

Forward Plan reference number: FP575/11/19

Report title: Future of the Council's Corporate IT System	
Report to: Cabinet	
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Date: 17 March 2020	For: Decision
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County Divisions affected: All Essex	

1. Purpose of Report

- 1.1 To seek approval and funding for the replacement of Essex County Council's (ECC) existing Oracle Enterprise Resource Planning (ERP) tool, which is the IT system used as the Council's main financial and employee record.

2. Recommendations

- 2.1 To agree that the Council should move its Enterprise Resource Planning tool (this incorporates core HR, Payroll, Finance) to an Oracle Cloud based system.
- 2.2 To agree to run a mini competition and call off from the Healthtrust Europe framework to procure Oracle Cloud licences and agree that the Executive Director, Finance and Technology can award the contract for a period of 5 years with the possibility of extension for up to a further five years.
- 2.3 To agree to use the current Fujitsu contract to provide the transitional services required to move from the current system to the new system subject to the prior completion of a deed of variation relating to subcontracting of services.
- 2.4 To delegate to the Executive Director, Finance and Technology in consultation with the Cabinet Member for Finance, Property and Housing, and the Monitoring Officer to agree to the terms of a deed of variation to the current contract with Fujitsu.
- 2.5 To approve the drawdown from reserves of £90,600 in 2019/20; £4.08m in 2020/21 and £1.00m in 2021/22. This will fund the programme resource costs to September 2020; the implementation of the Oracle Cloud & fund the systems implementor to be funded as follows:
- £90,600 in 2019/20 from the Transformation Reserve
 - £1.08m in 2020/21 from the Transformation Reserve
 - £3.00m in 2020/21 from the Technology Solutions Reserve
 - £1.00m in 2021/22 from the Technology Solutions Reserve.

- 2.6 To note the full life estimated costs of the programme of £13.1m as set out in section 5 of the report (including contingency) and a further Cabinet decision relating to funding is planned for July 2020.

3. Summary of issue

The current Enterprise Resource Planning system

- 3.1 An Enterprise Resource Planning system (ERP) is a system of integrated applications that allows an organisation to manage the business and automate many back-office functions related to technology, financial services, payroll and human resources. It also maintains financial and employee records.
- 3.2 ECC currently use an Oracle based ERP system which is referred to informally as 'the Corporate System (TCS)' for the provision of core business processes e.g. paying suppliers, paying employees and general ledger. The decision to purchase this system was taken in 2014 and was based on the need to address issues with the storage of data and have better integration of our key systems. It has 500 professional users and c.7,600 front line users.
- 3.3 An ERP system has allowed us to have more robust financial controls in place, have a single version of our finances, introduce a single point of access for employees who had previously been required to log onto multiple systems, update technology in a number of areas and increase self-serve capabilities. However, the current technology is not intuitive to a non-professional user, has many local modifications and does not support effective working through mobile devices. TCS has also been heavily customised to meet ECC's needs which has limited its agility as a system and makes implementing changes to meet evolving complex business requirements expensive.
- 3.4 We have been in contract with Fujitsu for service management of the current ERP system (including hosting, maintenance and managing system changes) since 2014 (the Contract). The initial contract with Fujitsu was for five years; in 2019, it was agreed to extend the Fujitsu contract by two years; it expires in July 2021. The current version of the ERP solution will no longer be supported by Oracle after 2021 and even if we are to continue using it until then we need to spend around £3m updating it. These costs will be avoided if ECC took the decision to move to Oracle Cloud.
- 3.5 We have carried out an options appraisal (section 3.9) to determine the next steps with our corporate technology, given the above.

The case for change

- 3.6 There is no sensible 'do nothing' option: we cannot extend existing contractual arrangements given the commercial and contractual position outlined in 3.4. Critically in the intervening years since sourcing TCS in 2014, technology has

advanced considerably and so have the Council's ambitions. This programme will enable ECC to deliver on its ambition to transform the Council to achieve more with less, modernising the tools available to our workforce.

