

ITEM NUMBER: 18.1

CONFIDENTIAL REPORT

PROCUREMENT POLICY EXEMPTION

Pursuant to Section 83(5) of the Local Government Act 1999 the Report attached to this agenda and the accompanying documentation is delivered to the Council Members upon the basis that the Council consider the Report and the documents in confidence under Part 3 of the Act, specifically on the basis that Council will receive, discuss or consider:

- b. Information the disclosure of which –
 - i. would reasonably be expected to confer a commercial advantage on a person with whom the council is conducting, or proposing to conduct, business, or to prejudice the commercial position of the council; and
 - ii. would, on balance, be contrary to the public interest;
- d. commercial information of a confidential nature (not being a trade secret) the disclosure of which –
 - i. could reasonably be expected to prejudice the commercial position of the person who supplied the information, or to confer a commercial advantage on a third party; and
 - ii. would, on balance, be contrary to the public interest.

Recommendation – Exclusion of the Public – Section 90(3)(b and d) Order

1. That pursuant to Section 90(2) of the *Local Government Act 1999* Council hereby orders that the public be excluded from attendance at this meeting with the exception of the Chief Executive Officer and Staff in attendance at the meeting in order to consider Report No: 88/24 Procurement Policy Exemption in confidence.
 2. That in accordance with Section 90(3) of the *Local Government Act 1999* Council is satisfied that it is necessary that the public be excluded to consider the information contained in Report No: 88/24 Procurement Policy Exemption on the following grounds:
 - b. pursuant to section 90(3)(b) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is Information the disclosure of which could reasonably be expected to confer a commercial advantage on a person with whom the Council is conducting business.
 - d. pursuant to section 90(3)(d) of the Act, the information to be received, discussed or considered in relation to this Agenda Item is commercial information of a confidential nature (not being a trade secret) the disclosure of which could reasonably be expected to confer a commercial advantage on a third party.

In addition, the disclosure of this information would, on balance, be contrary to the public interest. The public interest in public access to the meeting has been balanced against the public interest in the continued non-disclosure of the information. The benefit to the public at large resulting from withholding the information outweighs the benefit to it of disclosure of the information.
 3. The Council is satisfied, the principle that the meeting be conducted in a place open to the public, has been outweighed by the need to keep the information or discussion confidential.
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Item No: 18.1

Subject: PROCUREMENT POLICY EXEMPTION

Summary

This report recommends to Council to provide an exemption from the Procurement Policy for a contract variation with our key ICT systems provider TechnologyOne to continue using the TechnologyOne SaaS platform subject to the review and endorsement of this approach by the Audit and Risk Committee.

The rationale for not going to tender and approving the contract variation is that the evidence from other councils that have undergone a tender or reviewed their TechnologyOne service, has demonstrated limited benefit as they have found TechnologyOne to be the preferred provider at this point in time. Costs for this tender and review process are between \$0.558M and up to \$1.744M for a two-year tender. Transitioning to a new (Enterprise Resource Planning or best-of-breed) system requires substantial costs, disruption and risk, incurring around \$9.0M in costs over a number of years to change systems. Accepting the contract variation, with the discounted offer with additional functionality of the new modules council requires, provides potential savings of \$2.6M over seven years.

Recommendation

That Council, subject to review and endorsement by the Audit and Risk Committee:

1. approves the exemption to the procurement policy for a contract variation to continue utilising the TechnologyOne Software as a Service (SaaS) Enterprise Resource Planning (ERP) platform; and
2. authorises the Chief Executive Officer to negotiate, execute, and administer the contract variation relating to the TechnologyOne SaaS platform including additional modules on terms acceptable to the City of Holdfast Bay (CHB) for a maximum seven-year contract variation; and
3. notes the budget allocation for the TechnologyOne SaaS fee is included in the draft 2024-25 budget and subsequent future budgets will include the uplift in the significantly discounted SaaS fee.

RETAIN IN CONFIDENCE - Section 91(7) Order

4. That having considered Agenda Item 18.1 Procurement Policy Exemption in confidence under section 90(2) and (3)(b and d) of the *Local Government Act 1999*, the Council, pursuant to section 91(7) of that Act orders that the report, attachment and minutes be retained in confidence for a period of 12 months and/or the Chief Executive Officer is authorised to release the documents when the contract is signed and that this order be reviewed every 12 months.
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Background

Since December 2004, council has utilised TechnologyOne's Enterprise Resource Planning¹ (ERP) platform for Financial Management, Payroll, Supply Chain Management, Asset Management, Reporting and Analytics, Collaboration and Workflow Automation and Property and Rates Management modules. The ERP platform was initially used as an on-premise software system executing on council-owned information technology infrastructure. In March 2016, council transitioned from the on-premise version to a Software-as-a-Service² (SaaS) platform, also known as cloud-based.

