

Report of: Executive Member for Finance, Planning and Performance

Meeting of: Executive

Date: 8th February 2024

Ward(s): ALL WARDS

Subject: Procurement Strategy for the Replacement of Current Financial System

1. Synopsis

- 1.1. This report sets out the Procurement Strategy for the organisation's main financial system as the contracts are due to expire at the latest date of December 2025 and July 2027.
- 1.2. The procurement will be supported by an in-house project team as the best way to secure in a timely manner a system that will be fit for purpose, by replacing the functionality of the current finance systems and providing the opportunity to integrate other existing systems into the new system.
- 1.3. As part of the process the Council will seek to replace the core financial systems which are due to expire. These are the general ledger, the accounts payable and budget forecasting systems. Officers will seek to keep bespoke requirements as low as possible to increase cost effectiveness and simplicity of implementation.

2. Recommendations

- 2.1. To approve the Procurement Strategy for the replacement of the current financial system, using the Crown Commercial Services (CCS) Framework RM6194 Lot 1 Back Office Software (without system integrator).
- 2.2. To delegate the contract award decision to the Corporate Director of Resources, following consultation with the Executive Member of Finance, Planning and Performance.

3. Background

3.1. Nature of the service

- 3.1.1. London Borough of Islington (LBI) has financial systems which are in need of replacement. The new financial replacement system could be an Enterprise Resource Solution (ERP) with functionality for Finance, Procurement, Payroll and HR. However, at the start, only the finance functionality will be “switched on”. Options for integration (e.g. with Portt for Procurement, Zellis HCM for HR and Payroll) can be explored after the implementation of the new financial replacement system.
- 3.1.2. The current systems do not meet LBI’s business requirements because:
- There has been no competition for a number of years to test value for money or “fit for purpose” functionality.
 - The current contracts expire in the near future: Advanced Finance systems (Dec 2025) and CivicaPay (Jul 2027).
- 3.1.3. This gives LBI two years for its option selection, procurement and implementation.
- 3.1.4. To date, LBI have commissioned an external consultancy to write an Outline Business Case (OBC) in line with HM Treasury Five Case Model. This covered the strategic, economic, commercial, financial and management cases.
- 3.1.5. The consultants reviewed the ERP landscape dividing it into three groups from Tier 1 (the most complex and expensive) to Tier 3 (basic and lacking in functionality). The recommendation is that LBI focus on Tier 2 solutions, as these are most likely to fulfil the council’s requirements in a cost effective way.
- 3.1.6. As part of this work a detailed market analysis has been completed, which examined a long list of 22 solutions across all tiers for their suitability across broad requirements. The pre-tender market analysis concluded that of the 22 solutions analysed across all tiers 12 solutions would not meet our requirements, 10 would meet our broad requirements and 5 of the 10 would meet our detailed requirements.
- 3.1.7. This scoping exercise has provided valuable insights and benchmarking in preparation for our tendering exercise, however no pre-determined assumptions will be taken into the tendering process.

3.2. Estimated Value

- 3.2.1. Ten year revenue costs for a financial systems replacement will range between £1.783m to £3.539m for the contract duration of 7 years with a further option to extend at the council discretion for 3 further years. For comparison, the “do-

nothing” option would cost £6.740m over 10 years. One off implementation costs are not part of this procurement but for information are estimated at between £3.101m and £3.151m, depending on which provider is successful. The project will be largely supported in-house.

- 3.2.2. The implementation costs relevant to the procurement will only be external consultancy provided by the software supplier, estimated to range between £0.340m and £0.400m. There is no provision for a systems integrator.
- 3.2.3. The implementation costs count as a transformation of the council’s business, which can be capitalised in accordance with the Capital Receipts Regulations. The current annual budget for financial systems is £0.674m and this would be available to cover the ongoing revenue costs over ten years.
- 3.2.4. The value of the procurement is between £1.783m to £3.539m, depending on which provider is selected. This is based on a 10-year contract period.
- 3.2.5. The two lowest cost solutions based on our benchmarking analysis could potentially save between £0.320m and £0.496m per annum excluding implementation. There is an agreed saving built into the Medium-Term Financial Strategy (MTFS) of £0.150m for 2027/28 related to the reduced cost of the finance systems.
- 3.2.6. The aim of the procurement is to secure a combination of VfM and improvements in functionality. Therefore, although there maybe cost reductions, it may also be possible to buy more or better with the same money. When drafting the OBC the benchmarking costs where included.
- 3.2.7. There is an agreed saving of £0.150m for 2027/28 related to the reduced cost of the finance systems. The key cost drivers are SaaS (which covers licencing and platform/cloud costs), and in-house support (Finance and IT).
- 3.2.8. There are a number of cashable benefits - for example, utilising automated processes to perform routine tasks and removal of current manual handling – these are difficult to quantify at the moment.
- 3.2.9. The key non-cashable benefits are:
 - Additional business critical functionality
 - Integrated back-office systems
 - Reduced manual intervention by using automated and online process steps
 - User defined reporting for meaningful and real-time decision-making
 - Self-service will reduce the administrative burden on support staff
 - An improved user experience will encourage better engagement with the system
 - Off-the shelf software will reduce maintenance costs and effort
 - Restricted user access will improve security

