

**The Forward Plan reference number: FP/709/05/20**

<b>Report title:</b> Council's Corporate IT Systems Programme - exit and implementation	
<b>Report to:</b> Cabinet	
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<b>Date:</b> 15 September 2020	<b>For:</b> Decision
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<b>County Divisions affected:</b> All Essex	

**Confidential Appendix exemption**

This report includes a Confidential Appendix which is exempt from publication by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

**1. Purpose of Report**

- 1.1 To seek funding for the ongoing programme costs to implement the first phase of Essex County Council's (ECC) new Oracle Fusion Cloud system which will be the IT system used as ECC's main financial and employee record.

**2. Recommendations**

- 2.1 To approve the drawdown from the Technology Solutions Reserve of £7.918m to fund the outstanding programme resource costs to implement the first phase of Oracle Fusion Cloud (Tranche 1) and the exit from the Fujitsu contract, to be funded from reserves as follows:
  - £533,000 in 2020/21
  - £7.385m in 2021/22
- 2.2 Note that following planned due diligence, the full life estimated costs of the programme have increased by £450,000 to £13.59m including contingency of £500,000. The contingency is to be ringfenced within the Technology Solutions Reserve as required across 2020/21 and 2021/22 as set out in section 4.1. Drawdown of the contingency from the reserve will be subject to separate governance.
- 2.3 Note that there is an ongoing estimated additional cost of £679,000 per year from 2022/23 as a result of moving to Oracle Fusion Cloud. This relates to the future support model required to manage Oracle Fusion Cloud and the costs for third-party subcontracts being replaced. Proposals to mitigate these

costs are in development and unquantified, however, it is anticipated that these will offset the additional costs identified.

### **3. Summary of issue**

- 3.1 The Corporate Systems Programme (the "Programme") was initiated in June 2019 to ensure the continuity of critical ECC corporate services (Finance, HR and Payroll) when the current Fujitsu contract (referred to as TCS – Transforming Corporate Systems) expires in July 2021.
- 3.2 A Cabinet Decision in March 2020 approved the replacement of the current Fujitsu contract with Oracle Fusion Cloud and approved procurement of the system via a call off from the Healthtrust Europe Framework. It was also agreed that Fujitsu would provide system implementor services to ECC under the terms of the current Fujitsu contract to assist with the implementation of Oracle Fusion Cloud licences.

#### **Drawdown for Tranche 1 Costs**

- 3.3 ECC officers have completed implementation planning and costing for the Programme. Tranche 1 of the Programme spans the period 1 April 2020 to 31 March 2022 and is estimated to be at a cost of £13.59m, £5.1m of which was approved to be drawn down from reserves previously in March 2020. Tranche 1 includes Business Design and Business Change including the following outputs:
  - 3.3.1 ensure immediate business needs are met whilst enabling planned upgrade costs to TCS to be avoided;
  - 3.3.2 design and implement new internal processes in order to adopt Oracle Fusion without customisation, supporting functions to adopt the new processes (e.g. training and post commencement support);
  - 3.3.3 design and implement the future support model required to manage and maintain Oracle Fusion; this will be subject to further governance via the Executive Director in consultation with the Organisational Design Authority (these estimated costs for 2021/22 are included within the Tranche 1 drawdown);
  - 3.3.4 ensure that integrations with other ECC systems are maintained;
  - 3.3.5 to scope, review and recommend future arrangements via novation, re-procurement or variation for existing sub-contracts that are managed by Fujitsu on behalf of ECC and the current BACS provision provided direct by Fujitsu under the Fujitsu contract - these will be subject to further governance (these estimated costs for 2021/22 are included within the Tranche 1 drawdown);
  - 3.3.6 to undertake a strategic review of other services that could be provided by Oracle Fusion Cloud including contract liquidity. The assessment would include

understanding the direction of travel for ECC services and change context such as Local Government Reform;

- 3.3.7 to scope and cost the exit assistance, reachback (ability to access the old system for a short period of time after we have moved to the new system) and archiving services to be requested under the terms of the Fujitsu contract - these will be subject to further governance (these estimated costs are included within the Tranche 1 drawdown);
- 3.3.8 to scope and cost the extension of current services under the Fujitsu contract to cover the circa 3 month period between expiry of the Fujitsu contract and commencement of Oracle Fusion Cloud – this will be subject to further governance (these estimated costs are included within the Tranche 1 drawdown);
- 3.3.9 to scope Tranche 2 of the programme.
- 3.4 **Tranche 2** A further report will be brought to the Cabinet or to the Cabinet Member as appropriate which will include funding and other decisions relating to:
  - 3.4.1 implementation of any new/additional core HR/Payroll and finance functionality identified in Tranche 1;
  - 3.4.2 implementation of any other modules identified through the strategic review carried out as part of Tranche 1;
  - 3.4.3 consideration of requirements that may arise as a result of any emergent reform of local government in Essex.
- 3.5 Finance modules are expected to commence in August 2021 and HR/Payroll modules are expected to commence in October 2021. Tranche 1 is expected to be completed by 31 March 2022.