In September 2018, council renewed its agreement with TechnologyOne to provide an ongoing service in a cloud-based environment and signed a seven-year contract ending in September 2025.

Report

The TechnologyOne ERP system is council's core IT system which is deeply embedded across the organisation's operations. There has been significant staff effort, time, resources, and expertise council has invested in TechnologyOne since 2004.

With the current contract ending in September 2025, our IT Department has been considering what council's options are with our IT system moving forward. These options include:

- Going out to market (tender etc) to test the market for functionality and pricing.
- Extending the current contract and maintaining existing functionality.
- Extending the current contract and increasing the functionality of the system to meet future demands.

The option to go to the market will require a long lead time, therefore it is important to confirm our procurement strategy early. As part of our due diligence TechnologyOne was approached to get an understanding of the future of their product offering.

Tenders and Reviews by other councils

Engaging in a review or tender process may not justify the allocation of time, resources, and finances required. Several councils in a similar position to Holdfast Bay have undertaken expensive tenders and reviews to assess the viability of alternative systems versus retaining TechnologyOne, only to ultimately opt to maintain their existing arrangement with TechnologyOne. The evidence from other councils demonstrates the benefit of TechnologyOne remaining the preferred provider.

¹ Enterprise Resource Planning (ERP) is a software system that integrates various core business functions, such as accounting, human resources, inventory management, and customer relationship management, into a unified platform. It enables organisations to streamline processes, improve efficiency, and gain better insights by centralising data and workflows across departments.

² Software-as-a-Service (SaaS) is a cloud computing model in which software applications are hosted by a provider and made available to organisations over the internet, typically on a subscription basis. This approach allows users to access and use software without the need for installation, maintenance, or Information Technology infrastructure management.

The following councils performed a review and/or tender to find a replacement system for TechnologyOne. The outcome was these councils still selected TechnologyOne as their preferred provider:

- Northern Beaches Council
- City of Port Phillip
- City of Charles Sturt
- City of Port Adelaide Enfield

Other councils have selected other ERP providers, only to return to TechnologyOne due to implementation failures. The following councils selected Oracle as their preferred ERP provider but returned to TechnologyOne:

- Wyndham City Council
- Mornington Peninsula Shire

Within the local government sector there is currently deemed to be limited alternatives to TechnologyOne's capabilities to meet the business requirements. The market is very narrow in regard to other ERP products that meet local government needs.

Not all councils use TechnologyOne. Councils such as the City of Marion use an on-premise version of Civica and are determining whether to transition to a SaaS platform or another provider. The City of Salisbury, which uses IT Vision (acquired by ReadyTech in 2022), will continue to use this SaaS platform.

A tender process for a replacement system or systems would require significant time and resources over several years. Instead, value-for-money outcomes will be optimised through negotiation and leveraging council's long-term business partnership with TechnologyOne to minimise the costs required to achieve future functionality updates and implementation.

It has been estimated that a review of our ICT requirements would take around 12 months to complete and require a minimum of 4.5 internal FTEs, costing around \$558,000. Further, a tender would take around 24 months to complete and require a minimum of 3.5 internal FTEs, costing around \$1,115,000. This could also be undertaken by an external consultant and would cost a similar amount taking into consideration staff time required to assist in this review and tender evaluation.

Transition to another ERP or Best-of-Breed System

Recognising that while there are potential alternative suppliers for other relevant systems, the large-scale expense, timeframes, risks, change management, and impact of a new ERP or best-of-breed review and implementation would be significant and may not offset any sufficient benefits to represent value for council.

Replacing TechnologyOne with another ERP or best-of-breed system has significant risks and costs. Some of the key risks are data integrity and migration, customisation challenges, integration complexity, extensive staff adoption and training requirements and major disruption to council operations with potential cost overruns. The transition process would take around 24 months to complete and cost around \$2,500,000 for a minimum of seven internal FTEs; \$900,000 in external implementation costs; and \$800,000 per year in licensing costs, for a total of \$9.0M over seven years.

Therefore going to market and choosing a new ERP would need to provide significant reductions in pricing or functionality to offset the upfront costs as well as disruption to the organisation over a number of years.

