech) for management of the financial transactions associated with producing the annual Statement of Accounts.
- 4.12 This system has also received limited development from its suppliers over recent years and is difficult to use and requires manual transactions to be produced to transfer the information produced into the current FMS.

### **5. Potential Benefits of Introducing a New Financial Management System**

- 5.1 Based on demonstrations by suppliers of alternative finance systems they offer a variety of benefits that will be requirements of the system selected.

#### Keeping the System Up-To-Date

- 5.2 The new FMS will be "cloud-based". This means that the system is accessed via the internet and will not operate on servers owned by the Council or shared with TDC, and will not require management by EKS ICT.
- 5.3 As a result, upgrades will be managed by the supplier, will not require the purchase of new software or servers, and will be included in the annual support costs.
- 5.4 The system will also be relatively new, reflecting recent investment by the supplier, who has an incentive to keep the system up to date in order to maintain sales to recoup the investment.
- 5.5 Moving to a cloud-based system is also in line with the Council's ICT strategy for all systems and for desktop services.

#### Procurement

- 5.6 The purchase will be made through a framework agreement and, as a new purchase, will be compliant with the Public Contract Regulations 2015.

#### Costs

- 5.7 The section on resource implications sets out the expected costs over the next 5 years for the current system and the new FMS. It is estimated that the current FMS will cost £600k (excluding staff resources) over the next 5 years. The new system is estimated to cost up to £700k (excluding staff resources) over the same period. As explained at the outset, this is not a cost-saving proposal, but the Council is likely to have to change FMS in the near future, and so making this change under its own control and in order to use the improved support and functionality of a new system still represents value for money.

#### Support and Quality

- 5.8 The new FMS will also be a newer product into the market seeking to grow the user base, and reflecting more up to date requirements now expected. The support will also be from a more standardised and integrated cloud based version which is expected to provide greater quality.

#### Budget Monitoring System

- 5.9 The BMS will be integral to the supplied FMS and will not be a separate in-house module. In addition to improved integration and reliability, it will provide a standard set of reports and also give managers enquiry tools, customised dashboards etc. This will improve the production of the periodic budget monitoring reports and also the quality of budget monitoring information available to budget managers and the accountancy team.

#### Asset Register

- 5.10 The asset register will be integral to the system and will be compatible with the statutory requirements for local authority accounting, thus eliminating an area of manual intervention as required under the current FMS.

#### Other Benefits

- 5.11 By moving to a more modern system there are a range of other benefits, additional features and characteristics now standard with any new FMS that were previously unavailable. These would allow for more efficient working practices, including:
- (a) Look and feel – the style of the system will be more compatible with users familiar with Microsoft and web based products.
  - (b) Elimination of separate spreadsheet work, for example:
    - (i) Various elements of budget monitoring could be automated within the system, reducing the need for spreadsheets and reconciliations. An example of this would be salary monitoring.
    - (ii) The setting of Fees and Charges could be done through the system. This would prevent spreadsheets being sent as everything could be updated within the system, and would link the Fees and Charges figures to the budgets being set without the need for extensive reconciliations.

- (iii) The budget setting and year end recharges process could be built within the system. This would reduce the complexity of the process and the majority of the process could be automated.
- (c) A new FMS would be able to read electronic invoices and pre-populate the fields it recognises. There would also be the capability to auto-match invoices to purchase orders and add to a payment batch. This would reduce staff time spent on high volume activities. To achieve this in our current FMS would require the purchase of an additional module.
- (d) A new FMS can allow suppliers to access their own account on a read-only basis, reducing the numbers of enquiries coming into Finance.
- (e) The production of many end of year and budget setting documents could be automated, allowing for a more efficient budget setting and close down process and reducing the risk of inconsistencies between spreadsheets and the system.
- (f) A cloud-based solution is also more accessible, for example, allowing managers to approve requisitions and invoices via their work iPhones or email instead of having to log into a system via a laptop.
- (g) Cultural change – the new system will offer managers more control of their budgets and more engagement. But all systems operate best when used as intended, not when modified to meet local and unusual ways of working. It will be essential that Council staff buy in to the new implementation and exploit the efficiencies it offers, even if that means changing some ways of working.
- (h) Overall, the new FMS will generate efficiencies and better ways of working – but it should be noted that these efficiencies are unlikely to be consolidated into post savings.

## 6. **Timescales**

- 6.1 It is proposed to start the project in June 2019 after the completion of the 2018/19 Statement of Accounts.
- 6.2 The project is anticipated to take one year, with a provisional go-live date of 1 June 2020. This will be dependent upon the resources of the software company and the internal resources of DDC.

## 7. **Identification of Options**

- 7.1 Option 1 - Do nothing.
- 7.2 Option 2 - Remain with the current FMS and invest in the bespoke Budget Monitoring system.
- 7.3 Option 3 - Remain with the current FMS and invest in new modules that they offer.
- 7.4 Option 4 - Purchase a new FMS solution, and implement the new ways of working associated with this. This is the recommended option.

## 8. **Evaluation of Options**

- 8.1 Option 1 is not recommended as the costs will continue to increase and there is a risk of the Budget Monitoring system failing.

