

**HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title/Subject Matter:** Replacement Financial Management System  
**Meeting/Date:** Cabinet – 22 October 2015  
**Executive Portfolio:** Resources: Councillor J A Gray  
**Report by:** Head of Resources  
**Ward(s) affected:** All

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**Executive Summary:**

The Council is undertaking a number of initiatives to achieve overall reductions in its revenue budget that will enable the delivery of more cost efficient and effective services. One of the ways that it is doing this is in the development of shared services with its strategic partners, Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC).

Both CCC and SCDC have gained approval for the joint procurement of a new Financial Management System (FMS). Following discussions with partners, and reflecting on the short-comings of the Councils current FMS, it is considered opportune for the Council to join this procurement and implement a new FMS. This project will provide a considerable number of opportunities, as well as improvements and efficiencies in processes and practices.

**Recommendation(s):**

It is recommended that the Cabinet:

- i. Agree the Councils involvement in the procurement and implementation of a new FMS in partnership with our strategic partners, Cambridge City Council and South Cambridgeshire District Council.
- ii. Releases up to £258,667 to finance the £192,000 capital acquisition and implementation costs and £66,667 first year revenue costs from the Special Earmarked Reserve.
- iii. Delegates final approval, subject to a 10% contingency, the release of the reserve to finance this project to the Head of Resources in consultation with the Executive Portfolio Holder for Resources.

## **1. WHAT IS THIS REPORT ABOUT/PURPOSE?**

- 1.1 The purpose of this report is to outline the business case for the replacement of the Financial Management System (FMS) at Huntingdonshire District Council (HDC) in conjunction with our shared service partners; Cambridge City Council (CCC) and South Cambridgeshire District Council (SCDC).

## **2. WHY IS THIS REPORT NECESSARY/BACKGROUND**

- 2.1 HDC currently uses e-Financials version 4.1, a product of Advanced Business Solutions. This system has been in operation since 1999 with little system improvement or modification since then. The current system meets our basic accounting requirements, however it is:

- designed to operate in a specific environment,
- inflexible in service redesign,
- very limited in its reporting requirements,
- does not facilitate Budget Managers to proactively access their financial information, or
- support, with any ease, the new commercial and shared services environment that the Council is moving into.

- 2.2 Further, the current system does not support the operation of workflow that would enable relatively substantial savings in back-office operations to be achieved.

### **Strategic Partners – Shared Services**

- 2.3 The Council has committed to a strategic partnership with both CCC and SCDC, and Members will be aware that as of the 1<sup>st</sup> October 2015 the first 3 services commenced operating under the 3C shared service brand.

- 2.4 With regard to the FMS, CCC got approval for its procurement of a new FMS in July 2015 and SCDC got similar approval in September. Following subsequent discussions, it has been concluded that there are distinct advantages for HDC to join in this procurement; some of the advantages of having a new FMS and sharing that service would be:

- Efficiency from improvements in workflow between Creditors, Debtors, Cash Reconciliation and the General Ledger (including Commitment Accounting).
- Efficiency from “close to service” budget management and reporting.
- Empowering users to take direct responsibility for budget monitoring.
- Improvements in resilience.
- Common coding structures, thereby enabling easier FMS management and system housekeeping.
- Common reporting framework will allow easier financial reporting at the year-end.
- Introduce a more flexible approach to cost recording.
- Allow the introduction of more modern, innovative approaches in the payment of suppliers and the recovery of monies from debtors.
- Facilitate the development of a shared transactional finance service across the 3 partner Councils should this be agreed in the future.
- Allow for the development of common-ways for working within the finance function of all 3 Councils to enable a more efficient service.

## Cost of a new FMS

- 2.5 At this time the exact costs of a new FMS are unknown, they will only become known when the formal procurement has concluded. However, CCC undertook some preliminary soft market testing earlier in 2015 and the initial costing exercise has indicated a range of possible costs, which ultimately depend on the system eventually selected. The indicative costs, as reported to their respective Councils, for both CCC and SCDC are shown in **Appendix 1**.
- 2.6 However, both CCC and SCDC are statutory landlords (i.e. they operate a Housing Revenue Account) and this service is quite “finance resource” hungry. It is fair to conclude that as HDC does not operate this service the total usage of a new shared FMS would be less than for the other two partners, consequently the currently estimated costs for HDC are also shown in **Appendix 1** and summarised below. As can be seen, it is estimated that the FMS will pay for itself within 5 years.

Year	0	1	2	3	4	5
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£	£
<b>Capital Net Cash flow</b>	<b>192,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Revenue outflow	106,667	53,333	53,333	53,333	53,333	53,333
Revenue inflow	(40,000)	(92,500)	(126,000)	(123,000)	(123,000)	(123,000)
<b>Revenue Net Cash flow</b>	<b>66,667</b>	<b>(39,167)</b>	<b>(72,667)</b>	<b>(69,667)</b>	<b>(69,667)</b>	<b>(69,667)</b>
<b>Annual Net Cash flow</b>	<b>258,667</b>	<b>(39,167)</b>	<b>(72,667)</b>	<b>(69,667)</b>	<b>(69,667)</b>	<b>(69,667)</b>
<b>Pay back</b>		<b>219,500</b>	<b>146,833</b>	<b>77,167</b>	<b>7,500</b>	<b>(62,167)</b>

- 2.7 It has been assumed that HDC implementation and subscription costs will be 2/3 of CCC's as HDC does not have a HRA and are indicative as mentioned above.
- 2.8 Following the procurement, it is expected that further savings in these estimates will be achieved as a consequence of economies of scale as it will be 3 partners rather than 2.

