

EAST RENFREWSHIRE COUNCILCABINET15 March 2018Report by Chief ExecutiveCORE CORPORATE SYSTEMS**PURPOSE OF REPORT**

1. This report introduces elected members to a significant change programme aimed at modernising the Council's core corporate systems to drive process efficiencies, enable savings and facilitate improved performance and financial management and reporting. Following consideration of this outline options assessment, this report requests elected member agreement to proceed to a further stage which would test the external market on scope to deliver better solutions for our core corporate systems.

RECOMMENDATIONS

2. It is recommended that Cabinet:
- (a) Agree to support progression of the Core Corporate Systems programme of work.
 - (b) Consider the 3 options available and note the Core Corporate Systems Board's conclusion that Option 1, continuous improvement, is not feasible and there is no clear winner at this stage between Options 2 and 3 - best of breed with integration and Enterprise Resource Planning (ERP).
 - (c) Agree that the Council goes to market with a clear set of requirements, with new Finance and procurement systems as the initial focus and HR/Payroll following within a year, and assesses the resulting responses (ERP or best of breed included).
 - (d) Agree that services should begin putting in place the right conditions for change and implementation; adopting standard best practice processes and avoiding customisation.
 - (e) Agree that the programme should be suitably resourced, using internal resource where applicable but recognising the need to recruit externally for certain roles to build skills and capacity. Funding will be through a mix of Capital and the Modernisation Fund.
 - (f) Discuss the potential risks associated with this programme of work and agree to support mitigation of these risks.

BACKGROUND

3. The Council's Modern Ambitious Programme (MAP) seeks to modernise the way the Council works and address the pressures of increasing demands and financial constraints. MAP particularly concentrates on 3 of the Council's 5 capabilities: modernising, digital and data.

4. MAP includes a specific programme aimed at modernising and transforming the processes and systems used to manage Finance, Procurement, HR and Payroll – we call these the Core Corporate Systems as they are integral to so much of the Council’s business.

5. The contracts for the current systems used to manage these functions are nearing the end of their life (Finance & Procurement system March 2019 and HR/Payroll March 2020) and the systems themselves are not configured to deliver the functionality or integration needed to support the Council’s strategic objectives or the expectations of our internal customers in our operational services. In addition, they represent a very complex technology setup.

6. The Council has put in place a Core Corporate Systems Board to oversee this programme of work. The Board is chaired by the Chief Executive and involves representatives including the Deputy Chief Executive and Heads of Service for Accountancy, HR, ICT and Business Change and representatives of each department. After a significant internal assessment, the Board engaged an external supplier to support an options assessment and develop a business case for a new Finance, Procurement, HR and Payroll solution(s).

REPORT

7. The primary goals of this programme to improve or renew our Finance, Procurement, HR and Payroll solutions are to support and drive cost savings and efficiencies by:

- providing a ‘single source of the truth’ that will allow accurate and informative reporting;
- implementing best practice processes that support automation and can enforce compliance;
- improving user experience with modern technologies and providing self-service functionality for employees and managers.

8. Some of the key issues we face with our Core Corporate processes and systems are as follows:

- Multiple systems with poor interfaces – leads to manual rekeying and errors; disparate systems with conflicting data; and no ‘single source of the truth’ for data.
- Process inconsistency – variation across the Council in how processes are applied.
- Complexity of the system and procedure landscape.
- Poor accessibility and self-service – leading to poor management information and reporting.
- Lack of dedicated resource for system development. Our systems are not configured to deliver their full functionality.
- Poor user experience.

9. Such issues are not unusual in organisations. Finance and HR systems are generally expensive to change and up until recently the only integrated systems were Enterprise Resource Planning (ERP) systems which were only cost effective for the largest organisations. However as new technologies in data and digital are coming onto the market there are now a range of options that an organisation the size of East Renfrewshire Council could consider. For example there are smaller scale ERP systems which are reported to be easier to implement

10. The external support was focused on understanding our requirements as an organisation, understanding the market for finance, procurement and HR systems; developing the business case; assessing high level options and assessment criteria; building a financial model and guiding the Council on preparations for delivery. The work culminated in a 'Corporate Systems Options Assessment and Business Case'. The key aspects and conclusions of the report are covered here.

