Report to: Cabinet   **Date of Meeting:** 17 July 2014

Subject: Oracle Financial Management System Replacement

Report of: Head of Corporate Finance & ICT   **Wards Affected:** All

Is this a Key Decision? Yes   **Is it included in the Forward Plan?** No

Exempt/Confidential   No

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Purpose/Summary

- To inform Cabinet of the proposed withdrawal from part of the Arvato contract with regard to the provision of the financial management system.
- To highlight discussions with Halton Council for the provision of a hosted financial system in place of the Arvato offering.
- To approve the continued negotiations with Halton in respect of the proposed system and financial arrangements of the project

Recommendation(s)

Cabinet is recommended to:-

i)   Approve the phased withdrawal from the Arvato contract with regard to the Financial Management System with effect starting 1 April 2015;

ii) Note the ongoing discussions with Halton Council for the provision of a hosted financial system from 1 April 2015; and

iii) That the Cabinet delegates authority to continue negotiations to the Head of Finance and ICT , in consultation with the Cabinet Member (Performance and Corporate Services), to with regard to contractual, financial and service delivery arrangements

iv) It be noted that the proposal was a Key Decision but had not been included in the Council's Forward Plan of Key Decisions, because at the time of publication, options regarding the Council's new financial arrangements were still being evaluated. Consequently, the Leader of the Council and the Chair of the Overview and Scrutiny Committee (Performance and Corporate Services) have been consulted under Rule 27 of the Access to Information Procedure Rules of the Constitution, to the decision being made as a matter of urgency on the basis that it was impracticable to defer the decision until the commencement of the next Forward Plan because the licenses are required.

How does the decision contribute to the Council's Corporate Objectives?

	Corporate Objective	Positive Impact	Neutral Impact	Negative Impact
1	Creating a Learning Community		●	
2	Jobs and Prosperity			●
3	Environmental Sustainability		●	
4	Health and Well-Being		●	

5	Children and Young People		•	
6	Creating Safe Communities		•	
7	Creating Inclusive Communities		•	
8	Improving the Quality of Council Services and Strengthening Local Democracy	•		

Reasons for the Recommendation:
To ensure Cabinet are informed of the proposals to withdraw from an element of the Arvato contract in respect of the Financial Management System and to seek approval to explore with Halton Council a hosted arrangement .

What will it cost and how will it be financed?

(A) Revenue Costs

One-off costs to purchase perpetual licences for the Agresso system are estimated to be £0.4m; current IT Strategy resources will be used to finance their purchase.

Annual costs for Halton to host this service have not yet beendetermined. However the potential annual costs (IT hardware, licence maintenance, system set-up, staffing costs and an annual management fee) is currently estimated to be in the order of £0.4m. Any cost would only relate to a reimbursement of actual costs incurred by Halton for hosting the service.   This is significantly less than the Solution build/running costs indicated by Arvato.

In addition, the transformation of the procure to pay, accounts receivable and other related financial processes are expected to deliver additional savings as transformation of services roll-out across the Council.

(B) Capital Costs
None

Implications:
The implications of these proposals have been considered and where there are specific implications, these are set out below:

Legal:
The contract with Arvato in respect of the provision of the Oracle system will need to be amended to reflect the withdrawal.

Prior to committing to annual costs with Halton Borough Council, Sefton will need to satisfy itself that the proposal for a hosted arrangement with another Local Authority complies with any procurement legislation and in particular OJEU.

These negotiations are in effect a pre procurement arrangement with Halton   At this stage the proposed arrangement only involves the two councils and does not involve a third party from the private sector.   Both parties are obliged to ensure that their Council's have appropriate, robust accounting and financial management systems in place.   The purpose of the proposed arrangement is to ensure that this common task of managing Council accounts is streamlined, and as efficient as it possibly can be.   This proposal will allow the Sefton's financial management information and processes to be hosted by Halton, but Sefton will continue to perform the accountancy and financial management functions

Human Resources:
The implications of the project on staff within Sefton and Arvato will need to be assessed as part of the preparation / implementation phases of the project. However, in order to deliver the service improvements, it is anticipated that a reduced number of staff will be required.

Equality

1. No Equality Implication   √

2. Equality Implications identified and mitigated

3. Equality Implication identified and risk remains

Impact on Service Delivery:
The introduction of the Agresso package is anticipated to result in an improved financial management arrangements , with benefits to all departments of the Council.

What consultations have taken place on the proposals and when?

The Head of Corporate Finance & ICT is the author of the report (FD 3065/14).

Head of Corporate Legal Services (LD 2370/14) have been consulted and any comments have been incorporated into the report.

Are there any other options available for consideration?
None.

Implementation Date for the Decision
Immediately following the call-in period following the publication of the Cabinet Minutes

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Background Papers:
None

1. **Introduction**

1.1 The Council currently uses the Oracle Financial Management System to provide accounting and financial reporting functionality. This is a crucial system for the Authority and it is essential that an effective and robust financial system is in place. Oracle is withdrawing support for the current version of the system next year. Operating a system without this support would provide severe risks to the financial and operational running of the Council. Therefore it is imperative that the Council makes alternative arrangements by 1 April 2015.

