

PART TWO

Confidential facts and advice

Replacement Finance and Purchasing System

Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Governance Team for advice.

This information is not for publication because:

The contract for the replacement Finance and Purchasing system has not yet been placed so this report contains commercially sensitive data.

Legal recommendation on the grounds of keeping the information confidential:

In the event the information contained in this Part Two and/or its appendix is the subject of a request for information under section 1 of the Freedom of Information Act 2000 (the "Act"), it is considered that access can be denied on the basis that such information constitutes exempt information under s43(2) of the Act.

Section 43(2) of the Act provides an exemption from disclosure where the release of such information would, or would be likely to, prejudice the commercial interests of any person (including the public authority holding it).

Public Interest Assessment

At present, on balance, it is considered that the public interest is best served if the information contained in this part 2 report is not disclosed at this point. Disclosure by the LFC would be likely to have a detrimental effect on the LFC's position and related commercial position regarding the procurement of the replacement finance and purchasing system. The LFC has not yet entered into a contract and disclosure at this point would prejudice the LFC's ability to secure the optimal value for public money which would not be in the public interest.

The eligibility of these exemptions should be reassessed in the event of an FOI request for this information as the level of sensitivity will change over time and different circumstances may alter the arguments in favour of non-disclosure.

The recommended period for non-publication of Part 2 is 4 months.

Legal Adviser

I make the above recommendations that this information should be considered confidential at this time.

Name: Name: Hameera Darr	Date: Date: 24.1.2024
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Confidential decision and/or advice

Introduction and background

- 1.1 Previously, revenue expenditure of £2.6 million was approved in August 2021 report no. LFC-0584y for a replacement Finance and Purchasing System. This figure reflected the estimated costs over the initial 5 year period with option to extend for a further 5 years.
- 1.2 Following an open tender exercise, the estimated total revenue cost over the life of the contract i.e. 10 years is £5.665 million, with no associated additional capital expenditure costs.
- 1.3 This report seeks approval for the additional costs of £ 3.065 million over 10 years as shown in Table 1 below.
- 1.4 The previous report identified three tiers of suppliers in the market, the difference between a Tier 1 and Tier 2 system was listed as follows:
 - *Tier 1 systems* are suitable for multi-national, multi-currency, multi-language entities with deep supply chain integration and complex organisational management relationships (this includes SAP used by TfL)
 - *Tier 2 systems* are suitable for mid-market organisations
- 1.5 It also stated that should LFC move to the current version of SAP used by TfL, the implementation cost was estimated to be in the order of £1.3 million to £1.5 million, rather than the £0.6 million implementation cost actually approved for a Tier 2 system.
- 1.6 In 2021 a Tier 2 system was deemed to be adequate for LFB needs so the budget and tender requirements were based accordingly. This did not mean that Tier 1 solutions would not be considered as such solutions would have been more than able to provide the more basic functionality of Tier 2 systems. During the procurement process there were only two bids received and the Tier 2 bid, whilst significantly cheaper, was non-compliant leaving the remaining Tier 1 system bid. As flagged back in 2021, a Tier 1 system is more expensive, however, this is a superior product with advanced capabilities (including SAP) and meets the LFC's requirements.
- 1.7 The Tier 1 system solution in this report is more expensive as it includes £2.57 million for individual SAP user licences, we are currently validating these costs under the tender clarification process. We are also obtaining benchmark data on costs per capita for our c. 5,500 users to ensure it is in line with similar systems. Early indications show that the cost is not out of line with GLA

member SAP systems.

