



Proposed New IT System for Finance and HR

Resources O&S Committee

20th September 2018

1 Purpose and Attached Documents

Clive Heaphy, Corporate Director, Finance and Governance, and Dawn Hewins, Director of HR, have been asked to attend your committee to update your Committee on proposals for a new finance and HR system and how this supports both the strategy and operation of both services.

Cabinet is due to take a decision on this at its meeting on 18th September. The public report is attached for information. The private report, exempt under paragraph 3 of the categories outlined in 12A of the Local Government Act 1972 – *Information relating to the financial or business affairs of any particular person (including the authority holding the information)* – will be circulated to members separately. This private report cannot be discussed in the public meeting.

Contact officer:

Emma Williamson, Head of Scrutiny Services, 0121 464 6870

Jayne Power, Scrutiny Officer, 0121 303 4810

**BIRMINGHAM CITY COUNCIL
PUBLIC REPORT**

Report to:	CABINET
Report of:	Director of Finance and Governance & Chief Operating Officer
Date of Decision:	18 September 2018
SUBJECT:	Outline Business Case and Options Appraisal for the Future Delivery of the Council's HR & Finance Systems
Key Decision:	Yes
If not in the Forward Plan:	Relevant Forward Plan Ref: 005244/2018
(please "X" box)	Chief Executive approved <input type="checkbox"/>
Relevant Cabinet Member(s) or	O&S Chair approved <input type="checkbox"/>
Relevant Executive Member:	Councillor Brigid Jones – Deputy Leader
	Councillor Brett O'Reilly- Cabinet Member for Finance and Resources
Relevant O&S Chair:	Councillor Sir Albert Bore – Chair of Resources Overview and Scrutiny
Wards affected:	All

1. Purpose of report:

- 1.1 To inform Cabinet of the options appraisal undertaken and outline business case associated with the future of delivery our HR & Finance Enterprise Resource Planning (ERP) system.
- 1.2 The accompanying private report contains commercially confidential information.

2. Decision(s) recommended:

That Cabinet:

- 2.1 Notes the status, progress and options considered for the future delivery of the Councils HR & Finance Enterprise Resource Planning (ERP) system.

Lead Contact Officer:	Peter Bishop, Chief Information Officer and Assistant Director for Information, Technology and Digital Services, Strategic Services
Telephone No:	07864 926819
E-mail address:	peter.bishop@birmingham.gov.uk

3. Consultation

3.1 Internal

Senior officers across the Council involved in the delivery of HR & Finance services and a range of users of the existing SAP ERP solution have been consulted, including the use of workshops and product demonstrations to inform the options appraisal.

The Deputy Leader, Cabinet Member for Finance and Resources and senior officers in Finance, Legal, HR and Procurement, have been consulted and support this proposal.

3.2 External

Socitm Advisory Limited have provided subject matter expertise, project management, technology and commercial support and have contributed to the options appraisal. A number of software suppliers were engaged as part of a soft market testing exercise to inform the business requirements and lessons were shared from a number of local government organisations who are currently reviewing their own system solutions. It is assumed that the outcomes of the workshops will also hold true for the arms-length and wholly owned companies including Acivico and Birmingham Children's Trust and both will be jointly involved and working closely with the Council during the duration of the project as they will be key users of the resulting system.

4. Compliance Issues:

4.1 Are the recommended decisions consistent with the Council's policies, plans and strategies?

The Council's outcomes and priorities as detailed in the Council Plan approved by Cabinet in July 2018 will be supported by the adoption of this proposal through the implementation of a new system that will enable more effective decision-making by managers across the council and improve efficiency by reducing the cost of administration. It is also consistent with the ICT & Digital Strategy (2016 - 2021) approved by Cabinet in October 2016.

4.2 Financial Implications (How will decisions be carried out within existing finances and Resources?)

The private report on this agenda provides further details of the Outline Business Case and appraisal of each of the four options, including details of existing SAP ERP running costs, estimated running costs of a new ERP system for HR and Finance and estimated savings, subject to a detailed procurement exercise.

The Council's existing Financial Plan already assumes a level of ICT & Digital revenue savings from a review of its major ICT applications and it is estimated that a new ERP solution will deliver the required level of savings through a combination of reduced license and support costs.

