

**Manchester City Council
Report for Information**

Report to: Resources and Governance Scrutiny Committee - 22 June 2023

Subject: Our New Finance and HR System

Report of: Deputy Chief Executive & City Treasurer
Director of HR OD & Transformation

Summary

The Council is about to replace its legacy SAP HR and Finance system (also referred to as an Enterprise Resource Planning (ERP) system), which was implemented in 2006. The technology platform which it operates on will no longer be supported after 2027. The system itself has been heavily bespoke to fit the way the Council operated in 2006, making upgrades and developments technically difficult and resource intensive. It has therefore been decided to procure a new, more modern system prior to the 2027 backstop date. This report provides an update on the work undertaken so far, the procurement approach and timescales, alongside the risks and opportunities presented by such an important system implementation.

Recommendations

The Committee is recommended to:

- (1) Note the content of the report and comment / question the information presented to the Committee as appropriate.
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Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

The Our New Finance and HR system programme aims to improve the Council's efficiency and effectiveness in the context of reducing our carbon impact in areas such as printing and energy consumption. The proposed approach is to move to a cloud-based solution and adapt best practice in using electronic communications where possible and practical.

The procurement of the new system allocates 10% of the overall scoring specifically for carbon impact, as part of the award criteria.

Equality, Diversity, and Inclusion - the impact of the issues addressed in this report in meeting our Public Sector Equality Duty and broader equality commitments

Consideration of equality, diversity and inclusion issues for Manchester residents, employees and businesses have been considered in the development and procurement of the replacement system. Our equalities team has been engaged with

and staff network groups consulted who have fed back experiences from the current system. This feedback has been collated with consideration about how a new system may impact their experience as part of a marginalised group or present an opportunity to improve their experience in the council.

The information gathered from the discovery stage will inform both a wide-reaching Equality Impact Assessment (EqIA), and a Programme EDI report that will detail what steps can be taken to ensure these findings are used throughout the life of the programme.

The change management programme will take these needs and experiences into account when planning organisational training on the new system.

Manchester Strategy outcomes	Summary of how this report aligns to the OMS/Contribution to the Strategy
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The programme is closely aligned with the ICT & Digital Strategy which is designed to strengthen the deliveries of the priorities in the Council's digital plan.
A highly skilled city: world class and home-grown talent sustaining the city's economic success	The new Finance and HR system will enable to us further improve our employee brand and our recruitment offer to make sure we are attracting and developing diverse talent in the organisation.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	User self-serve modern technology will support best use of resources and enhance data quality for decision making around organisational finances and workforce deployments including supporting MCC to forecast the roles we will need to deliver services for our residents.
A liveable and low carbon city: a destination of choice to live, visit, work	The project will support ICTs ongoing commitment to Cloud-first environments and the reduction in carbon emissions that they bring. This will include reducing our reliance on paper and printing where possible. A focus on Zero Carbon is a core expectation in the procurement process with these questions making up 10% of the evaluation scores.
A connected city: world class infrastructure and connectivity to drive growth	The new system will enable our HR and Finance functions to deliver digitally, supporting Manchester's ambition of being a digital leader.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

There are no direct capital consequences arising specifically from this report.

Financial Consequences – Capital

There are no direct capital consequences arising specifically from this report.

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Background documents (available for public inspection):

The following documents disclose key facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy, please contact one of the contact officers above.

- Key Decision - Original approval was granted by Deputy City Treasurer at Check Point 4 in May 2022 - Resources and Governance Scrutiny Committee 24 May 2022.
- Capital Programme Update – Executive 1 June 2022

1. Background

- 1.1. On 4 May 2022, funding was approved to commence with the programme to replace the Council's legacy SAP HR and Finance system (also referred to as an Enterprise Resource Planning (ERP) system), which it uses to conduct its core payment, finance, and HR activity.

The initial budget allocation of £1.425m, was approved to establish a dedicated programme team to undertake pre-development work and the initial procurement phase. The predevelopment work was necessary to prepare the organisation for the significant business change associated with replacing our core finance and HR systems. This work was used to prepare the specification and system requirements to inform the procurement phase. The preparation of the procurement specification has also helped to inform the operational improvements and training associated with the programme which will deliver long term efficiencies and improvements.

