Financial System Replacement

SUMMARY

1.1 On 14 June 2005, Cabinet endorsed the proposal to initiate OJEU procurement of a new core financial management system to replace the Anite FMS (CODAS) on the basis that the product was nearing the end of its life and could not deliver functionality required for more efficient business processes. The competitive tender exercise has been carried out and the evaluation process is now complete.

1.2 Evaluation criteria and percentage weightings were agreed as part of the OJEU exercise. On the basis of whole-life cost, functionality, technical merit and quality criteria, Oracle Financials scored highest.

1.3 Oracle financials is a tried and tested system, used in a large number of Unitary and County Councils. It incorporates a high degree of flexibility to provide the Council with a powerful tool to underpin business process efficiencies and to empower managers and members with timely, accurate and appropriate financial information.

1.4 A summary of whole-life costs, based on five years, is shown in Appendix 1. The relevant capital funding is included in the Capital Programme, as presented to this meeting. Due to the market stability of Oracle financials and its robust development and upgrade policy, the actual life of the product is likely to be in the region of 10 years.

1.5 The implementation project would include the identification and delivery of a number of business process efficiencies. By use of capital funding for this project, the aim is to deliver savings that would be available to revenue at an early stage.

1.6 Subject to any issues raised at the meeting, I support the following recommendation.

RECOMMENDATION

2. It is recommended that:

- the Council proceed to contract stage for the purchase of Oracle Financials, together with the appropriate hardware and services

- an implementation project be set up to replace Anite FMS with Oracle Financials, to a target live date of April 2007.

DERBY CITY COUNCIL

Financial System Replacement

SUPPORTING INFORMATION

1.   Evaluation of potential suppliers

1.1   Following the Cabinet endorsement on 14 June 2005, an OJEU process was initiated. At the pre-qualification stage of the process, a short list of four suppliers was compiled. Tenders were received from all four bidders, together with a series of completed in-depth questionnaires. Following a series of system demonstrations in December, user feedback was evaluated in conjunction with the original tender responses.

1.2   As part of the OJEU process, the evaluation of each response was conducted against a pre-defined schedule of weightings and categories, as set out in the table below. On this basis, Oracle scored highest with a total of 84.6%.

	A.	B.	C.	Oracle	Max %
5 year cost	**18.3**	**16.7**	**15.6**	**20.0**	**20**
Based on £000	1384	1512	1626	1265	
Specification / technical					
Demonstration	11.6	6.6	10.2	14.8	20
Tender responses	8.9	7.1	8.8	8.8	10
Deployment & flexibility	10.0	7.0	10.0	18.0	20
Total functionality	**30.5**	**20.7**	**29.0**	**41.6**	**50**
After-sales	**8.5**	**3.5**	**7.5**	**9.5**	**10**
Experience of similar sites	**7.0**	**3.0**	**4.5**	**8.0**	**10**
Work with Derby to achieve deliverables	**7.5**	**4.5**	**5.5**	**5.5**	**10.0**
	71.8	**48.4**	**62.0**	**84.6**	**100.0**

1.3   On the basis of the above, it is recommended that we move to the contract stage of the procurement, with a view to purchase of Oracle as the Council's replacement financial system

2. Cost related information

2.1 The five year cost of the system is shown in Appendix 1, together with the related funding.

2.2 In Appendix 1 of the report presented to Cabinet on 14 June, paragraph 1.1.4, the overall range of costs was estimated over 5 years at between £850k and £2,150k, based upon the minimum and maximum costs for each component: software, hardware, implementation costs etc. The report stated that it was unlikely that costs would be contained to the minimum and that costs at the higher end of the scale would need to be supported by a business case that made it clear that additional costs would be offset by additional savings.

2.3 The overall 5-year cost of Oracle financials is shown in Appendix 1 as £1,265k. This is the lowest cost of the four products evaluated within the OJEU process. The equivalent costs of the other tender submissions range up to £1,626k. All bids are from suppliers who are well represented in the local government marketplace, and these fairly reflect the current market value of a finance system for a unitary local authority.

2.4 Oracle is one of the leading suppliers of financial systems in the marketplace and a strong selling point is its ability to produce efficiency savings by using the software to refine and automate business processes. We have already compiled a list of areas to be refined and, as part of the project, will be evaluating and quantifying the potential savings, and the schedule for release.