- 1.8 The project team has considered going back out to tender, however, a re-procurement would take several months to run even via a suitable framework. This would mean further investments of time by the project team, potentially changing the requirements, conducting early market engagement exercises to try and build up an appetite in the market and ensuring that our requirements and any planned tender is desirable in the market. The tender period, evaluation and award are all long periods that have to be factored in. This means the risk of running Masterpiece, an antiquated finance system which is close to the end of its useful life exacerbates current limitations of our finance and purchasing system and also the recruitment and retention problems associated with working with poor systems. There is also no guarantee that a fresh tender process would produce a better tender proposition. Any further substantial delay to the implementation process will also add further delays to the arrival of a better end user experience for purchasers trying to use POMs and the implementation of the wider Procurement Improvement & Transformation Programme that will be heavily dependent on the system in modernising ways of working and service levels to the frontline.
- 1.9 Subject to final tender clarification, the LFC recommends it proceeds with the more advanced Tier 1 solution (SAP based) with the successful and compliant bidder. The total cost over 10 years is £5.665 million including the bidder and LFC costs, £2.6 million was approved in the previous report, this report seeks approval for £3.065 million.

**Table 1: Replacement Finance and Purchasing Solution
Approved Budget -v- Updated Costs***

Cost Area	August 2021 report no LFC-0584y approved expenditure based on Tier 2 solution £	Current expenditure requirements based on Tier 1 solution £	Increase/request for additional funding based on Tier 1 solution £
Implementation costs	600,000	1,300,000	700,000
Annual Fees (5 years)	500,000	771,000	271,000
SAP subscriptions (5 years)	n/a	1,286,435	1,286,435
Contingency	500,000	250,000	(250,000)
Total 5 Years	1,600,000	3,607,435	2,007,435
Annual Fees Extension (up to further 5 years)	500,000	771,000	271,000
Sap subscriptions extension (up to further 5 years)	n/a	1,286,435	1,286,435
Contingency	500,000	nil	(500,000)
Total 10 Years	2,600,000	5,664,870	3,064,870

*With regard to non-pay inflation: all LFC contractual inflationary increases are reviewed on an annual basis. The LFC budgets

for non-pay inflation on an item-by-item basis, and the LFC will review those assumptions as part of its budget process for 2024/25. If inflation rates are above current assumptions a resulting budget increase will need to be submitted as part of LFC's annual submission to the Mayor's GLA Group budget process and/or the contract will need to be reviewed to assess whether it is possible to reduce the annual cost via a reduction in service. If inflationary increases result in in-year financial pressures, this will be reported on as part of regular financial reporting and met through the use of the Budget Flexibility Reserve. The Budget Flexibility Reserve has a forecast balance of £9,458,000 as at the end of the 2023/24 financial year.

- 1.10 Of the two tenders received, the winning supplier's bid is shown in table 1 above. This is for a Tier 1 solution rather than the expected Tier 2 solution.
- 1.11 LFC is required to collaborate with other Fire and Rescue Services as well as across the GLA Group. The current proposed system software solution is SAP based and this is consistent with both the GLA and TfL systems allowing for future collaborative opportunities.
- 1.12 Other advantages of a Tier 1 SAP based system include:
 - Recognised world-wide system with SAP business technology
 - Simplified integration with other systems
 - Complete: Includes database services, advanced analytical processing, application development, and data integration
 - Fast: Response to queries in less than a second in large production applications
 - Versatile: Supports hybrid transactional and analytical processing and many data types
 - Efficient: Provides a smaller data footprint with no data duplication, advanced compression, and reducing data silos
 - Powerful: Rapidly queries large datasets with a massively parallel processing (MPP) database
 - Scalable: Easily scales for data volume and concurrent users across a distributed environment
 - Flexible: Deploys in a public or private cloud, in multiple clouds, on-premise, or a hybrid scenario
 - Simple: Provides a single gateway to all your data with advanced data virtualisation
 - Intelligent: Augments applications and analytics with built-in machine learning (ML)
 - Secure: Offers comprehensive data and application security, secure setup, and more
- 1.13 In addition to higher costs for a Tier 1 system solution, other cost increases relate to general inflation and implementation costs. In the previous report no LFC-0584y, within the £2.6 million approved, implementation costs were £0.6m broken down as follows in table 2.
- 1.14 Implementation costs relate to those from the system supplier, external resources from another third party to support the implementation including integration with existing systems, and additional LFC staffing in the main departments involved including a dedicated project manager.