- 1.2. This pre-development work was happening alongside internal reviews within both services to improve processes following consultation with our core users.
- 1.3. The Our New Finance and HR system programme forms part of the Council's Future Shape transformation programme, which includes the customer and digital interface and the future ways of working programmes, alongside the recently refreshed ICT and Digital strategy, being delivered by the Corporate Core.

2. Introduction

- 2.1. The current SAP system was implemented in 2006 and will no longer be supported after 2027. This programme is therefore necessary to move Finance, Human Resources, payroll, and Procurement (procure-to-pay) functions from the current system to a new system platform. Post-pandemic, the Council needs a modern finance and HR system that supports flexible working within a modern, digital Council.
- 2.2. The current system has been heavily bespoke to adapt to the way the Council worked in 2006, making whole-system upgrades and developments technically difficult and resource intensive to carry out, making it difficult to develop the current SAP system and make it more user-friendly. The system's lack of flexibility has led to a multitude of off-system spreadsheets in the various back-office functional areas resulting in a large number of manual processes being undertaken outside of the system to perform what should be routine tasks.
- 2.3. The programme represents a once in a generation opportunity to upgrade our core finance and HR systems to help drive change to the way we operate our services, manage, report our performance, and interact with our suppliers. This is in line with the Council's new Operating Model as detailed in the Corporate Plan. It provides the opportunity to transition our customers

into digital channels for routine tasks and redirect our resources to those people and services that need it most, building our capacity to strategically plan for the future.

3. Programme Vision

- 3.1. The aspiration is to create an opportunity for operational digital transformation. This will enable us to achieve a wholesale channel shift for our services and employees whereby they self-serve through unmediated channels for most straightforward transactions.
- 3.2. This will in turn allow the council to reduce the number of professional staff engaged on manual and transactional tasks, allowing them to focus on value added, business focused advice to aid decision making and resource allocation decisions. It will not be sufficient to simply replace the legacy ERP on a like-for-like basis.

4. Alignment to Digital Strategy

- 4.1. This work is aligned to the Councils ICT and Digital Strategy, the vision of which is *“A relentless drive towards digitally empowering better outcomes for the Council and its communities using inclusive, secure & connected technologies to underpin exemplary ICT & Digital service delivery.”* The Strategy has outlined some guiding principles which this programme is applying, these include:

- Define and adopt end-to-end business best practices offered by a modern technology supported by effective change management.
- Cloud First software solution
- ‘Adopt not Adapt’ the software selected, this should provide resilience in technology and lower risks to us.

- 4.2. The programme’s vision has four themes.

- Digitisation – To drive efficiency and streamline processes
- Data – To improve the data and quality of information.
- People – To empower users with improved self-service functionality, improve job satisfaction and support our people through the change.
- Digital Strategy – To future proof our investment in the technology.