2.5 Estimated figures have been inserted into Appendix 1, below the five year costing. Once recurring savings are established, these should be available for the ongoing life of the system and, in practice, this is likely to be around 10 years.

2.6 There are opportunities, once live operation is established, for partnership work with other local authorities and for offering shared system provision. This would represent an opportunity for further income generation and shared working.

3. Why do we need a new financial system?

3.1 The report presented to Cabinet on 14 June included a number of supporting points. In summary, these were …

- A number of component parts of the existing financial system, Anite FMS, locally known as CODAS, are approaching obsolescence.

- Most of the other local authorities using the existing system are actively implementing replacements, and many of these will cease to be users by the end of the financial year 2006-07.

- The current system lacks the functionality to support e-government and the Gershon agenda, and does not have adequate tools or flexibility to support our current move to more efficient business processes and improved management information to support business decisions.

3.2   Since the report was presented, we have seen a noticeable decline in the level and quality of support to our existing system. Although we will be addressing the shortfall with the supplier, this further supports the concern that, with the decline in the user base, the system will have a limited lifespan.

3.3   Anite FMS is the Council's core financial system, with over 1200 users, including accountants, budget managers, schools and other finance staff, based all over the Council. It provides the Council's main ledger and the functionality to pay accounts, raise invoices, and provide budgetary control. The implementation of a replacement financial system is a significant task, of around 12 months, and we have a target live date of 1April 2007. This is only realistic if we commence work within the next few weeks.

4.   Benefits of a new financial system

4.1   The functionality, tools and flexibility of a modern financial system would provide a framework on which to build more efficient ways of working. Generically, these would include …

- Streamlining of back-office processes. Although the structure of the provision of financial support services is currently under review, we need to develop ways of automating processes, eliminating duplication of effort and streamlining tasks.

- Reduction of manual effort, standalone databases and sub-systems within mainstream finance. The shortfalls in our current system have led to a proliferation of such systems, and to over-complex processes.

- Streamlining of reporting and provision of management information at all levels within the organization and within schools. Most reporting within the current system tends to take place off-line and managers do not have easy access to timely and appropriate information. The implementation would put in place an infrastructure containing user-friendly intuitive facilities for budget managers and schools, together with the facility to extract information to support the business in all areas.

4.2   More specifically, Appendix 3 shows a list of areas to be streamlined during the implementation of a new financial system. Although at this stage costs have not been formally quantified, the list contains a number of significant items that will be quantified in depth during the project with a view to generation of revenue efficiency savings.

4.3   The new financial system would have the appropriate technical attributes to develop integration with other key systems, e.g. IDeA marketplace, CRM, HR/payroll. It is envisaged that these would be developed with in the Council to provide a joined-up approach to information.

4.4   A specific example of potential benefit is integration with the IDeA marketplace, to provide a streamlining of the procure-to-pay process throughout the Council, combining the purchasing efficiencies of the marketplace with business process efficiencies and reducing the need for paper authorisations and double-keying. Although we are currently implementing IDeA marketplace, this is a standalone arrangement as integration with current systems is not feasible

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Background papers:	None
List of appendices:	Appendix 1 – Implications
	Appendix 2 – List of potential areas of efficiency

IMPLICATIONS

Financial

1.1   The headline figures below, summarise the overall comparative 5-year costs of the four tenders. This takes account not only of the original software cost, but also of implementation, technical and ongoing maintenance. Please note that the names of unsuccessful bidders and detailed costs are not stated below for reasons of commercial confidentiality**:**

                        £000

        A: 1,384
        B: 1,512
        C.   1,626
        Oracle   1,265

1.2   It is proposed to fund the five-year cost of the Oracle financials as set out below. The three year capital programme for 2006-07, to be presented to this Cabinet meeting, includes the sums of £374,000 and £475,000 for 2006-07 and 2007-08 in respect of this item.