Opportunity to Accept Significant Savings

With the current contract ending in September 2025, TechnologyOne presented a proposal to council to purchase additional modules or functionality, currently not available in our current system configuration, which council has determined are required for our future organisational transformation. This proposal from TechnologyOne would deliver the additional modules and business benefits at a significantly discounted cost (57.5%). Administration has been in discussions over the last few weeks with TechnologyOne and negotiated their original offer down to the lowest figure they are prepared to offer. This negotiated offer needed approval from the TechnologyOne Executive Team.

This offer needs to be accepted before 29 March 2024 or the offer will lapse with the significant discounts removed. The significant discounts are offered to have the transaction included in their current financial year that ends in March.

These modules are not included in our current configuration due to not being purchased with the current contract or due to the modules being newly developed over the last seven years. These are:

- CiA Live that enables data and functionality migration from the Connected Intelligence (Ci) to the Connected Intelligence Anywhere (CiA) platform. The key components are Property and Rates data and functionality. Key module required to move us into the CiA Live environment.
- Digital Experience Platform for Local Government (DXP LG) supports an external customer experience enabling ratepayers to access information and submit requests through an online system. It also supports our customer experience to access valuable information from across all services and therefore provide an increased service to customer enquiries.
- HR and Payroll Modules—such as e-recruitment, employee development, succession planning, and training management, to create a fully integrated employee lifecycle management system.
- Other functionality, such as Enterprise Cash Receipting (ECR), is designed to efficiently manage cash receipts, including payments from customers and clients. It provides features such as online payment processing, integration with banking systems, reconciliation capabilities, and reporting tools to track and manage cash flow effectively. ECR improves efficiency, accuracy, and transparency in financial operations by providing a centralised platform for managing cash receipts.

With the offer presented to the City of Holdfast Bay, several paths can be taken with the offer.

Option 1

- Ignore the offer; only purchase the CiA live module and don't purchase any other modules.

This option would significantly reduce council's ability to improve our systems to meet current and future demands. The list price for the current modules we have would still be higher than what we are currently paying. TechnologyOne could review its pricing on the current modules and increase them to their current list price which could significantly increase the price.

Option 2

- Accept the offer prior to 29 March 2024 with the contract variation executed to include the additional modules costing an additional \$376,000 per annum commencing in the 2025-26 financial year.

This option would continue to provide the development path for our ICT systems over the next seven years.

Option 3

- Don't accept the current March offer and continue to purchase the additional modules when required at list price. If the additional modules are purchased at list price it would cost an additional \$800k per annum.

Accepting the Option 2 offer by 29 March 2024, will reduce the Council budget allocation by approximately \$2.6m over the next seven years compared to uplifting the current modules on current pricing.

Exemption to Procurement Policy

For the CEO to execute a variation to the current contract, it is recommended that Council approves an exemption to the Procurement Policy for a waiver of tender. This is recommended, as discussed in the report, as going to tender may not achieve an outcome that will provide council financial benefits over and above a contract variation with TechnologyOne. This could be tested through a tender process, however there are significant costs that will need to be allocated to this tender process, which Administration believes would not be a good use of public money.

Due to the tight timeframe to accept the offer, it is recommended that Council considers and approves the policy exemption subject to the Audit and Risk Committee endorsing this exemption. The Audit and Risk Committee is meeting on Wednesday 27 March 2024 and will consider this exemption.

If Council is uncomfortable with endorsement subject to Audit and Risk Committee endorsement, a Special Meeting of Council would need to be called prior to 29 March 2024 for Council to consider this again after the Audit and Risk Committee has considered the exemption.

Budget

The 2024-25 draft operating budget includes an allocation of \$819,000 for the TechnologyOne SaaS fee. If the contract variation is executed that incorporates the additional modules as identified in this report, subsequent financial years will require an uplift of approximately \$352,000 per annum.

If the procurement exemption is not endorsed, Administration will reassess the options moving forward which may include a review and tender process which will require significant additional funds as highlighted in the report.

Life Cycle Costs

The life cycle costs for the TechnologyOne system are only the SaaS fee payable each year. In 2024-25 this fee will be \$819,000 and if the contract variation for the significantly discounted additional modules is approved, an uplift of \$376,000 per annum (indexed by CPI) from 2025-26 will be required.

Strategic Plan

Our Holdfast 2050+ Strategic Plan – Using efficient technology to meet all strategic plan targets.

Council Policy

The report aligns with the Council's Procurement Policy.

Statutory Provisions

Not applicable

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