5. Approach and Journey to date

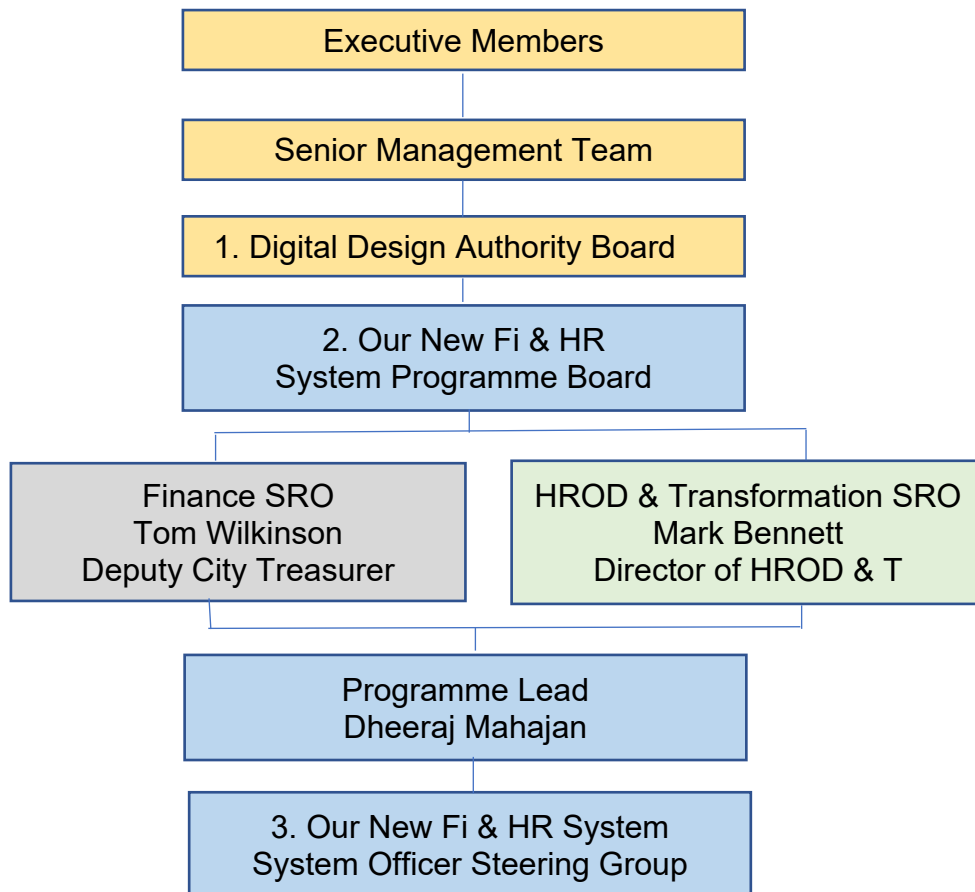
- 5.1. The programme reports into the “Our New Finance and HR system” Board. The Senior Responsible Officers for the programme are the Deputy City Treasurer and Director of HR OD & Transformation. Board members are:

- Deputy City Treasurer
- Director of HROD & T
- Director of ICT
- Assistant Chief Executive

- Head of Integrated Commissioning and Procurement
- Programme Lead

5.2. The board will assess the progress of planned work activities, budget allocation, and project timeline in relation to the business case. Additionally, the board evaluates any emerging risks and issues within the programme and examines potential opportunities for adjustments, while carefully considering the overall impact and realisation of any benefits. This periodic review ensures that the board remains updated on project developments, enabling informed decision-making and effective governance and providing a forum for constructive and timely challenge.

5.3. Governance and Scrutiny of the programme will be carried out as per the diagram.



5.4. The programme approach follows a series of stages, each building on the last, from discovery through to appointing the suppliers, redesigning our processes, implementing, training, and going live.

Stage 1 – Discovery

5.5. The discovery phase was a fact-finding exercise gathering information about the way the Council currently operates the system. This work established an

important baseline of key activities, technology, issues, opportunities, and requirements.

- 5.6. Over 147 workshops were held during 2022 with key stakeholders. Soft market testing took place where seven leading markets vendors were invited to demonstrate their software, for the teams to experience new products and new ways of working.
- 5.7. The output from the workshops has been used to prepare Finance and HR Functional Requirements to inform the procurement tender requirements. Alongside the requirements, a document outlining areas teams currently face difficulties and opportunities and aspirations to take advantage of modern technology was shared.

Stage 2 – The Procurement and Predesign Stage

- 5.8. The replacement system is a significant purchase for Manchester, and to support the process, STAR Procurement have been commissioned to provide tailored professional advice and support.
- 5.9. The procurement approach is a Competitive Procedure with Negotiation which allows for negotiation following initial tenders, if required.
- 5.10. The process has various steps. The Council is currently in the Request to Participate (RtP) stage, where suppliers are invited to express an initial interest in the process. There will be evaluation of the request to participate submissions and the top six ranked suppliers will be invited to the Invitation to Tender (ITT) stage. ITT will include platform walkthroughs with multi-disciplinary teams across the organisation, again these bids will be scored and evaluated and shortlisted to a final three suppliers for the additional negotiation stage if a clear winner is not evident. The formal award and contract will be awarded subject to the Council's formal approval processes and is expected to be finalised by December 2023.
- 5.11. Whilst the procurement phase is progressing, a high-level review of current processes, and data is underway, to begin the process of cleansing and rationalising the current system data to allow integration into the new system. In addition, a review of reporting requirements and the approach to the archiving of current system data will be conducted.