- 8.2 Option 2 is not recommended as there is limited expertise in ICT to invest in the bespoke system. The costs of the FMS will continue to increase and there would still be a risk of the Budget Monitoring system failing.
- 8.3 Option 3 is not recommended as the annual costs of the FMS will increase with the purchase of new modules and continue to increase year on year. The system would remain on DDC / TDC servers and it is anticipated that the current slow rate of development will continue into the future not enabling potential process efficiencies to be realised to support the digital transformation of the organisation.
- 8.4 Option 4 is the recommended option. This option will allow the Council to have access to a new FMS, which will bring more efficient working practises, and give the users a better experience. It will provide a cloud hosted system, reducing the support required from EKS ICT and supporting the Council's digital transformation agenda.

## 10. **Links to Corporate ICT Strategy**

- 10.1 The Digital Services Managers has been involved in discussions regarding a new FMS, and was present at the demonstrations. She is making relevant enquiries of the prospective system's providers to check that the system is in line with DDC's digital aspirations.
- 10.2 ICT will need to be involved from a Network and Security perspective. The EKS Network and Security Manager has been engaged to offer his view on the ICT technical requirements of a new system.

## 11. **Resource Implications**

- 11.1 DDC currently pays annual and periodic costs for the FMS. There would also be costs associated with investing in the FMS. These are outlined below:
- (a) Current costs:
    - (i) £58k per year for licences, maintenance and support.
    - (ii) Upgrade costs of £27k for the software and consultancy and £20k for servers every two to three years.
  - (b) Future costs if DDC invested in the current system:
    - (i) The current software provider has quoted a one-off cost of £34k to purchase new modules that would be required.
    - (ii) This would lead to additional costs of £28k per year for maintenance, licences and support.
    - (iii) This investment would also increase the costs of future upgrades.
    - (iv) DDC currently pays £2k per year for the asset register system. If the new FMS were purchased, this cost would no longer need to be incurred as the new FMS would include this.
- 11.2 Overall, remaining with the existing suppliers and implementing the new modules required is forecast to cost in the region of £600k over the next five years.
- 11.3 Based on a review of procurement framework prices and indicative costs received from suppliers, it is estimated that the new FMS costs would be as follows:

- (a) An initial implementation cost in the region of £200k - £250k.
  - (b) Annual costs would be between £70k and £90k. This includes the cost of upgrades.
- 11.4 Overall, implementing a new FMS is forecast to cost in the region of £700k over the next five years.
- 11.5 There is £400k included in the approved 2019/20 capital budget for this project. This is to cover the purchase of the new system, its implementation, any works required to remove data from the old FMS, and backfilling of posts:
- (a) An officer from Accountancy and an officer from Financial Services will be seconded full-time to the project to act as project managers, and develop the knowledge needed to act as systems administrators once the system goes live. These positions will be back-filled.
  - (b) The software company provide support throughout the project. The exact level of support will be confirmed upon procurement of a system, but is highly likely to include a project manager (project managing the software company's resources), a technical consultant, and technical support as and when required.
  - (c) The Digital Services Manager has been engaged regarding this project and how it links with the digital priorities of the Council. She will be involved throughout the project.
  - (d) ICT will need to be involved from a Network and Security perspective. The EKS Network and Security Manager has been engaged to offer his view on the ICT technical requirements of a new system.
  - (e) Contingency funds have been built into this amount in case of unexpected costs.

## 12. Risks

12.1 All major system implementations carry significant risks. The table below identifies the high level significant risks and mitigations. It is important that Members recognise the risks in the project.

|   | <b>Risk Description</b>  | <b>Likelihood</b> | <b>Impact</b> | <b>Mitigation</b>  |
|---|--------------------------|-------------------|---------------|--|
| 1 | Overspend                | M                 | H             | Contingency amount has been built into the budget requested.   |
| 2 | Exceeds timetable        | M                 | M             | Contingency time will be built into the timetable. Two officers will be dedicated to the project to oversee and manage the timescales and completion of tasks. |
| 3 | Inadequate functionality | L                 | H             | Before any system is procured its functionality will be thoroughly reviewed.   |
| 4 | Data loss on conversion  | L                 | H             | Access to old data will be maintained until all the old data is extracted.   |

|   | <b>Risk Description</b>                            | <b>Likelihood</b> | <b>Impact</b> | <b>Mitigation</b>  |
|---|--|-------------------|---------------|--|
| 5 | Failure to exploit the new software fully          | M                 | M             | Systems expertise will be gained during the project and used after go-live to support constant improvement of processes and exploit functionality.   |
| 6 | Organisational compliance                          | M                 | H             | Users will be engaged early and throughout the project to ensure they are aware of and fully trained in the new system.  |
| 7 | Insufficient user skills                           | M                 | M             | Systems expertise will be gained during the project and used to train all users. User guides will be available to help users after go-live, and additional training will be available should users feel they require it. |
| 8 | The chosen provider stops providing the software   | L                 | H             | It will be written into the contract that the software supplier will provide our data to us in a usable format should they wish to withdraw from the market.   |
| 9 | Security risks around Software As A Service (SAAS) | M                 | H             | The Senior Information Security Officer at EKS has been involved in the process to date and offered guidance. The suppliers will be assessed using the National Cyber Security Centres Cloud Risk Principles.            |

### 13. Corporate Implications

- 13.1 Comment from the Director of Finance (linked to the MTFP): Accountancy was involved in the production of the report and has nothing further to add (VB).
- 13.2 Comment from the Solicitor to the Council: The Head of Governance has been consulted during the preparation of the report and has no further comment to add.
- 13.3 Comment from the Equalities Officer: This report does not specifically highlight any equality implications however in discharging their duties members are required to comply with the public sector equality duty as set out in Section 149 of the Equality Act 2010 <http://www.legislation.gov.uk/ukpga/2010/15>.

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