In addition, it is estimated that additional efficiency savings will be delivered in HR and Finance support services through a combination of improved business processes, automation, system functionality and self-service capability. This additional saving will form part of the overall on-going saving from implementation of a new ERP system.

Implementation and transition costs will be phased over a three year period and will be funded on an Invest to Save basis on the assumption that on-going long term savings are deliverable.

Existing revenue budgets which support the current ICT & Digital infrastructure and ERP system together with associated running costs, will initially be re-directed to meet a proportion of the implementation costs. Invest to Save funding will be made available to meet any remaining funding gap on the basis that such funds will need to be repaid as quickly as possible to ensure funding continues to be available to support similar type projects or new savings proposals that require a level of upfront investment to deliver future savings. It is currently estimated that repayment can be made within an acceptable timescale.

The detailed procurement exercise will provide accurate running and implementation costs of the new ERP which will then form the basis of a Full Business Case for further consideration by Cabinet if required.

4.3 Legal Implications

Sec 112 of the Local Government Act 1972 confers power on the Council to appoint such officers as they think necessary for the proper discharge of their functions. S111 of the act confers power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.

The Council are under a duty under Section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

4.4 Public Sector Equality Duty

An Equality Impact Analysis has been completed and is attached at Appendix 1. This indicates that the equalities impact of the proposed implementation of a new HR and Finance ERP system is minimal and that the specification being developed to procure a new solution will ensure that all of the latest equality duty requirements, for example, accessibility for users with specific needs, will be met.

5. Relevant background / chronology of key events:

- 5.1 The new Council Plan was approved by Full Council in July 2018 and sets out the Council's vision, outcomes and priorities for 2018-2022 and supports the Council's ambition of becoming fit for the 21st Century. The ICT&D Strategy (2016-21) is being implemented and sets out a clear agenda and key improvements that the Council needs to make to its technological and digital platforms. This includes investment in the Council's corporate HR and Finance systems (including procurement and payroll) to deliver significant cost reductions and drive changes in business processes to improve the effectiveness of managers and employees. It is anticipated that a new ERP system will provide enhanced functionality to support self-service for managers and employees and significantly improve management information and reporting capabilities, delivering efficiencies in service delivery in HR and Finance and directorates.
- 5.2 The Council has used SAP as its ERP system to support delivery of its HR and Finance (including procurement and payroll) services since 1999. The system has been hosted, maintained and supported by its existing ICT partner since the inception of the Council's partnership with Capita. The Council invested significantly in the development of the system through the Corporate Services Transformation Programme in 2007 and a major system upgrade in 2016.
- 5.3 The system is currently used to support a wide range of business processes associated with HR and Financial transactions, including supporting over 80 separate monthly

payrolls, making creditor payments in excess of £60m per month; completing over 1.6million payment transactions annually and accounting for over 18m income transactions annually.

- 5.4 The system is also used by the majority of the Council's arms-length bodies including Acivico and the Birmingham Children's Trust and underpins the provision of services to schools.
- 5.5 Due to a perception that the SAP ERP core functionality did not fully meet business requirements a variety of additional applications have been procured that integrate with SAP. The solution has developed over time in such a way that it's created a complex application landscape, which is difficult to manage and maintain. Although most Local Authorities follow a similar path by customising and adding to the solution, the current SAP ERP solution has become particularly complex.
- 5.6 The Council commissioned ATOS in March 2015, who in their Application Rationalisation Analysis report concluded that the cost of licences, hosting and support of the SAP ERP system was very expensive given the size of the Council. ATOS recommended exploring replacement of the current SAP HR People Solutions application with an alternative HR and Payroll Cloud based solution. ATOS, however, recognised that the SAP Finance (Voyager) System was a well-embedded solution but also recommended that as the Cloud ERP market developed it would be worth evaluating the options for a complete SAP ERP system replacement.
- 5.7 In developing this options appraisal, a series of interviews and workshops were held with a range of Council SAP users. It is clear that HR and Finance colleagues have different experiences and views in relation to their use of SAP and different business objectives moving forward. The Finance, Payroll and Procurement functions embrace SAP and recognise it as a very powerful ERP and would consider making further improvements to the current upgraded SAP system. However, they also recognise that parts of the system have been heavily be-spoked and understand that re-designing and adapting the current SAP system and business processes to meet with current business requirements could be as difficult as implementing a new ERP solution.
- 5.8 In contrast, the HR service and users are frustrated with the existing functionality, recognising that current processes don't support modern working practices and that key HR data is difficult to align with that held by Finance, due to the way the current SAP system was implemented, creating unnecessary manual intervention. HR officers have concluded that the current SAP solution cannot drive the HR business transformation they require, preferring to look for an alternative ERP solution. Although a roadmap was developed for how the HR and Finance system could be developed to support users and services, there has been no recent investment due to the Council re-defining its ICT & Digital strategy and future operating model and reviewing all the technology it uses to ensure it remains fit for purpose.
- 5.9 In February 2018 Socitm Advisory Limited was commissioned by the Council to complete an OBC and identify options for the development or replacement of its existing SAP HR & Finance system.
- 5.10 The OBC developed four alternative options which were appraised in consultation with senior officers and systems users. These were:
 - 1. Retain the current SAP solution (and those solutions in place that complement it) and undertake a programme to improve its ability to meet the Council's objectives and use requirements;

