

Subject	Procurement of New Financial Systems	Status	For Publication
Report to	Authority	Date	10/12/2020
Report of	Director Treasurer and Head of Finance and Corporate Services		
Equality Impact Assessment	Not Required	Attached	n/a
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1 Purpose of the Report

- 1.1 To set out details of the procurement of replacement financial management and investment accounting systems, and to seek approval for the next steps.

2 Recommendations

- 2.1 Members are recommended to:
- a. **Note the procurement undertaken for a replacement Financial Management System using a direct award on the Crown Commercial Services G Cloud framework as set out in paragraphs 5.6 to 5.10.**
 - b. **Approve the replacement of the ICON investment accounting system as set out in paragraphs 5.11 to 5.14 and approve a waiver of contract standing orders, on the grounds that this is a specialist supply, in order to facilitate the procurement.**
 - c. **Approve the release of an estimated £50,000 from the Capital Projects Reserve in 2021/22 in order to meet the one-off costs associated with implementation of both these systems.**

3 Link to Corporate Objectives

- 3.1 This report links to the delivery of the following corporate objectives:

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

The implementation of modern business systems will provide a better experience for those dealing with the Authority.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

The replacement of the Authority's business systems is a key part of the process of delivering more effective and better supported decision making by enabling the diversion of resources from transaction processing to decision support.

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

The ability to free up staff resource to better support management and decision making processes will create more interesting and varied roles which should be more attractive in terms of individuals developing a career with the organisation.

4 Implications for the Corporate Risk Register

- 4.1 Replacing the Authority's business systems is a key task included in the corporate strategy, and this aspect should impact positively on the control environment which is a risk included in the corporate risk register.

5 Background and Options

- 5.1 The need to replace the Authority's business systems is set out clearly within the corporate strategy. The business systems cover both the financial management systems, HR, and payroll systems. This report is concerned with the procurement of the replacement financial management systems.
- 5.2 It would have been desirable to secure a single system that would be able to cover both the financial and people elements of the Authority's requirements. However, it is clear that given the relatively small scale of the Authority's workforce that such a course would result in securing a system which would have significantly more functionality than could effectively be made use of. The process is therefore looking at the financial and people systems as two separate exercises and a further report in relation to the people systems will be brought to members when options have been identified and evaluated.
- 5.3 The replacement of the investment accounting system is a requirement that has come about due to the changes in our environment, the move to pooling and the impact this has had in reducing our requirements in regards to processing and accounting for investment transactions. Further details are set out below at paragraphs 5.11 to 5.14.

Financial Management System - Operational Requirements

- 5.4 The Authority's current financial management systems are provided by South Yorkshire Fire and Rescue Service and comprise access to a range of modules of the Integra product provided by Capita. While this arrangement has served the Authority well for some considerable time quite rightly the Fire and Rescue Service have developed and continue to develop the product to meet their own specific needs which are somewhat different to those of SYPA which is more analogous to a large financial institution. A lack of technical expertise within the Authority has also meant that rather than making changes to the system (for example to the way in which the various account codes relate together) to address new reporting requirements, manual

workarounds have been developed which result in significant amounts of additional analysis and reconciliation being required as part of key processes such as the production of the accounts. It is also the case that a new generation of systems are now available which offer a much wider range of functionality scaled and priced appropriately for an organisation such as SYPA.

- 5.5 SYPA requires the following elements to replace the functionality which is currently provided by Integra:
- a. General Ledger – Essentially the place where the statutory and management accounts are held.
 - b. Accounts Payable and Purchase Order – Control of purchasing being made for the Authority and Payment of Suppliers
 - c. Accounts Receivable and Income – Issuing of invoices for services provided and matching with income received together with allocation of income received through the bank to the appropriate codes.

Financial Management System – Procurement

- 5.6 An exercise was undertaken to research potential new systems and demonstrations of two suitable options were arranged.
- 5.7 The two options that were compared and evaluated against the current system were both available through a Crown Commercial Services Framework. The analysis and evaluation was carried out and from this the preferred supplier was selected. The intention was to make a direct award on the most appropriate procurement framework. It was necessary to make this award outside of the Authority meeting cycle in order to take advantage of a substantial discount that was available on a time-limited basis only. Therefore the evaluation and analysis was reported to Members and approval granted for the contract award during November 2020.
- 5.8 The preferred option that was determined as a result of the evaluation is a system used by a number of local authorities and other public bodies as well as by financial institutions such as *Scottish Widows* and *Aegon*. It will be provided as Software as a Service (SAAS) which means that the Authority effectively accesses the software in the Cloud direct from the supplier with automatic access to updates and software patches as they become available. This removes a maintenance burden from the Authority. This route reduces the cost of ownership and results in a much more attractive and competitive pricing model for organisations such as SYPA.
- 5.9 Although the annual subscription cost of this system is higher than the costs of the existing system, the additional functionality and capacity for development that this system will provide will ensure good value for money in providing a future-proof solution for meeting the needs of the Authority; and the substantial saving on implementation costs being offered by the preferred supplier is a further positive benefit.
- 5.10 The full details of the options and the evaluation are set out in Appendix A, which is attached as part of the private agenda pack due to containing commercially sensitive information.