11. Given the lifespan of the current ICT system contracts in these key areas, which are all due to go to market by 2019 and 2020, there is no 'do nothing' option presented here. These are crucial line of business systems which must be maintained in contract or there will be risk to our day to day operations.

12. The Business Case considered 3 remaining options:

- Option 1 – Continuous improvement
- Option 2 – Best in Breed
- Option 3 – Enterprise Resource Planning (ERP)

13. Option 1, Continuous Improvement, would see us continue with the same Finance, Procurement and HR/Payroll systems, making improvements and updates to interfaces, secondary systems and business processes on an ongoing basis.

14. Option 2, Best in Breed, would replace the Finance, Procurement and HR/Payroll systems with best in breed systems that best meet the Council's core requirements. It could also cover some additional functionality and build significant interfaces to the remaining secondary systems and management information and reporting layers.

15. Option 3, ERP, would replace the core Finance, Procurement and HR/Payroll systems with a single core ERP solution which would include certain additional functionality including management information and reporting. This would go further towards replacing secondary systems and build interfaces to remaining other secondary systems.

16. There are examples across Scotland and the UK of public sectors organisations that have followed each of these approaches and these are given in the Consultation and Partnership Working section of this report.

17. The 3 options were assessed against how well they aligned to agreed business and technology drivers and Net Present Value (NPV) from the financial model was used to calculate a percentage score for the costs and benefits. The percentages are shown in the following table.

Figure 1

Criteria & Weighting	Weighted Score		
	Option 1 Continuous Improvement	Option 2 Best in Breed	Option 3 ERP
Business Drivers 30%	7%	21%	26%
Technology Drivers 10%	2%	6%	8%
Costs and Benefits 60%	0%	30%	60%
TOTAL	9%	57%	94%
Summary Comments	- Does not enable the full savings in the 2018/21 budget	- Enables the savings in the 2018/21 budget & delivers	- Enables the savings in the 2018/21 budget and delivers

(further detail of Key Benefits & Key Risks of each option are given in Annex 1)	<ul style="list-style-type: none"> - Requires Capital investment (but lower implementation costs than other two options) - Increases as-is technology costs 	<p>further FTE savings</p> <ul style="list-style-type: none"> - Eliminates some of the as-is technology costs, replaced by new systems - Smaller supplier implementation & annual license costs than Option 3 - Larger project team implementation costs and smaller support savings than Option 3 	<p>greater FTE savings than Option 2</p> <ul style="list-style-type: none"> - Eliminates more of the as-is technology costs, replaced by the new systems - Larger supplier implementation and annual license costs than Option 2 - Smaller project team implementation costs and larger support savings than Option 2
--	---	---	--

18. Both Options 2 and 3 emerged with a good score, 57% and 94% respectively. Whilst Option 3, ERP, emerged with the highest overall score this should be cautioned as success with ERP is dependent on the organisation's appetite for transformation and acceptance of standard processes, rather than each service customising to suit individual needs as is regularly the case with current systems. In addition, there may be issues about how applicable these standard processes are in a public sector environment. Option three also requires a higher level of upfront investment by the Council.

19. The Business Case makes several recommendations to the Council based on the detailed assessment of these options and the financial model:

- Put in place the right conditions for change and implementation. Adopting best practice processes and effecting the necessary business change will be the biggest challenges. Addressing this will include investing sufficiently in dedicated project resource; providing top down leadership to drive the need for change; gaining bottom up business engagement and avoiding customisation wherever possible.
- Finding the right implementation partner.
- Making the right technology selection, focusing on good functionality and user experience. This is dependent on defining the requirements and appropriately evaluating through a detailed framework.
- Using an agile delivery approach which is focused on working in short iterations and prioritising activity and requirements based on business value, technical complexity and risk. This approach will increase the speed of delivery and reduce overall risk of implementation.

20. We should not underestimate the extent of change that this programme may require and the need for the organisation to have the appetite across the whole business for that degree of change. Delays in implementation have been experienced by other councils and this is often due to unrealistic resourcing.