## Implementation

- 2.9 There will be a joint project team for both the procurement and implementation phases. A key objective will be to procure a system which provides inbuilt best practice processes and to implement these with minimum changes. It is therefore expected that changes to processes, procedures, reports and ways of working will be required at all Councils to ensure that the maximum savings will be achieved, and this will include services having a more active role and greater ownership of the financial management information for their service.

### **3. OPTIONS CONSIDERED/ANALYSIS**

#### **Continue with the current system**

- 3.1 One option is to continue to use the existing FMS, i.e. to do nothing. This is likely to be the cheapest option. However, it will make sharing finance resources more difficult and reduce the benefits of doing so. It will also mean that the improvements required to support better financial reporting and improved financial management by budget holders will not be achievable.

#### **Enhance the current system**

- 3.2 HDC could enhance the current system; however some elements of the entire financial management system are close to being 'not fit for purpose' and the cost to develop further bespoke solutions is not considered good Value for Money (VfM). In addition, there are additional and on-going cost inefficiencies for example having single system experts in the ICT shared service, which is not only more costly but also lacks resilience.

#### **Procure alone**

- 3.3 If HDC procured its own FMS this could be quicker, however procuring a joint system with partners is likely to offer a better price. Procuring alone would also require significant additional resources to deliver.

#### **Procure in collaboration**

- 3.4 The recommended option is to collaborate with both CCC and SCDC to procure a system to replace all three legacy FMS's, thereby sharing costs, resources and expertise.

### **4. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?**

- 4.1 The FMS is the primary system of any organisation, and this is especially true in the case of a local authority. Most systems operated by services that involve money will interface with the FMS. In addition, the debtors and creditors services are themselves embedded within users departments. There will be careful project management to ensure the FMS is introduced in the most effective way possible without hindering front-line service delivery.

### **5. TIMETABLE FOR IMPLEMENTATION**

- 5.1 The procurement is expected to commence imminently. HDC has been actively involved in the development of the FMS specification so its "requirements" are clearly embedded within the document. Implementation of the chosen system is planned to happen on the 1<sup>st</sup> October 2016.

### **6. LINK TO THE CORPORATE PLAN**

- 6.1 The introduction of an FMS will allow the development of more effective financial processes and practices, as well as supporting the Councils key shared service agenda.
- 6.2 Consequently the FMS will support the strategic theme of "Ensuring we are a customer focused and service led council" along with the outcome of "Become more business-like and efficient in the way we deliver services".

## **7. CONSULTATION**

7.1 No direct consultation has been undertaken.

## **8. LEGAL IMPLICATIONS**

8.1 Relevant advice will be sought in relation to Procurement and Contracts.

## **9. RESOURCE IMPLICATIONS**

9.1 There will be one-off and ongoing costs as a result of the replacement FMS. These will depend on the system chosen and the supplier's charging model. The costs will replace the running costs of the current FMS. However, the new system will enable efficiencies and improved financial management practices.

9.2 The FMS has been considered by the Finance Governance Board (FGB) and the Board has concluded that the business case for the project is sound and recommended to the Cabinet to release funding.

9.3 As at the start of 2015/16 the Council had an Earmarked Reserve entitled "Special Reserve" totalling £2.5m. The purpose of this reserve is to support the business activity of the Council that will achieve future savings. As this FMS is a corporate system and one that touches all services (regardless of whether back-office or front facing) it is proposed that funds are released from this Reserve to finance the capital acquisition and implementation costs and first year revenue costs. Members should note that this will be growth within the Capital Programme but by the use of the aforementioned Earmarked Reserve there will not be any additional Minimum Revenue Provision implications.

## **10 REASONS FOR THE RECOMMENDED DECISIONS**

10.1 To join in with our strategic partners in the procurement of a joint FMS. This will enable the development of a common accounting platform and for the development of common practices, and in time the joining of teams, in relation to debtors, creditors and cash receipting. Further, a new FMS will improve resilience and introduce more effective financial and budget management processes that are expected to generate savings.

## **11. LIST OF APPENDICES INCLUDED**

11.1 **Appendix 1** – FMS Cost Comparison across the three partner Councils.

## **BACKGROUND PAPERS**

Link to the FMS report considered at the Strategy and Resources Scrutiny Committee meeting, Cambridge City Council on 13th July 2015:


<http://democracy.cambridge.gov.uk/documents/s30004/REP%20SR%2015%2007%2013%20Replacement%20financial%20system%20-%20FINAL.pdf>

Link to the FMS report considered at the Cabinet meeting, South Cambridgeshire District Council on 10th September 2015:


<http://scamb.moderngov.co.uk/documents/s82036/Cabinet%20report%20FMS.pdf>

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