Table 2: Replacement Finance and Purchasing Solution – Implementation Costs Approved Budget -v- Updated Costs

Cost Area	August 2021 report no LFC-0584y approved Implementation costs	Current requirement for Implementation costs	Additional funding required for Implementation costs
	£	£	£
Supplier			

Implementation	250,000	597,500	347,500
Implementation support (third party)	200,000	300,000	100,000
Temporary staffing	150,000	264,500	114,500
Project Manager	0	138,000	138,000
Total (as included in Table 1)	600,000	1,300,000	700,000

Risk management

1.15 The LFB security lead confirmed the supplier solution passed the security evaluation but based on the evidence provided there were some residual risks around the solution. It is not thought the risks would amount to anything substantial given the solution is based on a market leading SAP product widely used across the public sector, including TfL and GLA. In order to minimise that risk, further assurances have been requested from the supplier to satisfy ourselves that the relevant certifications and processes are in place.

2 Objectives and expected outcomes

See part one of this report.

3 Procurement comments

3.1 The procurement was conducted by the Procurement and Commercial team at LFB, resulting in two tender submissions being received. Although a lower cost option was received from a company called Technology One, it was subsequently deemed non-compliant as the supplier did not accept key terms and conditions and they continually tried to negotiate outside of the prescribed procurement process. After consultation with internal and external legal advisors Technology One were removed from the process. The other supplier, Excelerated, had not caveated their tender and accepted the LFB terms. Although it is a more expensive proposition the value add comes in the ability to collaborate further down the line as their SAP solution is a recognised leader in this field and is widely used by other organisations and most relevantly across the GLA Group.

Life after POMS (LFB current procurement system)

3.2 The current POMS system is not fit for purpose in the modern era and has not been for many years.

Most modern systems rely less on manual intervention and more on automated processes. The current user experience is very poor with end users, especially at the fire stations, getting frustrated with processes that should be simple when trying to order uniform or equipment. One example is that the mailbox process in POMS is failing with users constantly having to follow up on enquiries and queries they have sent. The impact of this causes low morale across the LFB, as those frustrations permutate through the workforce involved in the ordering process, further exacerbating the challenges for them.

A new finance system, capable of bringing the finance and purchasing function in line with

modern organisations, will go some way to addressing cultural issues already identified in LFB and being addressed in the Workplace Dignity project being delivered as part of the CRMP. A fit for purpose system will mean that efficiency benefits for the procurement team will be realised as many manual interventions and re-works will be reduced seeing a much greater improvement in the service delivered. Currently the many unnecessary distractions result in a very poor service that is unsustainable in all respects.

After LFB migrate away from POMS to SAP the benefits will mean that LFB is better operationally, has effective control over spend, is risk wise, and process efficient. The quality of the end-to-end service will be vastly improved and on a personal effectiveness level it will provide back office and frontline teams with a system that works, is user friendly and one which culturally they need and deserve.

Transformation Benefits

- 3.3 The provision of accurate digital data and transaction processing capability is essential to modern ways of working. The delivery of a new modern finance system is a critical enabler to the Procurement Improvement & Transformation programme and the Finance function at LFB. A new system is critical in providing the necessary platform to enable the successful delivery and success of these transformation projects and will drive the efficiencies and better service levels we are developing and aspiring to.

Why Tier 1

- 3.4 In order to operate a finance and procurement function effectively there would likely have been a larger level of change needed on a Tier 2 finance system if emerging requirements meant LFB needed more functionality within their systems in the future. Compared to a Tier 1 solution, which would have 'out the box' functionality, the cost to develop and enhance a Tier 2 system would most likely have been expensive and carry a risk that it wouldn't perform to the standards of a tried and tested Tier 1 system. With hindsight, pitching the requirements at a Tier 2 solution in 2021 could arguably have been out of place for an organisation of the stature of LFB (and collaborative opportunity footprint with TfL and GLA) as the World's third largest fire and rescue service that responds to a quarter of the UK's fire calls. Although there was not a conscious decision to move to a Tier 1 system, the situation LFB now find themselves in with the SAP based solution brings added benefits in respect of 'future proofing' and collaboration with other partners already using the same common SAP platform.