Investment Accounting System

- 5.11 In light of pooling and the continued transition of assets to Border to Coast, the in-house running of investments has reduced significantly over the last two years and will

continue to reduce further as more assets are transferred. This means that our current investment accounting system, ICON, is now much more sophisticated and large-scale than required for our current needs. The annual cost of this system is around £168,000 and given the reduced requirements we now have, this no longer represents good value for money.

- 5.12 Consequently, an exercise was undertaken last year to research the potentially available options on the market for this system and we contacted a number of other funds, including several of our partner pension funds in Border to Coast, to find out what other systems are generally used. This work identified that essentially there are only two systems in the marketplace to meet the specialised requirements we have – the system we currently use or an alternative system that has much more basic functionality but is considered will be sufficient for our purposes going forward.
- 5.13 Given the specialist nature of these products and the fact that the overwhelming majority of the marketplace is private sector financial institutions, there is no framework available under which an award could be made. Therefore approval is sought to waive the relevant contract standing orders to allow a direct award to the preferred supplier on the grounds that this is a particularly specialist form of supply and that the available options have been evaluated in coming to the award decision.
- 5.14 The full details are set out in Appendix A to this report which is included in the private agenda pack due to containing commercially sensitive information.

Financial Implications

- 5.15 The annual costs of the two new systems compared to the cost of the current systems are shown below:

System	Current Cost	Cost of New Systems	Variance: Cost / (Saving)
Financial Management: Annual Running Costs	£26,300	£31,200	£4,900
Investment Accounting: Annual Running Costs	£168,000	£5,200	(£162,800)
Totals	£194,300	£36,400	(£157,900)

- 5.16 As the table above shows, these proposed changes generate a significant saving, which will be fully released from the budget in 2022/23. At this stage it is recommended that this remain in the budget until the full running costs of the replacement HR and Payroll systems are known, as the cost of these is currently far less clear at present, although they are not expected to result in a significant reduction to the total saving available.
- 5.17 The one-off costs for implementation of the two new systems being proposed are estimated to be around £50,000 in total. This includes the cost of resources required set out in the paragraph below, and is after applying a discount that the Authority will benefit from in regards to the financial management system implementation. Approval is sought for the implementation costs to be met by a transfer from the earmarked Capital Projects Reserve.
- 5.18 Successful delivery of this project requires the release of sufficient time for the Head of Finance and Corporate Services and another key member of staff to participate in

the implementation process to the maximum degree possible and it is therefore proposed to appoint a qualified accountant on a fixed term contract to take on some of the routine financial management and accounting work undertaken by these two individuals. This is reflected in the costs shown in paragraph 5.17 above.

- 5.19 The implementation of the Investment Accounting System will take place in the first few months of 2021 with a target date of May 2021 for the system to be fully live. The implementation of the Financial Management System will be a significant project. The implementation timeframe will be four months overall, although this may be spread over a longer period to allow for other priorities at key times of the year; e.g. in relation to annual accounts and audit process. The target date for this system to be fully live is by October 2021.

6 **Implications**

- 6.1 The proposals outlined in this report have the following implications:

Financial	As set out in the body of the report.
Human Resources	None directly; the proposals to restructure the Finance Team approved by the Staffing Appointments and Appeals Committee anticipate the replacement of the financial management systems.
ICT	These solutions are provided through an arrangement called Software As A Service (SAAS) and are hosted in the Cloud, there are therefore no direct implications for the Authority's ICT infrastructure, although it will be possible to remove a network link to the Fire and Rescue Service which will generate a small additional saving.
Legal	Any procurement process runs the risk of a legal challenge. However, by using a compliant framework the opportunities for challenge are reduced, and while no framework is available for the investment accounting system the price differential is such as to provide a defence against challenge.
Procurement	The use of a direct award through a Crown Commercial Services Framework for the financial management system following a comparison of available products is an appropriate procurement route.

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Background Papers	
Document	Place of Inspection
None	-