2. Move the current SAP system to a different hosted solution (SAP Hana Cloud) to reduce the cost of hosting and support charged through the current Capita contract;
3. Implement 'Best of Breed' solutions for Finance, HR, Payroll and Procurement – that is adopting separate solutions in each area based on the best available in the market as the basis of an integrated solution or
4. Migrate to an alternative single ERP (Cloud based) solution, which meets all business and functional requirements, following a market-testing exercise.

- 5.11 The financial appraisal of the four options concluded that Option 4 has the greatest potential to deliver the benefits required of a new system in terms of its fit to the Council's overall strategic ICT & Digital objectives, self-service capability, improved functionality and business process improvements, and delivery of significant financial savings.
- 5.12 The current system is hosted and supported by Capita as part of their partnership contract with the Council. The future direction of travel for the Council is to move to Cloud hosting solutions, where applicable. To align with the ICT & Digital strategy the recommendation is that the Council procure a Cloud-hosted ERP solution using a Software as a Service (SaaS) approach, procuring the system on a subscription basis, rather than hosting the solution itself.
- 5.13 It is recognised that this programme will run in parallel to the implementation of the Capita Transition project and Project Eclipse – Social Care system replacement for Birmingham Children's Trust, Adults and Finance. There will be extensive cross dependencies between these projects which will need to be coherently managed.
- 5.14 Experience of other local authorities has seen a trend over the last two years to move to Cloud-based (SaaS) solutions for their ERP requirements from former hosted systems. While there have been some examples of authorities who have adopted as 'Best of Breed' approach to replace hosted ERP solutions with separate HR and Finance systems (e.g. Worcestershire County Council and the London Borough of Barnet) these tend to have been exceptions and associated with new back-office outsourcing arrangements. A greater number of authorities have been replacing their ERP systems with new Cloud-ERP solutions, either from the same supplier or alternatives (e.g. London Boroughs of Lambeth and Croydon, Cheshire East and Cheshire West and Chester, Cornwall, Thurrock) or replacing separate systems with new cloud-ERP systems (e.g. Walsall, London Boroughs of Lewisham and Camden).
- 5.15 One significant difference with the approach to implementing Cloud-based systems experienced by other local authorities is the change of emphasis from the design and build of systems to meet local requirements, towards the adoption of common best practice functionality and business processes built into the new systems. This places far greater focus on the support required within organisations to adapt business processes to meet systems functionality (rather than the other way around) and to ensure business readiness to adopt the new solution. The business change support associated with such programmes has been built into the OBC to ensure it provides the resources required to deliver the necessary business process changes.
- 5.16 The implementation of any new solution will require the combination of a number of key parties to ensure its success which will be the subject of a procurement exercise:
- a. An application (or systems) provider – those companies who have developed the latest software available in the market and who offer its use for a license fee (e.g. SAP, Microsoft, Oracle).
 - b. A systems implementation partner (sometime called a Systems Integrator – SI) with

specialist knowledge of the chosen solution and with the expert resources required to configure the system to meet the council's requirements.