Stage 3 -Kick off and design

- 5.12. When the contract is awarded, the supplier and MCC will mobilise resources and agree a detailed implementation project plan. The system integrator and supplier will outline the system design, processes, and the system build approach.

Stage 4 – Build and Configuration

- 5.13. This stage configures the software to meet the business requirements. This stage will have regular 'playback' sessions to demonstrate how the system will work functionally to help prepare the business for this change. Throughout this stage there will be intensive and robust testing of all elements that will be due to go-live to ensure that the system functionality allows for a seamless transition from one system to another.

Stage 5 – Implementation

- 5.14. During the service transition phase, focus will be on a smooth transition from the implementation phase to live operations. This phase encompasses activities such as data migration, system testing, and user training to ensure a successful deployment. With official sign off, the live production system will be used for parallel running, and reconciliation of opening system balances.

Stage 6 – Go-Live and Continuous Improvement

- 5.15. Once the system is live, early life support is crucial to address any issues or challenges that may arise in the first few weeks and months of operation. This support includes monitoring system performance, resolving user queries, and providing technical assistance.
- 5.16. Additionally, continuous improvement is essential for optimising the system's functionality over time. User feedback will be used to identify areas for enhancement or modifications to enhance system performance and user interfaces. Ongoing training programs will play a vital role in enabling users to adapt to system changes and take full advantage of the system's capabilities, ensuring long-term success and benefits realisation.

6. Business Change

- 6.1. In line with the overall Future Shape programme and broader Organisation Development work, the way we manage this change will align to human-centred service design principles, whereby we are informed by the experiences of staff and specialists who use the systems. The change programme has already started within Finance and HR by reviewing existing processes with a view to streamlining and cleansing data and structures where possible.
- 6.2. As part of the service design approach, analysis, stakeholder engagement, and a communications strategy will be planned to ensure that all employees understand the reasons for change and are prepared for the transition.
- 6.3. The change programme will step up further once the system has been procured and the Council starts adopting the processes of the new system. A full-scale training and communications strategy will be developed to support all end users in their transition to the new system.

- 6.4. To ensure all staff can use and get maximum benefit from the new system there will be a focus on training and upskilling staff to ensure they have the appropriate digital skills needed to adapt to new ways of working.
- 6.5. By doing this, the organisation will be able to work in a more agile way that is responsive to the needs of the user, ensuring high quality and meaningful engagement, as part of a “do-with” and not “do-to” approach to increase the chances of successful behaviour change. This approach should support staff and managers with the move to self-serve as much as possible, freeing up much needed capacity to deal with more complex or specialist tasks as per the operating model.

7. Lessons Learned from other System Implementations

- 7.1. During the discovery phase, the programme team has engaged with other Local Authorities who are ahead in their journey of implementing new Finance and HR systems. This has allowed the Council to share in their experiences, particularly in relation to the procurement stage, and early implementation pitfalls. The team has considered this when preparing the procurement documents including the system requirements.
- 7.2. A Core Cities group has also been established to share knowledge and learning around systems, and to share ideas for successful change and reporting specifically in relation to the financial functions.
- 7.3. The project has also been undertaking desk-based research on other large Council Finance and HR system implementations, in particular, focusing on those where the programmes have encountered issues that have attracted adverse press and reputational damage to the councils.
- 7.4. Some of these implementations have experienced significant delays to go-live, the implications of which have been significant, including, in one case, a call to extend the remit of a planned Whitehall investigation into the Council’s housing and SEND services to cover its finances. One such programme has resulted in an inability to have sound financial controls in place, and the Council are potentially at risk of the 2022/23 Statutory Accounts being qualified.
- 7.5. The table below outlines the key points of information derived from various sources from this desk-based research including examining other Council’s scrutiny reports in relation to the ERP upgrades and press releases, alongside MCC’s proposed mitigating actions.