### **Local Government Reform**

- 3.6 Any changes to Local Government structures as a result of Local Government reform could impact the scope of the Programme, for example the number of licences purchased may not align with the requirements of a reformed Local Government landscape.
- 3.7 The drivers for the Programme were set out in a report to Cabinet in March 2020 and the recommendations in the Cabinet Paper remain unchanged. ECC requires a continuation of ERP services beyond July 2021 when the current contract with Fujitsu expires. We need to continue the implementation programme to ensure that ECC (with an annual turnover in excess of £1billion) has the critical infrastructure to effectively manage our resources. An ERP system is which is critical to its business function and work on replacing the current system cannot wait until a decision on the future of local government in Essex has concluded.

- 3.8 The current contractual term for ECC's Oracle Cloud Licences (which is to 2025 with an option to extend for a further 5 years) will overlap with Local Government Reform and changes to Local Government Structures.
- 3.9 ECC's current Oracle Fusion Cloud solution allows flexibility of transfer of licence numbers which mitigates some of the risk associated with the creation of a single or multiple Unitary Authorities across Essex.
- 3.10 Oracle Fusion Cloud is already used by Thurrock Council and several London Boroughs and Unitary authorities. It is market leading in new technology for large local authorities, which demonstrates that it has the functionality needed for a wider role. The current ECC licences are for 5 years and whilst there is no ability to terminate the licencing arrangements, there is an ability to transfer to new entities. ECC can also increase the number of licences.
- 3.11 Officers supporting the Programme are working with the ECC Local Government Reform Project to better understand the range of scenarios so that, where possible, the Programme can include flexibility to 'future proof' the design of the new system. This will also at the right time, include looking at the systems landscape across Essex and considering what transition plans would be required should Local Government Reform happen.

#### **4 Issues for consideration:**

##### **4.1 Financial implications**

###### **Costs**

- 4.1.1 In March 2020, it was reported to Cabinet that the Corporate Systems programme would have an estimated full life cost of £13.14m; the report clarified that this estimate would be reassessed following the procurement of the Systems Implementer, the Oracle Licences and completion of the detailed review of resource requirements to support implementation. This has led to a revised full life cost estimate of £13.59m; this estimate retains a reduced contingency of £500,000 to reflect the increased crystallisation of some of the costs as a result of the due diligence undertaken to date. The revised costs are set out in table 1 in the confidential appendix.
- 4.1.2 The contingency of £500,000 this amount is considered to be the minimum amount that would be required to support the implementation of the programme in the event of delay in delivery by 6 weeks or should additional requirements be identified. It is recommended that the contingency is held in reserves and would be subject to separate Governance if required.
- 4.1.3 The funding required for this project has been requested in two phases to enable the programme to proceed whilst getting clarity on the costs required,

to ensure transparency. The initial funding request of £5.1m was approved by Cabinet in March 2020; the second investment of £7.918m is now required to support the remaining implementation of Tranche 1 through to March 2022.

- 4.1.4 The remaining funding required to implement the programme was set aside in the MTRS in the Technology Solutions Reserve and is requested as follows.
- £533,000 in 2020/21
  - £7.385m in 2021/22
  - £500,000 to be ringfenced in the Technology Solutions Reserve as Programme Contingency (Subject to Separate Governance)
- 4.1.5 Table 2 in the confidential appendix sets out the total anticipated additional on-going costs (before consideration of savings) of circa £679,000 from 2022/23. The majority of these costs are primarily related to the establishment of the Future Support Model. There remains uncertainty with regard to the exact requirements for this support model and therefore the costs are an estimate at this stage. However, the requirement for a support model is understood in order to drive continuous improvement and to support change in a cost effective and managed approach to maximise the benefits and savings opportunities associated with implementing Oracle Fusion. The value of savings to offset the on-going costs are still to be quantified through the next phase of the programme and whilst this work is yet to be concluded, the identified pressure is expected to be mitigated and potentially exceeded.
- 4.1.6 A saving of £100,000 per annum is already built into the MTRS from 2021/22; this is anticipated to be realised through a revised operating model for Finance, enabled through the implementation of Oracle Fusion.
- 4.1.7 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 Fusion or to flex any programme planning assumptions; the extent to which such adaptations may be required is currently unknown and as such unquantified. Any costs arising in respect of process change within existing business capacity will be sought to be absorbed where possible, however, it is an inherent risk and will remain under ongoing review through the implementation phases.
- 4.1.8 Table 3 below sets out a summary of the resources required to support the Programme implementation, including opportunity costs for which no additional funding is sought.