- c. Resources to support the business change activities required to support the changes in business processes and cultural change required to deliver the required benefits of any new system. This has become increasingly important with the advent of cloud-based solutions where there is limited ability to customise the solution to meet local needs and an increased focused on adapting local business processes to align with best practice processes built into the solutions. It is imperative that the Council 'owns' the business change process as it needs to be embedded in the culture of the organisation but it is likely that external expertise or capacity will be required to support this activity.
- d. The implementation of any new system will require significant input from the key users within the Council to provide critical input into the design of the new system set-up, testing the new system once built to ensure that it meets the business requirements and in supporting the adoption of the system during training and post go-live.

6. Evaluation of alternative options:

6.1. Refer to the Private report.

7. Reasons for Decision(s):

To inform Cabinet of the options appraisal undertaken and outline business case associated with the future delivery of HR & Finance systems.

Signatures

Date

Councillor Brigid Jones
Deputy Leader

.....

Councillor Brett O'Reilly
Cabinet Member for Finance and Resources

.....

Clive Heaphy
Director of Finance & Governance

.....

Paula Buckley
Chief Operating Officer

.....

List of Background Documents used to compile this Report:

1. Report to Cabinet 18 October 2016 - Birmingham City Council Information & Communications Technology & Digital Strategy (2016 - 2021)
2. Report to Cabinet 18 October 2016 - Birmingham City Council Strategic ICT & Digital Investment Programme (2016 - 2021)
3. Report to Cabinet 27 March 2018 - Outcome of final stage negotiations between BCC and Capita – proposed IT and Digital Service Transition Roadmap to 2020/21, with associated investments and benefits
4. Report to Cabinet 26 June 2018 – Birmingham City Council Plan June 2018-2022

List of Appendices accompanying this Report:

1. Equality Impact Analysis

PROTOCOL PUBLIC SECTOR EQUALITY DUTY

- 1 The public sector equality duty drives the need for equality assessments (Initial and Full). An initial assessment should, be prepared from the outset based upon available knowledge and information.
- 2 If there is no adverse impact then that fact should be stated within the Report section 4.4 and the initial assessment document appended to the Report duly signed and dated. A summary of the statutory duty is annexed to this Protocol and should be referred to in section 4.4 of executive reports for decision and then attached in an appendix; the term 'adverse impact' refers to any decision-making by the Council which can be judged as likely to be contrary in whole or in part to the equality duty.
- 3 A full assessment should be prepared where necessary and consultation should then take place.
- 4 Consultation should address any possible adverse impact upon service users, providers and those within the scope of the report; questions need to assist to identify adverse impact which might be contrary to the equality duty and engage all such persons in a dialogue which might identify ways in which any adverse impact might be avoided or, if avoidance is not possible, reduced.
- 5 Responses to the consultation should be analysed in order to identify:
 - (a) whether there is adverse impact upon persons within the protected categories
 - (b) what is the nature of this adverse impact
 - (c) whether the adverse impact can be avoided and at what cost – and if not –
 - (d) what mitigating actions can be taken and at what cost
- 6 The impact assessment carried out at the outset will need to be amended to have due regard to the matters in (4) above.
- 7 Where there is adverse impact the final Report should contain:
 - a summary of the adverse impact and any possible mitigating actions (in section 4.4 or an appendix if necessary)
 - the full equality impact assessment (as an appendix)
 - the equality duty (as an appendix).

Equality Act 2010

The Executive must have due regard to the public sector equality duty when considering Council reports for decision.

The public sector equality duty is as follows:

- 1 The Council must, in the exercise of its functions, have due regard to the need to:
 - (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by the Equality Act;
 - (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 2 Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
 - (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
 - (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
 - (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
- 3 The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.
- 4 Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:
 - (a) tackle prejudice, and
 - (b) promote understanding.
- 5 The relevant protected characteristics are:
 - (a) marriage & civil partnership
 - (b) Age
 - (c) disability
 - (d) gender reassignment
 - (e) pregnancy and maternity
 - (f) Race
 - (g) religion or belief
 - (h) Sex
 - (i) sexual orientation