ERP Implementation Reported Issues	MCC's Mitigating Action
<p>Programme scrutiny and governance was highlighted as an area for improvement. The council added enhanced scrutiny from the Executive Team with updates to Elected Members and Scrutiny meetings responsible for reviewing spending, timeline, and work progress.</p>	<p>As outlined at 5.1 to 5.3 of this report, there is a board to hold the programme team to account, reports to Senior Leadership Team and further scrutiny from RAGOS which is already an established model at MCC.</p>
<p>Data Security – One Council had to revise its approach to data management to achieve the correct levels of data security, to enable the secure transfer of data from SAP to Oracle, so they encountered delays to rethinking their approach, and the additional cost of Egress to enable appropriate secure transfer of data.</p>	<p>The programme team are working with IT colleagues for secure storage of data whilst cleansing is underway. MCC already has the Egress solution which is available for the final data transfer as part of the implementation process.</p>
<p>Customisation – some implementations have included complex customisations of the system which have then failed and are hard to fix. One example meant custom features have been posting incorrect transactions in high volumes and material amounts. Improvements are now underway, but a huge data cleansing exercise is now required</p>	<p>MCC's plan is to "Adopt the software and not adapt it." This will require changes to our ways of working, supported by a planned change management program, rolled out to all affected users.</p>
<p>Data cleansing was difficult and not conducted prior to migration to the new system, and data carried over which resulted in complex migrations.</p>	<p>MCC has not routinely conducted data cleansing exercises in the past for SAP. The Finance and HR teams are already working through data cleansing exercises across, Customer, Vendor, Employee and Structure data to prepare for the integration and updates fed back to the 'Our New Finance and HR system' Board.</p>
<p>Implementation issues were reported in relation to issuing invoices, making payments to staff and suppliers, financial reporting issues and incorrect transaction postings.</p>	<p>MCC plans to carry out system functionality testing, parallel running of the old and new system and user acceptance testing with formal sign off. This approach should ensure significant issues other programmes faced should be resolved before go-live stage.</p>
<p>Some Council's chose to go live mid financial year. The decision created additional work for teams' including duplication of reconciliation of balances, buying and receipting goods. They also experienced additional work when external auditors were giving an opinion on the annual accounts. As work for the financial year was in two systems.</p>	<p>MCC plans a 1 April Go live date.</p>

7.6. The Programme team will keep abreast of developments within other Councils' implementation lessons learned once a preferred supplier has been selected to gain more focused learning prior to implementation and go-live stages.

8. Next Steps and Timeline

8.1. The procurement timeline and next steps are,

- Request to Participate closed 30 May 2023
- Recommended suppliers approved by Programme Board 10 July 2023
- Approved suppliers Invitation to Tender issued 17 July 2023
- Potential rounds of negotiation October 2023 to December 2023
- Site Visits October 2023 to December 2023
- Interim update to Digital Design Authority November 2023
- Programme Board approval of recommended supplier 15 December 2023
- Digital Design Authority Board decision 20 December 2023

There will be a number of visits to councils that have successfully implemented the proposed system(s) and up to three rounds of negotiation. It is difficult to predict the number of each that will be required at this stage, but the timetable includes an adequate period the negotiations and site visits that will take place simultaneously.

8.2. The business case for the whole programme will be taken through the capital approval cycle during the procurement phase, planned for the following dates

- CP2 Submission 21 July 2023
- Capital Peer Review 2 August 2023
- Capital Update Report 11 August 2023
- Executive Meeting 13 September 2023
- Council Meeting 4 October 2023.

8.3. Whilst the procurement activity progresses, the programme team will focus on the following, which will all aid and support the design stage once the contract is awarded

- Engage and align work with the SAP support team
- Review and alignment of the organisational structure across HR and Finance.
- Review of Employee data fields, analyse, review gaps and data cleanse
- Review payroll, case management and joiners, movers and leavers processes for challenges and opportunities.
- Data cleansing of finance coding structures and data
- Review and data cleansing of customer and vendor records.
- Review of the Procurement to Pay processes and look at opportunities and challenges

9. Recommendations

- 9.1. The Committee is recommended to note the content of the report and comment / question the information presented to the Committee as appropriate.