FINANCE AND EFFICIENCY

21. The financial model is based on the following categories of cost/benefit:

- Manager and business support costs and savings across the Council
- Corporate service costs and savings

- 'As is' corporate system technology costs
- Project team costs
- Costs for all in-flight/planned initiatives/programmes related to the corporate systems
- Supplier costs, as collated from a soft market test earlier in 2017.

22. Net Present Value (NPV) is determined by calculating the costs and benefits for each period of an investment. Based on the assumptions of the financial model, the 10 year NPV of the 3 options is given below:

- Option 1, Continuous Improvement – (£1,276,612)
- Option 2, Best in Breed - £2,330,919
- Option 3, ERP - £4,698,310.

23. NPV calculations were used, alongside the assessment of business and technology drivers, to give the weighted scores shown above in Figure 1.

24. In the simplest terms, Option 1 would not allow the Council to deliver budget savings already offered for 2018/21. Both Options 2 and 3 enable those savings for 2018/21 and go further in terms of FTE potential savings. Option 3 does however have higher supplier implementation costs and annual license fees than Option 2, but has smaller project team requirements and the chance to deliver more significant 'business as usual' support services.

25. The estimated costs and savings for the first 5 years relating to Options 2 and 3 are set out in the Table below.

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Best In Breed					
Costs	(3,771)	(925)	(446)	(446)	(335)
Savings	0	275	330	832	1,784
Net	(3,771)	(650)	(116)	386	1,449
ERP					
Costs	(3,593)	(588)	(588)	(588)	(423)
Savings	0	484	484	985	2,219
Net	(3,593)	(104)	(104)	397	1,706

26. As this table illustrates, whatever option is chosen, there are potentially significant costs to be borne. The Capital Plan for 2018/19 – 2025/26 includes provision of £3.5m for this project and we also envisage using Modernisation Funding to cover some of the non-capital programme and implementation costs included in the figures above.

CONSULTATION AND PARTNERSHIP WORKING

27. A number of other councils and public agencies are having similar discussions about their Finance, Procurement, HR and Payroll systems, with some already implementing new approaches. The Digital Office for Scottish Local Government and the Improvement Service have attempted to link interested parties and act as a conduit for sharing information and encouraging partnership working. To date it has been hard to define whether there are any willing partners in Scottish local government. This is an opportunity we will build in when we go to market to allow for any partnership possibilities to emerge.

28. The Business Case highlights that Renfrewshire, Edinburgh, Scottish Borders councils and NHS Scotland are all currently implementing ERP systems. Whilst initial engagement has been undertaken, we are keen to engage further with these councils to understand and learn from their experiences and assess scope for partnership approaches.

29. In addition, a number of case studies of 'Best in Breed' implementation are also given, including Hertfordshire, Bedfordshire and Cambridgeshire Police; Scottish Fire and Rescue; the Houses of Parliament and the Commonwealth Secretariat.

IMPLICATIONS OF THE PROPOSAL

30. The decision on how to move forward with such a complex programme of work is not a straightforward one and there are a number of risks attached.

31. There is however no 'do nothing' option. Given the status of the contracts for the current Finance, Procurement and HR/Payroll systems, we need to go out to market this year. We also have significant budget savings to deliver for 2018/21 and these systems are key enablers.

32. We have the opportunity to strive for business and process efficiencies and a 'single source of the truth' through Best in Breed integrated systems or an ERP system. Whatever option is chosen, this will be a hugely significant programme of change and the implications will touch every department. We cannot underestimate the importance of sound programme management and governance. In addition, the careful management of the potential shift from one system to another will be vital; especially recognising that we need to maintain access to the systems for the purposes of business processes which are vital to day to day operations.

33. Whichever of these 2 remaining options is chosen, the most significant risk is around the required level of business change. The Council needs to put in place the right conditions for change and implementation; adopt standard best practice processes; avoid customisation and develop our managers to ensure they are ready for the shift towards self-service and more proactive service-led management of budgets.

34. The Core Corporate Systems Board is in agreement that there is currently no clear 'winner' between Options 2 and 3. Whilst Option 3 scores significantly higher, the challenges of an ERP implementation are potentially greater and experiences of implementations in other organisations suggest that costs and timescales have a risk of increasing beyond initial projections.

35. Based on the need for more detailed information and consideration, it is the Board's recommendation that we go out to market with our system requirements and a robust evaluation framework and test the responses to assess which option might be best for East Renfrewshire Council at the current time.