**Table 3: Total FTE Resource Summary**

	2020/21 FTE Equivalent	2021/22 FTE Equivalent	2020/21 £'000	2021/22 £'000	Total £'000
Total New Resource Costs	34	63	2,882	4,434	7,317
Opportunity Costs	9	7	525	505	1,030
<b>Total Resource Implementation Costs</b>	<b>44</b>	<b>70</b>	<b>3,407</b>	<b>4,940</b>	<b>8,347</b>

## Benefits

- 4.1.9 It is recognised that investing in a new Corporate System that will have a life of up to 10 years will give a better experience and greater resilience to the organisation; further it will support the operating model to work better both digitally and operationally through implementation of a modern infrastructure.
- 4.1.10 Analysis of potential benefits and costs that may arrive through the move to Oracle Fusion has been conducted. This will be subject to testing throughout the design of the solution and supported by detailed benefit descriptions and realisation plans. As identified, these will be fed into the budget setting process.
- 4.1.11 It is expected the first iteration of Programme benefits will be understood by mid-December 2020, and fully detailed by mid-March 2021. The programme proposes that updates on both the benefits and costs of the programme are provided to CLT on a regular basis in line with these timescales. The table below summarised the key benefits and disbenefits identified to date.

Oracle Fusion / Programme Outcome	Benefit Description
Upgrades are quarterly releases included as part of Oracle Fusion licence model	No more big system upgrades required to TCS.
Enhanced User Experience	Oracle Fusion is a more user focussed intuitive product, that will evolve and be updated regularly, this will lead to increased employee productivity as a result of reduced time spent using TCS and increased levels of self-serve.
Reduction in change request to ERP system	Fujitsu change request costs
	ECC process costs to manage change process
Reduction in system complexity and workarounds	Can remove costs of supporting workarounds and managing TCS
	Reduction in number of errors currently being produced by our current system due to misuse/misunderstanding of the system and complexity our current processes.
	Quicker processing - new business processes will reduce delays and bottle necks in process waiting times
	Improved / simplified decision making as a result of a more intuitive solution (e.g. configurable dashboard / reports or real time data) - End users
	Internal process change required to Adopt Oracle Fusion solution - Professional User, End User, Support Staff

	Internal organisational change requirements to Adopt to Oracle Fusion solution
No service management contract required	No requirement to retain service management contract with Fujitsu
	Internal process change required to manage Oracle Fusion solution - Support Staff (Future Support Model)
	Internal organisational change requirements to manage Oracle Fusion solution (Future Support Model)
Alternative device access	Employees to access Oracle Fusion from alternative devices improving access to system and providing organisational resilience
Not reliant on ECC Network	Enhanced resilience of system, access to system as not dependent on ECC network / infrastructure
Legal compliance	As solution cannot be customised the risk of system being non-compliant with legal requirements (e.g. GDPR) is reduced
Maintains financial control	Retains existing robust financial controls / data integrity (single source of the truth)

## 4.2 Legal Implications

- 4.2.1 The proposed implementation and exit services under Tranche 1 (including extension of services under the Fujitsu contract, exit assistance and arrangements relating to third party sub-contracts) are permitted under the Fujitsu contract. Separate governance will be required to give effect to these matters.
- 4.2.2 It is noted that part of the drawdown contains a budget for extension of services under the Fujitsu contract, exit assistance and arrangements relating to third party sub-contracts - drawing down of money from reserves does not authorise such expenditure and it must be authorised by the relevant decision-maker in each case in due course.
- 4.2.3 Drawdowns from reserves need to be approved in accordance with financial regulations.

## 5 Equality and Diversity implications

- 5.1 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.
- 5.2 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).
- 5.3 The equality impact assessment indicates that the proposals in this report will not have a disproportionately adverse impact on any people with a protected characteristic.

## **6 List of appendices**

Equality Impact Assessment

Confidential Appendix

## **7 List of Background Papers**

None