Benchmarking

- 3.5 In order to satisfy ourselves that the SAP pricing is in line with the market we have approached TfL to see if there are any metrics from their SAP pricing that we could use. This may not be straight forward as contracts maybe priced differently depending how a tender or contract has been set up. Certain aspects of pricing may also be confidential so the ability to have visibility across the organisations maybe restricted. The procurement team are, however, actively involved with their TfL counterparts to see if there is any commonality in pricing approaches where we can compare on a like for like basis.

4 Financial comments

- 4.1 This report recommends that additional revenue expenditure of £3.065 million be approved to develop, implement and maintain a Finance and Purchasing solution over a contract term of up to 10 years. This is over and above the £2.6 million approved by the London Fire Commissioner in Report no. LFC-0584y.

- 4.2 Total costs of £5.665 million are shown in Appendix 1.
- 4.3 Appendix 3 of this report sets out the total cost in each financial year over a ten year period, and how this compares to the original budget. The extra annual running costs compared to the original budget is £198,487, which will be factored into the final 2024/25 Budget Report in March 2024. There is also an increased requirement for one-off implementation and project costs in 2024/25 of £950k (including contingency of £250k), which will be funded from the ICT Development Reserve. This £950,000 funding requirement is in addition to the £600,000 already approved for a total reserve draw of £1,550,000 in 2024/25. This ICT Development draw has a forecast opening balance of £1,696,000 as at the end of the 2023/24 financial year. It is also proposed to supplement this reserve with a transfer from the Budget Flexibility Reserve of £204,000 to provide total funding at the start of the 2024/25 financial year of £1,900,000. The proposed draw of £1,550,000 will therefore reduce this to a balance of £350,000 at the end of the 2024/25 financial year.
- 4.4 Part One of this report discussed the option to do nothing and remain with the existing Masterpiece system and associated risks, it is noted that the supplier has changed ownership several times. Our view is that were the LFC to enter new contracts with the supplier, this would give rise to new commercial risks that the LFC would be forced to absorb which may not be palatable.

Extended Form of Tender to March 2024

- 4.5 The supplier agreed to hold their pricing for a further three months until the 22 March 2024 (the original form of tender expiring on 22 December 2023). In order to do so they had to ensure SAP (who are essentially a sub-contractor in this arrangement, albeit the SAP costs are the largest overall part of the pricing) would honour the pricing until then. If we are to go beyond 22 March LFC would need to request a further extension of the form of tender and there is no guarantee the supplier (primarily SAP over who the prime supplier Excelerated are dependent on to deliver the finance solution) can hold their pricing.

5 Legal comments

- 5.1 The legal comments are set out in Part 1 and Part 2 of this report.
- 5.2 The LFC's requirement for a new finance and purchasing must be procured in accordance with the Public Contract Regulations 2015. The report confirms an open and transparent exercise was undertaken, and the contract shall be awarded in compliance with these regulations.
- 5.3 Subject to approval of expenditure, the LFC can award the contract to the preferred supplier.

Confidential appendices and supporting papers

List of appendices

Appendix	Title	Open or confidential*
1	Projected table of 10 year contract costs - Summary (Tier 1 System Solution)	Confidential
2	Projected table of 10 year contract costs by year	Confidential
3	Projected table of 10 year contract costs by year showing	Confidential

	original funding and additional funding (subject to approval)	
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Supporting paper

Report LFC-0584y - Replacement Finance and Purchasing Solution dated August 2021
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Projected table of 10 year contract costs - Summary
Tier 1 System Solution

	Cost £
<u>Year 1 to 5</u>	
Supplier implementation	597,500
Annual fees	771,000
SAP subscription fees	1,286,435
Sub total	2,654,935
<u>Contract extension - Year 6 to 10</u>	
Annual fees	771,000
SAP subscription fees	1,286,435
Total supplier costs – Years 1 to 10	4,712,370
Implementation costs (3 rd party)	300,000
Implementation costs (backfill)	264,500
Project Manager cost	138,000
Contingency	250,000
Total 10 Year Cost	5,664,870