- Standardise and improve the effectiveness of end-to-end processes.

3.2.10. The drawbacks are that this is a major implementation of a critical business system to tight and unmoveable deadlines. As the intention is to initially implement only core financial system of the ERP, there would need to be developed interfaces to other financial (income collection) and non-financial (HR) systems. This would be a stop-gap measure, if the systems are eventually onboarded onto the ERP system which would be a subsequent decision.

3.2.11. The use of a systems implementation partner has both advantages and disadvantages. On a plus side, it buys in knowledge and experience in a specialist area, but on the downside, detachment from the BAU aspects of the council's operations can lead to a sub-optimal off-the-shelf solution. System implementation partners are also another group of contractors to manage and therefore a potential point of failure. There is no provision within the cost estimates for the engagement of a system implementation partner.

3.2.12. There are no other financial implications, which are not covered in the Financial Implications section (4.1).

3.3. **Timetable**

3.3.1. The key dates for the procurement and implementation are:

- Invitation to tender (ITT) – February 2024,
- Completion of procurement/ Contract award – May 2024,
- Implementation – May 2024 until November 2025.

3.3.2. The current contracts expire in the near future: Advanced Finance systems (Dec 2025) and CivicaPay (Jul 2027).

3.3.3. There are no statutory requirements for the project, however the new system will be needed to discharge the statutory financial duties on the organisation, such as to produce the accounts on time. The system must therefore be live and fully functional by 31 March 2026.

3.3.4. The proposed procurement has been discussed by the Corporate Management Board on 31 October 2023.

3.4. **Options appraisal**

3.4.1. The following eight procurement routes were considered: G-Cloud, Further competition call-off pursuant to CCS Frameworks RM6193 Software Design and Implementation Systems and RM6194 Back Office Software, Restricted

Procedure, Open Procedure, Competitive Dialogue, Competitive Procedure with Negotiation and Innovation Partnership. The first was dismissed as G-Cloud contracts only allow for a maximum contract term of 4 years, including any extension and the last three were deemed inappropriate for off-the-shelf solutions.

- 3.4.2. The preferred procurement routes are the use of a Further competition call-off via CCS Frameworks RM6193 Software Design and Implementation Systems or RM6194 Back Office Software. Both options are suitable as they cover the software packages under consideration. The difference between the two is that the first allows for a systems integrator, which provides for both, the solution and implementation work. The preferred option is a further competition via RM6194 Back Office Software without a systems integrator as in-house resource and external support will be used for the system implementation.
- 3.4.3. Whilst the system integrator would bring external knowledge and experience, this would come at a price, which is both financial (in terms of additional costs) and operational (as the systems integrator would be remote from the operations of the system).
- 3.4.4. Accordingly, an approach based on in-house support with limited software provider consultancy is viewed as likely to provide the most effective solution at the lowest cost. The call-off will combine the ability to purchase off-the shelf software and minimal associated professional services to help configure, implement, support and maintain a new system, with support, hosting and maintenance.
- 3.4.5. Utilising an external framework agreement will cut down the time to procure when compared to Open and Restricted Procedures. These could take up to 6 months which would result in missing the May 2024 deadline for the completion of the procurement. The CCS framework RM6194 Back Office Software covers a wide range of Tier 2 solutions with an optimal mix of software vendors and reseller partners.
- 3.4.6. A direct award via RM6194 was considered but is not an option as direct award via RM6194 Back Office Software is only suitable and recommended as the best route to market for low value low complexity requirements.
- 3.4.7. Collaboration with other authorities was not viewed as a viable option within the timescales required for this procurement. No other borough is likely to need the same service mix with the result that structuring of a collaborative bid would be extremely difficult and probably not cost effective.

3.5. **Key Considerations**

- 3.5.1. Delivering a contribution to the council's social value objectives is a key element of this procurement strategy. The successful supplier must demonstrate their

contribution over the duration of the contract to economic, environmental, and social benefits.