Breakdown of Payments for New Financial System

Expenditure	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	Total
Capital	23,726	374,399	475,058	0	0	0	873,183
Revenue	0	137,062	82,722	55,594	58,467	58,599	392,446
Total	23,726	511,461	557,780	55,594	58,467	58,599	1,265,628
Funding							
Capital	23,726	374,399	475,058	0	0	0	873,183
Dept Revenue	0	30,000	0	38,000	38,000	38,000	144,000
Corporate Revenue	0	177,000	0	0	0	0	177,000
Total	23,726	581,399	475,058	38,000	38,000	38,000	1,194,183
Difference	0	-69,938	82,722	17,594	20,467	20,599	71,445

See paragraph 1.3 below

1.3   The above is the position before taking account of the proportion of the charge that would be recoverable from user budgets outside the General Fund. This would include schools, Housing Revenue Account and potentially Derby Homes. If these are taken into account, there would be no significant increase in the revenue charge to the General Fund.

1.4   The capital elements of the expenditure for 2006/07 and 2007/07 are contained within the proposed capital programme, which is being submitted to this Cabinet meeting.

1.5   The revenue funding sum of £177k, shown in 2006/07, comprises sums already set aside for the replacement financial system, and there is no impact on day to day budgets. There may be, in addition some 'overlap' costs where we need to run both systems in parallel during implementation. These may be up to £90k subject to the requirements of the detailed implementation plan.

1.6   The costing exercise has been based on a five year whole life cost. This prudent approach has been adopted, due to the volatile nature of the software market. However, there is significant potential for a ten year life for Oracle financials, due to the stability of the company, its position in the market place and its robust development strategy.

1.7   It is anticipated that, with the adoption of more efficient business processes, the Council should be able to make efficiency savings of between £100k and £200k per annum, and this would be available to address shortfalls in revenue funding identified in the forward indicative revenue budget from 2007/8 onwards. To this end, the sum of £50k has been included within the overall project cost to cover business process consultancy to evaluate and quantify potential savings within the areas identified for change.

1.8   If we achieve a ten year life for the system, the position shown in 1.2 above will roll forward, and efficiency savings will continue for the additional 5-year period.

Legal

2.1   The relevant contract documentation must be prepared and agreed, in conjunction with Legal Services and Oracle.

2.2   The timing of the cessation of the relevant current contracts for software and hardware support must be agreed and action taken to terminate with the appropriate notice periods.

Personnel

3.1   It is proposed to maintain the current project team structure, as employed for the pre-implementation stage, with the addition of two further temporary scale 5 posts.

3.2   To minimise cost impact, it is proposed that we continue to use in-house staff to manage the project.   This is beneficial, as skills transfer and continuity are essential to a successful implementation.

Equalities impact

4.1   As part of the OJEU process, the various Equalities policies of the supplier were evaluated and found to be acceptable.

4.2   During the implementation phase of the project, we will ensure that any consultants or contractors working on site comply with the Council's Equalities standards

4.3   When designing and configuring the system, we will take account, where possible, of Equalities issues, including the requirements of disabled employees and customers.

Corporate objectives and priorities for change

5.1   The project would place emphasis upon electronic inputs and outputs, and will deliver business processes that reduce or eliminate paper. This will contribute to a more sustainable Derby.

5.2   The new financial system would improve customer service in a number of ways:

- provision of user-friendly routines to provide timely, accurate and appropriate information to managers and staff providing front-line services to customers
- reduction in the number of customer inquiries, by streamlining outputs to include enhanced information
- potential for integration with the CRM system.

5.3   Implementation of Oracle financials would incorporate business process changes that will produce efficiencies and increase value for money

SOME POTENTIAL AREAS FOR EFFICIENCY SAVING

1. Streamline the 'procure-to-pay' process by integration with IDeA marketplace, electronic matching of invoices and workflow.

2. Reduce the number of standalone databases used for financial analysis by inclusion, where possible, of the functionality within the core financial system.

3. Reduce pressure upon finance departments by streamlining of reporting and inquiry facilities at all levels of use, including provision of user-friendly routines for budget managers, together with appropriate training.

4. In conjunction with the REMIT to AIM cash receipting system implementation, streamline and simplify the current income and bank reconciliation processes

5. Streamline back office processes for the creation and management of debt

6. Replace paper based processes in all areas of the system, by increased use of electronic inputs and outputs. This would include use of imaging and document management.

7. Increase customer satisfaction and decrease customer inquiries by the streamlining of key information and contact details within public facing documents, e.g. remittance advices and invoices.

8. Reduce re-keying and duplication of effort by further integration of systems and processes.