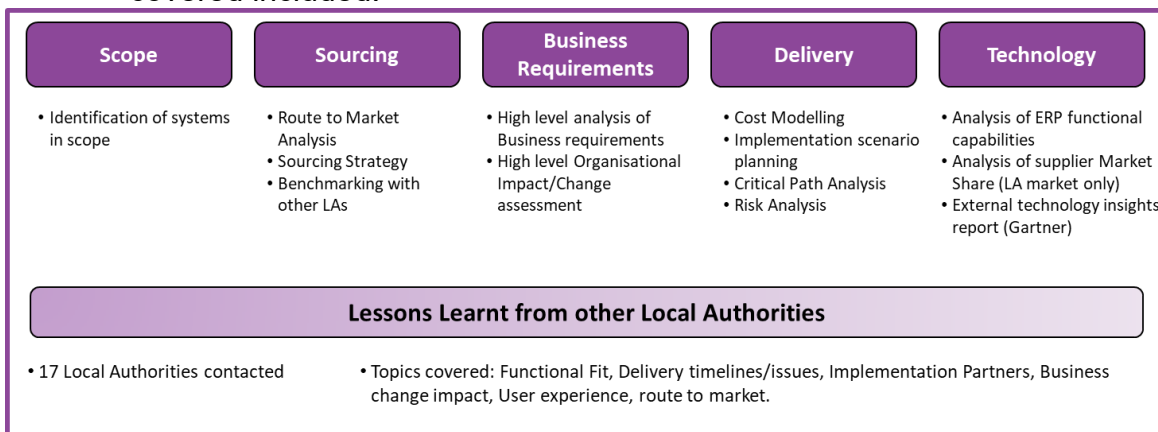
3.7 Critical success factors that have driven the options appraisal include:

- Ensuring we choose a solution that receives frequent supplier-led updates, rather than needing to buy and maintain technology
- Allowing employees to work in a mobile and flexible way on both corporate and non-corporate devices
- Securing a solution that maintains the financial integrity of the organisation
- Supporting great user experience; and
- Enabling us to improve our business processes and supports simplified decision making.

3.8 A cloud-based ERP will align with our technology strategy to move to 'Software as a Service' (SaaS). This is where software applications are centrally hosted by a third-party supplier and accessed over the Internet, which improves resilience. It will also be 'Evergreen' which means that it will be regularly updated by the supplier, removing the need for large expensive upgrades with high levels of business change. Furthermore, indications are that cloud technology has a reduced carbon footprint versus hosted solutions, supporting the climate action ambitions.

Options Appraisal

3.9 An options appraisal was completed using a structured methodology which included research and investigation into the options available to ECC for a future ERP. It included market engagement with leading providers, provider demonstrations of technology, reference site research with other Local Authorities and independent expert advice from SOCITM and Gartner. Areas covered included:



3.10 Following the options appraisal, the recommendation is that we implement an Oracle business system called Oracle Cloud.

- 3.11 Option 1: **Oracle Cloud (Recommended Option)**. This is a cloud-based ERP solution which will deliver computing services (and associated support and infrastructure) – over the Internet (“the cloud”) to offer faster innovation, flexible resources and economies of scale.

Pros	Cons
Avoids the requirement to fund mandatory upgrades scheduled up to December 2021 (c. £3m)	We need to commit to a contract based on the employee base of the organisation and we recommend we do so for period of 5 years; this limits the flexibility to reduce the annual Oracle costs (of £1.3m) over this contract period if there are reductions in the size and shape of the workforce.
Quickest route to solution delivery placing least stress on resources and delivering improvement to the user community more quickly	Research from other local authorities that pioneered the early releases, suggests that Oracle Cloud Payroll and HR solutions were not at that point mature enough to meet all requirements, although we believe the new releases planned for 2020 will meet the key requirements and the service will evolve over time.
ECC will have limited customisation ability for process flow meaning that the system will not be able to be compromised through over configuration	Based on known information it will inhibit ability to deliver previously anticipated savings in the Organisation Development and People service savings predicated on having a dedicated HR/payroll system.
Removes the risk of existing Oracle based systems dropping out of support so provides business and operational service assurance	It is anticipated that price certainty for licence costs will be limited to 5 years if purchased through a framework, with an option to extend up to a further 5 years. This would be subject to negotiation with Oracle.
Reduces the integration and data migration effort compared to a suite of functionally specific systems, however this is still a substantial task	
Oracle Cloud is a market leading product so ECC would not be pioneering new technology and could learn from the experience of other Authorities on Oracle Cloud	
Moving to Oracle Cloud will remove the need for a third party to manage the system on behalf of ECC. This system would also be regularly updated (quarterly) by Oracle, avoiding the need to manage and pay for costly and complex sporadic upgrades & providing clearer accountability.	