- 3.5.2. The CCS RM6194 framework agreement provides sufficient flexibility to ensure that any call-off contract will address social value commitments and inclusion of a London Living Wage clause within the final call-off contract.
- 3.5.3. In addition, the procurement process will ensure that the chosen supplier demonstrates their commitment to social values, which will include:
- Carbon neutral software, which will be 100% powered by renewable energy,
 - Sustainably sourced and recycled office consumables, supported by a recycling scheme for all hardware and electronic appliances,
 - Embedded sustainability in the sourcing and procurement processes, enabling other suppliers to be socially, legally and ethically responsible.
- 3.5.4. The social value benefits that the chosen supplier may deliver within LBI include:
- Contribution of expert volunteering hours,
 - Contribution to the council's net zero ambition,
 - Participation in the council's 100 Hours of World of Work Programme,
 - Offering digital development and skills opportunities, better connectivity, and greater accessibility to meet service user needs, including those dependent on assistive technology to access digital services,
 - Delivery of social value donations, including equipment or resources donated to VCSEs (Voluntary, Community and Social Enterprise) and or donations or in kind contributions to local community projects.
- 3.5.5. Best value considerations have been taken into account as the aim of the initial exercise is to secure a cost-effective product that has been market tested. The product type is intended to be flexible and scalable to enable future onboarding of other services, e.g, HR and income collection.
- 3.5.6. The product will be current and supported, adaptable to changing circumstances (legislative and regulatory) and capable of improvement as Islington gains familiarity and becomes more sophisticated and agile in specifying its business information needs. The whole procurement is geared around selecting the most cost-effective solution (economy), that works in the best way (efficiency) to deliver what is required (effectiveness).
- 3.5.7. There should be no TUPE, Pension or Staffing implications as the existing staff will be running the new system as part of their normal duties. There are no staff/colleagues contractors affected by this system procurement .

3.6. Evaluation

3.6.1. The CCS RM6194 Back Office Software framework has been designed to provide the wider public sector a procurement route to buy software as a service, including ERP solutions directly from major vendors. The list below shows a step-by-step process of how we will buy from the CCS framework RM6194 Back Office Software:

- Further pre-market engagement by issuing a request for information to suppliers on CCS framework RM6194 Back Office Software
- Issue Expression of Interest to gauge interest to suppliers on CCS framework RM6194 Back Office Software
- Create detailed specification and assessment criteria
- Invite interested suppliers to bid
- Evaluate tenders and suppliers
- Communicate outcomes by notifying suppliers of further competition process
- Complete and sign call-off contract pursuant to RM6194 Back Office Software.

3.6.2. For the final award criteria to be set out in the further competition documents will strike a balance between Price 40%, Quality 40% and Social Value 20%. Example criteria are given for illustrative purposes in 3.6.4 below.

3.6.3. The Quality criterion 40% will look to address the following;

- Approach to delivery of the system solution, including the strategy, expertise, management systems, methods and procedures within the proposal;
- Technical requirements, including the competence skills and experience of the management, professional, and technical personnel proposed for the project for the system solution.
Functional Requirements covering the detailed functionality as specified in the contract specification.

3.6.4. The Price criterion 40% will address the following:

- Software License revenue costs testing a range of licensing models (per user, per device, enterprise wide)
- Support and maintenance including upgrades application management and support
- Minimal installation, implementation and configuration costs
- Service desk, hosting, system solution review, disaster recovery and backup services
- Data handling and validation costs
- Any additional professional Service charges.

3.6.5. The Social Value criterion 20% will be developed in greater detail in the further competition tender and will cover in detail key elements mentioned in section 3.5.2 above.