36. Given the timings of current contract expiry, the initial focus of the programme will be to tender for a new Finance/Procurement system. However, the tender will include scope for the award of a contract for HR/Payroll modules for later deployment, either as part of an ERP system or as a separate system which can be integrated with the finance system.

37. In order to deliver such important system change on such a tight timescale, the programme needs to be suitably resourced, using internal resource where applicable. It is recognised that there will be a need to recruit externally for certain roles to build skills and capacity, minimise project risk, backfill some posts and drive delivery. A project team will be established with the recruitment of a Programme Manager to oversee development and delivery of the various workstreams. These costs will be met through a mixture of Capital and Modernisation funding.

38. Key immediate deliverables will be to:

- Muster internal resource (e.g. Procurement expertise) and recruit a suitably experienced programme manager
- Develop and define the requirements for core systems
- Develop the procurement strategy and define the type of contract required
- Decide on the need for an implementation partner and the timing of this decision
- Undertake market analysis
- Build the tender document.

39. The detailed milestones for the programme will be driven by the procurement process which will in turn define the deployment phases for the Finance/Procurement and HR systems. It is anticipated that a contract award will be made in summer 2018, with deployment in 2019 for Finance/Procurement and 2020 for HR.

CONCLUSIONS

40. This report has discussed a significant programme of change aimed at modernising the Council's Core Corporate systems (Finance/Procurement, HR/Payroll) to drive process efficiencies, enable savings and facilitate improved performance and financial management and reporting.

41. Whilst there are significant costs to consider, these are vital line of business systems that the Council cannot operate without and, given the status of our system contracts, there is no 'do nothing' option. The Council must go out to market within the year and implement a new Finance and Procurement system(s) followed closely thereafter by a new HR/Payroll solution.

42. There are however key benefits to be driven out and there are savings commitments in departmental budgets that are predicated on less manual keying; better information management and more self-service – core system change is a crucial enabler for these benefits.

43. We should not underestimate the implications of this work, particularly given the significant pace and scale of change ongoing across the Council at this time. This will be a very resource intensive business change programme, which will have implications for services across the Council, especially given the aggressive timescales for implementation. The option chosen is relatively immaterial, the market response will drive that decision; the key risk of this programme is around the act of changing such fundamental core systems whilst continuing to run the day-to-day business of the Council. Tight programme management; realistic resourcing; making use of external support as and when required; and firm governance will all be key elements of delivering this important and much needed business change.

RECOMMENDATIONS

44. It is recommended that Cabinet:
- (a) Agree to support progression of the Core Corporate Systems programme of work.
 - (b) Consider the 3 options available and note the Core Corporate Systems Board's conclusion that Option 1, continuous improvement, is not feasible and there is no clear winner at this stage between Options 2 and 3 - best of breed with integration and Enterprise Resource Planning (ERP).
 - (c) Agree that the Council goes to market with a clear set of requirements, with new Finance and procurement systems as the initial focus and HR/Payroll following within a year, and assesses the resulting responses (ERP or best of breed included).
 - (d) Agree that services should begin putting in place the right conditions for change and implementation; adopting standard best practice processes and avoiding customisation.
 - (e) Agree that the programme should be suitably resourced, using internal resource where applicable but recognising the need to recruit externally for certain roles to build skills and capacity. Funding will be through a mix of Capital and the Modernisation Fund.
 - (f) Discuss the potential risks associated with this programme of work and agree to support mitigation of these risks.

Lorraine McMillan, Chief Executive

21 February 2018

Report authors: Louise Pringle, Head of Business Change & Revenue Services, 0141 577 3136 & Margaret McCrossan, Head of Accountancy, 0141 577 3035.