- 3.12 Option 2: **Complete the Oracle upgrades of the current system scheduled up to December 2021 and procure an alternative ERP**. The alternative ERP would also be a SaaS solution, but couldn't be implemented prior to our current version of Oracle going out of support.

Pros	Cons
Allows all providers of all systems to submit a detailed proposition, although we have already undertaken extensive market investigation and	Upgrade costs cannot be mitigated as a solution will not be procured and implemented by December 2021 leading to significant abortive costs (c. £3m)

consider that Oracle Cloud is the best solution for our requirements given our current position	
Would benefit from the use of ECC defined Terms and Conditions which could explicitly allow flexible approach for the future system	The required upgrade in December 2021 will require significant change investment in itself and will be followed quickly after by a second wave of change as the organisation then moves to the procured solution
Reduces the integration and data migration effort compared to procuring a suite of functionally specific systems	The cost of this approach is significantly higher than Option 1
ECC will have limited customisation ability for process flow meaning that the system will not be able to be compromised through over configuration	This approach could present a reputational risk to the organisation as the outcome from procurement could still be the Oracle Cloud solution (but having incurred more expense and taking longer to implement)

- 3.13 **Option 3: Complete the Oracle upgrades and replace TCS with different individual systems specific to each service.** For example, there could be one system for finance, with separate systems for HR and payroll. It would not be possible to implement prior to the current version of Oracle going out of support in December 2021. The systems that would make up the solution would require integration and would be procured as SaaS solutions.

Pros	Cons
Allows all providers of all systems to submit a detailed proposition, although we have already undertaken extensive market investigation and consider that Oracle Cloud is the best solution for our requirements given our current position.	Upgrade costs cannot be mitigated as a solution will not be procured and implemented by December 2021 leading to significant abortive costs (c. £3m). Although solutions could be implemented prior to December 2021 the cost associated with upgrades would still be incurred.
Use of ECC defined Terms and Conditions which could explicitly allow a more flexible approach for the future systems	A negotiated contract variation will be required with Fujitsu beyond July 2021 due to the duration required to procure and implement a solution.
This would enable diversity of systems which could lead to more innovation compared to a single supplier solution	The required upgrade in December 2021 will require significant change investment in itself and will be followed quickly after by a second wave of change as the organisation then moves to the procured solution. If users are required to access multiple systems this too would increase training and adoption requirements
Allows individual services to procure the solution that they consider is best for them e.g. allows Organisation Development and People to have a functional specific solution for payroll.	The cost of this approach is likely to be significantly higher than Option 1.
	Could lead to inconsistent user experience between different systems unless investment is made to mitigate.

- 3.14 Option 1 is recommended as it best meets ECC's strategic requirements, delivers against the critical success factors and aligns to our medium-term technology strategy. It also avoids the requirement to fund the mandatory upgrades.

Procuring Oracle Cloud

- 3.15 A number of routes have been explored to source Oracle Cloud. These included a full OJEU procurement, framework call off, and contract delivery by Fujitsu.
- 3.16 It is proposed that ECC procure Oracle Cloud licences by calling off from an OJEU compliant framework following a mini competition. This will enable ECC to purchase the necessary licences in accordance with procurement law and also evidence value for money. Calling off from a Framework will also assist ECC in meeting timescales for delivery requirements as a call-off takes less time than a full OJEU procurement.
- 3.17 We explored various frameworks and their specifications. It was concluded that the Healthtrust Europe Framework would be able to fulfil all of ECC's licensing requirements.