1.2 Work was undertaken with Arvato to provide a system based around the "Agresso" Financial Management System, which was expected to deliver significant financial savings for the Council - as part of a transformation of service provision. The Arvato proposal was also to work with Slough Borough Council who are in exactly the same position as Sefton with respect to Oracle. Work has been ongoing since early 2013 to prepare for its implementation. The financial costs of the project were recently presented by Arvato; these were considerably higher than was anticipated.

1.3 As a result of the high cost, officers have been investigating whether there were any other alternatives in introducing a financial system. As part of this process, discussions have taken place with Halton Council, who already use the Agresso package. Initial conclusions were that joint working and co-operation with Halton would provide a viable and financially acceptable solution with respect to our mutual obligations. Following further work, this report presents a proposal to Cabinet that both Councils work together with respect to the financial administration but that Halton will host this for Sefton. Continued negotiations with Halton in respect of the hosting arrangements will be required to agree the final financial position.

1.4 The arrangement with Halton will require the Council to withdraw from that part of the Arvato contract that relates to the financial managementarrangements.

2. **Proposal for Joint Working with Halton Borough Council**

2.1 Oracle's withdrawal of technical support for the version of the financial system that Sefton currently uses has been an impetus, not only to look for an alternativeapproach, but also to see what transformation could be introduced in its end to end processes for Procure to Pay, Accounts Receivable (Sundry Debtors etc), General Ledger accounting & reporting and the management of banking and cash. These are tasks that each and every local authority must conduct. Some Council's such as Halton, have a much better way of conducting these tasks. By Halton hosting the financial arrangements Sefton will be able to benefit by adopting their ways of working including their way of operating the Agresso system, where this will lead to better practice.

2.2 The ultimate aim is to introduce best practice operating models, enable business change and reduce long-term net costs. The scope of this project was to transform finance and procurement, within the Council and services currently outsourced to Arvato.

2.3 As a result of the significant proposed charge by Arvato, and the withdrawal of technical support by Oracle, an alternative option (still using the Agresso Financial Management System) has been identified with another local authority, Halton Council. Discussions are still continuing with Halton, however the draft scope of a proposal are noted below:

- End Oracle contract and decommission system after 2014/15 financial year end processes and audits completed.

- Plan, design and implement Agresso becoming the Council's Finance and Procurement solution for 1st April 2015

- End-to-end transformation, including replacement where necessary, of the systems, data, interfaces, processes, policies, procedures, governance and ways of working relating to the following Finance and Procurement processes:

  o Procure to Pay, Accounts Receivable, Reporting, Budget Planning

- Halton to provide ICT support, maintenance and development of Agresso and assist in developing Sefton processes

- Assess, define and implement the required staffing and organisation structure to operate the Finance and Procurement processes from project go-live;

- Maintain business as usual throughout the project for Finance and Procurement

- To bring about the required step-change in behaviours and ways of working

- Plan a phased approach to the project and future developments

2.4 Halton hosting these arrangements for Sefton would still enable transformational change across the Council, (as was anticipated with the Arvato offering); for example, the introduction of direct input of invoices by departments and scanning of invoices on receipt. As the assessment of anticipated savings has not yet been undertaken, no allowance has been made in the costing with regard to this change. However, given the very tight timescales to introducenew ways of working, the transformation of service provision will be introduced in a phased basis. The precise changes that will be introduced from next year are currently being determined.

2.5 The acceptance of the Halton service would necessitate a variation to the Arvato contract. Initial discussions with Arvato have taken place, however, details regarding renegotiating the contract terms have yet to be finalised.

2.6 As part of the feasibility study it was proposed that in order to maintain an open and transparent financial arrangement staffing and technical costs would be recharged by Halton BC at cost and supported by a separate management fee due to Halton BC, negotiated under contractual agreement, in order to reduce any complexity associated with future change or requirements by both parties. An attractive and important part

of this agreement is that such fees are on a not for profit basis and merely reflect a recharge.

3   Financial Implications

3.1   Halton hosting Sefton's financials on their Agresso system would require additional licences to be purchased by Halton, and reimbursed by Sefton; this is anticipated to be approximately £0.4m (one-off). This expenditure will be financed from current IT Strategy resources. Additional annual IT hardware, licence maintenance, Halton staffing costs and an annual management fee is currently estimated to be in the order of £0.4m. The overall / ongoing cost is significantly less than the "Solution build" / running costs indicated by Arvato. It is therefore anticipated that costs will be met from within existing budgets.

3.2   The number of staff required to operate the Agresso system across the Authority will need to be assessed. However, the expectation is that less staff will be required due to the efficiencies that will be introduced by the new system. It is therefore expected that the new system will result in an overall financial saving for the Council. Given the late change in direction with regard to these proposed arrangements, the timing / incidence of the savings to be generated has not been determined. The service improvement may result in redundancies.

5. SUMMARY

5.1   The replacement of the Oracle Financial Management System has to be in place by 1 April 2015. The assessment of the options indicates that the Halton proposal would provide Sefton with a robust financial system, and would result in the Council being better off financially compared to the Arvato offering. Following transformation of service provision, the overall financial cost is expected to reduce.