CABINET CONTACT: Councillor Buchanan, Convener for Corporate Services
Tel: 0141 577 3107 (Members' Services)
Mobile: 07976 360398

BACKGROUND PAPERS

- East Renfrewshire Council Corporate Systems Options Assessment and Business Case, PA Consulting, October 2017
- Modern, Ambitious Programme (MAP), Elected Members' Session, 13 September 2017
- Vision for the Future: Update Report, Cabinet 23 March 2017
- Financial Planning 2017-2022, Council 14 December 2016 & 9 February 2017

A. OPTIONS FOR THE CORPORATE SYSTEMS (1/2)

20

There are three high-level options¹ for ERC's corporate systems that were assessed as part of the business case which are outlined below:

	Option 1: Continuous Improvement	Option 2: Best in Breed	Option 3: ERP
Overview:	Continue with the same core HR/Payroll and Finance systems, making improvements and updates to interfaces, secondary systems and business processes on an ongoing basis.	Replace the core HR/Payroll and Finance systems with best-in-breed systems that best meet the Council's core requirements and could also cover some additional functionality, and build significant interfaces between them and the remaining secondary systems and management information and reporting layers.	Replace the core HR/Payroll and Finance systems with a core ERP solution that could cover certain additional functionality including management information and reporting and replacing secondary systems, and build interfaces with the remaining secondary systems.
Example technologies:	N/A - existing systems in place	HR/Payroll: Midland iTrent, CHRIS Frontier, OpenHR, Cintra Finance: Oracle Finance, Capita, Integra, TechnologyOne, Coda Or individual modules from the ERP examples	Large Suppliers: SAP HANA & Business One, Oracle Cloud ERP & E-Business Suite, Microsoft Dynamics AX NAV Smaller Suppliers: Infor CloudSuites, NetSuite, Unit 4, Workday, Sage
Example case studies:	N/A - many examples	<ul style="list-style-type: none"> Hertfordshire, Bedfordshire and Cambridge Police Forces (iTrent and eFinancials) Scottish Fire Service Commonwealth Secretariat Houses of Parliament 	<ul style="list-style-type: none"> Renfrewshire Council Edinburgh Council Scottish Borders Council IPSA NHS Scotland

1. The option to share corporate systems with another Council was initially considered but the risks and challenges were assessed to be too high to warrant full assessment.

CONFIDENTIAL - between Ro and East Renfrewshire Council



A. OPTIONS FOR THE CORPORATE SYSTEMS (2/2)

21

There are three high-level options for ERC's corporate systems that were assessed as part of the business case which are outlined below:

	Option 1: Continuous Improvement	Option 2: Best in Breed	Option 3: ERP
Key Benefits:	<ul style="list-style-type: none"> ✓ No initial investment costs ✓ No enforced changes to business processes which can be updated to suit the Council's requirements ✓ No complex technology implementation ✓ Small improvements delivered over time 	<ul style="list-style-type: none"> ✓ Greater ability to meet requirements through choice of system and flexibility to customise ✓ Less initial investment for supplier costs required than for Option 3, although greater integration costs ✓ Greater opportunity to phase implementation and system transfers to reduce risk ✓ Less business change as can tailor to current processes and configure systems ✓ Some simplification of system landscape 	<ul style="list-style-type: none"> ✓ Integration between HR/Payroll and Finance systems not required so gives single source of the truth and consistent hierarchy ✓ Additional reporting or management systems not required so simpler overall landscape ✓ Greater long-term saving opportunities without reliance on integration and driving best-practice process standardisation ✓ Enables greater collaboration across the corporate services for seamless end-to-end processes ✓ Will deliver consistent digital user experience ✓ Fewer suppliers to manage and smaller internal capability required
Key Risks:	<ul style="list-style-type: none"> • Existing issues continue and drivers for change are not met • Best-practice processes will be inhibited by poor system functionality • Technology costs will increase and savings opportunities not realised • Technology risks going out-of-support • May still need to go out for tender and enforce business change if incumbent is not available 	<ul style="list-style-type: none"> • Initial investment required • Integration between HR/Payroll and Finance systems still required to give single source of the truth • Does not drive efficiencies through business change and self-service as strongly • Separate reporting or management systems might still be required • Longer-term saving opportunities limited due to reliance on integration capability • System providing required functionality may not be available • Greater internal capability required to support and manage the systems 	<ul style="list-style-type: none"> • Larger initial investment required • Complex implementation with large business change required (although can de-risk through agile delivery) • Potential for large suppliers to not deliver sufficient support due to scale of project (smaller suppliers will be considered) • Requirements might not be fully met and require additional systems / compromises

BLANK PAGE