Procuring a Systems Implementor

- 3.18 Before the new system is implemented there will be a period where we need to set up and prepare Oracle Cloud and prepare for the transfer of data. This will require a third-party support to act as a Systems Implementor. Fujitsu, as our existing System Management contractor, has in-depth knowledge of ECC and our current system and is best placed to undertake this Systems Implementor role.
- 3.19 It is proposed that we work with Fujitsu under the terms of the Contract to implement the Oracle Cloud upgrade. The Council's existing contract allows for this to happen.
- 3.20 A value for money exercise has been undertaken in which Fujitsu costs were compared against other potential Systems Implementors, concluding that Fujitsu offered value for money within the market. It is understood that Fujitsu have capacity issues meaning that although Fujitsu will retain oversight, they are likely to exercise their right to utilise their supply chain partner (Evosys). This has been agreed in principle with Fujitsu.

4 Next steps

Milestone	Date
Cabinet Report	March 2020
Oracle Cloud Licences awarded	April 2020
Contract Variation (Fujitsu as Systems Implementor)	May 2020
Programme Implementation Phase Funding Decision (Cabinet)	July 2020
Impact on ECC processes of moving to Oracle Cloud – first view	July 2020

Impact on ECC processes of moving to Oracle Cloud – final view	December 2020
Oracle Cloud Implementation Complete	October 2021

5 Issues for consideration:

Financial implications - costs

- 5.1 The current annual cost of ECC's existing Oracle ERP contract arrangement via Fujitsu is £1.3m. This includes average annual change costs. There are also other contract costs of £300,000 including payslip printing, cash receipts, Marketplace and a separate system to manage the use of purchase cards. This equates to an annual running cost of £1.6m.
- 5.2 Following implementation of Oracle Cloud, the indicative annual costs for the service is estimated to be £1.2m. This reflects the procurement of Oracle licences on a Software as a Service (SaaS) basis. However, there will be other operating costs including the establishment of an expert client team (as opposed to having a third party) that will increase the estimated annual costs to an average of £2.2m per annum.

Table 1: Forecast Budget Impact of Implementing Oracle Cloud

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	Total £'000
Current Service Costs	1,605	1,605	401	-	-	-	3,612
Forecast Total New Costs (See note)	-	1,205	1,808	2,122	2,148	2,173	9,457
Total Forecast Cost	1,605	2,810	2,210	2,122	2,148	2,173	13,069
Current Budget / Proposed MTRS	1,605	1,537	1,584	1,584	1,584	1,584	9,478
On-going budget Impact	0	1,273	626	538	564	589	3,590

Notes:

- i. The current service costs reflect the Fujitsu contract which is due to end in July 2021; this includes the support for the existing Oracle ERP solution of £1.3m and other contract costs of £300,000
- ii. The forecast total new costs includes: the estimated Oracle Cloud service costs; the cost of contracts due to novate back to Essex County Council from the Fujitsu contract; and the anticipated additional support to oversee the delivery of Oracle Cloud

- 5.3 This represents a net increase of £626,000 from 2021/22. This amount will be validated through the implementation of Oracle Cloud and will be built into the 2021/22 budget planning. However, there will also be financial benefits of the introduction of Oracle Cloud through standardisation of processes and improved automation across finance and human resources. At this stage in the Programme it is not possible to quantify the potential benefits of the business change but that will be explored in the next phase of the Programme to be confirmed by October 2020. It is expected that the on-going funding pressure of £600,000 will be mitigated through cost reductions arising from the implementation of the solution.

5.4 Following detailed financial modelling and drawing on the experiences and estimates from other local authorities implementing Oracle Cloud, the total estimated cost to implement the proposed solution is £12.1m (plus an assumed contingency of £1m). At this stage in the programme we are seeking a total approval of £5.171m and there will be a further decision point by July 2020 to draw down the next phase funding for the programme, which is current expected to be a further £8m (including contingency). At this stage no approval of contingency is being sought. A breakdown of the cost elements can be seen in table 2. This amount will be refined following the procurement of Oracle Cloud and is subject to further decision.