Projected table of 10 year contract costs by year

Initial contract 5 years	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Required expenditure	£	£	£	£	£	£
Annual fees	154,200	154,200	154,200	154,200	154,200	771,000
SAP subscriptions	257,287	257,287	257,287	257,287	257,287	1,286,435
Supplier implementation	597,500	-	-	-	-	597,500
Implementation support (3 rd party)	300,000	-	-	-	-	300,000
Temporary staffing	264,500	-	-	-	-	264,500
Project Manager	138,000	-	-	-	-	138,000
Contingency	250,000	-	-	-	-	250,000
Costs of new solution	1,961,487	411,487	411,487	411,487	411,487	3,607,435

Extension	2029/30	2030/31	2031/32	2032/33	2033/34	Total
Required expenditure	£	£	£	£	£	£
Annual fees	154,200	154,200	154,200	154,200	154,200	771,000
SAP subscriptions	257,287	257,287	257,287	257,287	257,287	1,286,435
Costs of extension	411,487	411,487	411,487	411,487	411,487	2,057,435

Total cost (Years 1 to 10)	5,664,870
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The above table shows the spend profile for the project over an initial 5 years and optional extension of a further 5 years subject to the additional funding of £3,064,870 in this second report receiving approval. The project is now expected to commence in 2023/24 not 2022/23 as previously outlined.

The total of £5,664,870 comprises the original funding of £2.6 million approved in report no. LFC-0584y dated August 2021 and the request for additional funding in this report of £ 3,064,870.

**Projected table of contract costs by year
Showing original funding and additional funding
(subject to approval)**

Years 1 to 5 (Initial contract)

Initial contract	2024/25	2025/26	2026/27	2027/28	2028/29	Total
Required expenditure	£	£	£	£	£	£
Annual fees	154,200	154,200	154,200	154,200	154,200	771,000
SAP subscriptions	257,287	257,287	257,287	257,287	257,287	1,286,435
Supplier implementation	597,500	-	-	-	-	597,500
Implementation support (3 rd party)	300,000	-	-	-	-	300,000
Temporary staffing	264,500	-	-	-	-	264,500
Project Manager	138,000	-	-	-	-	138,000
Contingency	250,000	-	-	-	-	250,000
Costs of new solution Y1 to 5	1,961,487	411,487	411,487	411,487	411,487	3,607,435
Original approved base budget	213,000	213,000	213,000	213,000	213,000	1,065,000
Original approved ICT Development Reserve	600,000					600,000
Sub total (A) Original budget	813,000	213,000	213,000	213,000	213,000	1,665,000
Supplementary funding revenue base budget	198,487	198,487	198,487	198,487	198,487	992,435
Supplementary funding ICT Development Reserve	950,000*	-	-	-	-	950,000
Sub total (B) supplementary funding	1,148,487	198,487	198,487	198,487	198,487	1,942,435
Total Budget (A and B) Year 1 to Year 5	1,961,487	411,487	411,487	411,487	411,487	3,607,435

Years 6 to 10 (Contract extension)

Extension	2029/30	2030/31	2031/32	2032/33	2033/34	Total
Required expenditure	£	£	£	£	£	£
Annual fees	154,200	154,200	154,200	154,200	154,200	771,000
SAP subscriptions	257,287	257,287	257,287	257,287	257,287	1,286,435
Costs of extension Y6 - 10	411,487	411,487	411,487	411,487	411,487	2,057,435
Original approved base budget (C)	213,000	213,000	213,000	213,000	213,000	1,065,000
Supplementary funding required revenue base budget (D)	198,487	198,487	198,487	198,487	198,487	992,435
Total Budget (C and D) Year 6 to Year 10	411,487	411,487	411,487	411,487	411,487	2,057,435

Total cost (Years 1 to 10)	5,664,870
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- * Additional £950,000 to be taken from the ICT Development Reserve so £1,550,000 in total (£600,000 original report plus £950,000). The £1,550,000 will fund the new Implementation costs of £1,300,000 plus the contingency of £250,000. NB £204,000 will be transferred from the Budget Flexibility Reserve (BFR) to the ICT Reserve to support contingency costs.

The additional revenue funding required will be requested in the budget submission for 2024/25.