3.7. Business risks

- 3.7.1. All the following risks have been considered for system implementation and can be mitigated with the appropriate treatment and monitoring:
- Market not able to fully meet the Islington Council requirements
 - Complexity and number of systems requiring integration
 - Project timelines may not allow sufficient time for test phases (Integration System Testing and User Acceptance Testing)
 - Ability to secure contract extensions if they are required
 - Cost overruns outside an agreed threshold
 - Scope control and over ambition
 - Internal capacity for project teamwork
 - Implementation does not deliver desired benefits
 - Complicated and lengthy data audit, harmonisation and cleansing across all the systems and processes impacted by the project.
- 3.7.2. All of the business risks identified for this procurement will be managed through a Risk Log which would be a standing item at the board meetings.
- 3.7.3. The business opportunities are set out in the non-cashable benefit section.
- 3.7.4. There are service user implementations to be considered, if the system implementation partner is not appointed as there would not be a hand holding role thus requiring more in-house SME and management involvement. The solution will however be better focussed on a business-as-usual needs for the council and would be better understood by those who must manage the system on an ongoing basis. It is critical to get this balance right.
- 3.7.5. There are other implications that should be taken into consideration, these include the need to engage with other business areas that may be bought on later, e.g. Procurement HR and income collection.
- 3.8. The Employment Relations Act 1999 (Blacklist) Regulations 2010 explicitly prohibit the compilation, use, sale or supply of blacklists containing details of trade union members and their activities. Following a motion to full Council on 26 March 2013, all tenderers will be required to complete an anti-blacklisting declaration. Where an organisation is unable to declare that they have never blacklisted, they will be required to evidence that they have 'self-cleansed'. The Council will not award a contract to organisations found guilty of blacklisting unless they have demonstrated 'self-cleansing' and taken adequate measures to remedy past actions and prevent re-occurrences.
- 3.9. The following relevant information is required to be specifically approved in accordance with rule 2.8 of the Procurement Rules:

Relevant information	Information/section in report
1. Nature of the service	Provision of core financial systems See paragraph 3.1
2. Estimated value	The estimated value per year is £0.178m to £0.354m The agreement is proposed to run for a period of 7 years with an optional extension of 3 years. See paragraph 3.2.
3. Timetable	<ul style="list-style-type: none"> - Invitation to tender (ITT) – February 2024, - Completion of procurement/ Contract award – May 2024, - Implementation –May 2024 until November 2025. See paragraph 3.3.
4. Options appraisal for tender procedure including consideration of collaboration opportunities	Preferred option is further competition pursuant to Framework RM6194 Back Office Software See paragraph 3.4
5. Consideration of: <ul style="list-style-type: none"> • Social benefit clauses; • London Living Wage; • Best value; • TUPE, pensions and other staffing implications 	. See paragraph 3.5
6. Evaluation	<ul style="list-style-type: none"> - Quality – 40% - Social value – 20% - Price – 40% Percentages are indicative at this stage See paragraph 3.6
7. Any business risks associated with entering the contract	Business risks have been identified and control and mitigation measures put in place. See paragraph 3.7

8. Any other relevant financial, legal or other considerations.	See paragraph 4
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4. Implications

4.1. Financial Implications

- 4.1.1. This procurement strategy sets out the plan to replace the current financial systems. The council currently spend £0.674m per annum on financial systems.
- 4.1.2. The ongoing costs for a new system could amount to between £0.178m-£0.354m per annum. This would be funded from the revenue systems budget and make a potential saving of between £0.320m-£0.496m. £0.150m has been built into the MTFS as a saving from 2027/28 in relation to this.
- 4.1.3. There will also be implementation costs of replacing the financial systems which could amount up to £3.151m. Most of this will be spent on an in-house team however an estimated £0.400m will be spent on external consultancy provided by the software supplier. Any additional costs relating to an implementation partner will be separate to this. These costs can be capitalised in accordance with the Capital Receipts Regulations.
- 4.1.4. The total value of the procurement (solely for the system costs) over a ten year period will be between £1.783m-£3.539m dependant on the provider selected.

4.2. Legal Implications

- 4.2.1. With our above timetable to procurement in mind, we may consider an early 'no fault' termination of the current call-off contracts governing the existing financial systems. We shall furnish our Legal Officers with copies of these contracts in anticipation of their further advice.

4.3. Environmental Implications and contribution to achieving a net zero carbon Islington by 2030

- 4.3.1. Environmental Implications must be reviewed by the Energy Services team. Energy Services requires eight working days for implications to be reviewed.
- 4.3.2. There are no environmental impacts arising from this report.

4.4. Equalities Impact Assessment

- 4.4.1. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.
- 4.4.2. An Equalities Impact Assessment is not required in relation to this report, because it has been determined that there is no negative impact as a result of this procurement.

5. Conclusion and reasons for recommendations

- 5.1. The requirement to replace the existing financial systems, which are no longer fit-for-purpose and at the end of their contract affords the council the opportunity to procure a right-sized solution that delivers the council's business needs and through preference for an ERP solution allows future integrations with other core business systems.
- 5.2. The preferred procurement route of using a CCS framework RM6194 Back Office Software will ensure a timely procurement at low costs.
- 5.3. The recommendation is to use the recommended framework, which will allow the council to choose from its shortlisted suppliers to secure the most economically beneficial solution.

Appendices:

- None

Background papers:

- None

Final report clearance:

Authorised by: Executive Member for Finance, Planning and Performance

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