5.5 Table 2: Forecast Implementation Costs

	Funding Requested				Funding to be Requested				Total
	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	Total £'000	£'000
Forecast Resource Implementation Costs	91	1,307	-	1,398	1,389	2,517	1,272	5,179	6,577
Forecast Systems Implementer Costs	-	1,500	1,000	2,500	-	-	-	-	2,500
Other Forecast Third Party Costs	-	-	-	-	580	570	-	1,150	1,150
Total One-Off Costs	91	2,807	1,000	3,898	1,969	3,087	1,272	6,329	10,227
Additional On-going Costs in Implementation phase		1,273		1,273	-	626	-	626	1,899
Total Implementation Costs	91	4,081	1,000	5,171	1,969	3,713	1,272	6,954	12,126
Contingency @ 10% of One-off Costs					478	409	127	1,014	1,014

Notes:

- System implementation cost drivers include data migration, hardware decommissioning, change and programme management capacity and systems integration costs.
- The above table includes costs to implement Oracle Cloud, however, it does not include costs to change internal processes required as a result of implementing a SaaS solution; the extent and value of these changes is currently unknown and are expected to be ascertained by July 2020.
- The implementation costs in table 2 that that are being requested in this report includes the following:

Table 3: Funding Requested for Implementation Costs

	2019/20 £'000	2020/21* £'000	2021/22 £'000	Total £'000
Resource Costs to September 2020	91	1,307		1,398
Budget Impact for 2020/21 for additional licence costs		1,273		1,273
Systems Implementer Costs		1,500	1,000	2,500
Total	91	4,081	1,000	5,171

* Additional implementation costs for resource and third-party costs are included in table 2 above; these will be subject to a further decision following validation through the implementation phase of the programme to be completed by July 2020.

5.6 It should be noted that additional costs may be incurred due to the need to adapt current processes to align to the requirements of Oracle Cloud; the extent to which such adaptations may be required is currently unknown and as such unquantified. We will seek to absorb this within existing business capacity and we have benchmarked our investment requirements against

other authorities. However, it is an inherent risk and will be appraised through the implementation phase and subject to a further decision as appropriate in July 2020.

- 5.7 It should be further noted that the timeline for implementation of Oracle Cloud is key, the current planned timeline is outlined in section 4. If delivery is slower than planned then there is a risk that the system upgrades for the current solution may need to be implemented and a risk of further escalation of implementation costs.
- 5.8 The costs to support the implementation of the solution beyond September 2020 will be sought through a further decision, following further validation of the resourcing and business change requirements associated with implementing Oracle Cloud.

Financial implications – benefits

- 5.9 Financial benefits to ECC as a result of the investment required are not currently confirmed. Evidently a core cost of running financial and HR services is the cost of the technology infrastructure to enable those transactions; and investment is required to enable key services to continue to operate effectively.
- 5.10 The activity to confirm potential savings is planned to be undertaken during the adoption phase of the programme following implementation of Oracle Cloud. The only saving currently anticipated in the Medium Term Resourcing Strategy (MTRS) is a forecast saving of £100,000 per annum from 2021/22; this is anticipated to be realised through a revised operating model for Financial Reporting that may be enabled through the implementation of a new Corporate System with improved user functionality and processes.

6 Legal Implications

- 6.1 ECC is a contracting Authority for the purposes of the Public Contracts Regulation 2015. ECC is required to run an OJEU compliant procurement to purchase the Oracle Cloud licences given the value of them.
- 6.2 An OJEU compliant Framework is a complaint procurement option for ECC and ECC is able to call-off services from the Healthtrust Europe Framework which is run by Healthtrust Europe on behalf of Birmingham Hospitals NHS Foundation Trust and which is available for ECC to use. ECC must follow the prescribed call off process and enter into the call off contract on the terms specified.
- 6.3 The implementation of Oracle Cloud can be undertaken under the Contract and will require some contract changes to finalise detail and specific commercial matters.

7 Equality and Diversity implications

- 7.1 The Public Sector Equality Duty applies to the Council when it makes decisions. The duty requires us to have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act. In summary, the Act makes discrimination etc. on the grounds of a protected characteristic unlawful
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 7.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, gender, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
- 7.3 The equality impact assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a characteristic.

8 List of appendices

- 8.1 Equality Impact Assessment
- 8.2 Overview of transactions conducted on TCS

9 List of Background Papers

None