

CABINET

19 January 2016

Title: Oracle R12 - Proposal to Extend Contract for Hosting and Support	
Report of the Cabinet Member for Finance and Central Services	
Open Report	For Decision
Wards Affected: None	Key Decision: Yes
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Accountable Divisional Director: Martin Rayson, Divisional Director for Human Resources and Organisational Development	
Accountable Director: Claire Symonds, Strategic Director for Customer, Commercial and Service Delivery	
Summary: <p>In 2012, the Council entered into a contract with Capgemini for the implementation, hosting and provision of support for an updated version of the Oracle enterprise resource planning (ERP) system. The system supports financial management, procurement, payments, payroll and people management in the Council. Although contracted individually to Capgemini, this was a joint implementation with five other councils of one common version of the Oracle software, as part of the One Oracle partnership.</p> <p>The system was implemented in August 2014 and the four year contract (for implementation, hosting and Level 3 system support) expires in July 2016. The partnership must make a joint decision about re-contracting. The option of undertaking a full re-procurement exercise was considered, alongside extending the current contractual arrangement.</p> <p>The proposal from the One Oracle Partnership Joint Management Board, representing the six Councils (including LBBd) is to extend the contract with Capgemini for hosting and Level 3 support for a two year period from 19th July 2016.</p> <p>This recommendation has been made following the assessment of the overall value for money of this option, taking into account the increase in cost, but also the need for a stable platform to enable a new partner to join and the risks associated with moving away from this system given the performance issues suffered by the councils following 'go live'.</p> <p>It also takes into account the uncertainty over the future size and shape of the One Oracle partnership in light of the funding pressures each council faces and the subsequent individual decisions they will take regarding their IT strategies.</p> <p>The cost to LBBd across the two years of the contract will be £1,027,935. This compares to the full cost of the existing contract through to July 2016 of £1,064,651. This latter</p>	

figure though does include initial implementation costs of £331,800.

To implement this joint decision, each Council needs to take individual decisions through their own governance process. If agreed, each Council will contract separately with Capgemini as this is considered to be the most appropriate arrangement in order to protect each Council's own financial interests.

Going forward it is imperative that this Council, alongside the other partner Councils, begin the process of developing a strategy for the partnership and their use of the ERP system, so that decisions are made well in advance of the expiry of the contract extension in July 2018.

Recommendation(s)

The Cabinet is recommended to:

- (i) Approve the extension of the contract for hosting and support for the One Oracle system, at a total cost to the Council of £1,027,935, to Capgemini on a two year basis from 19 July 2016; and
- (ii) Delegate authority to the Strategic Director for Customer, Commercial and Service Delivery, in consultation with the Cabinet Member for Finance and Central Services, the Strategic Director for Finance and Investment and the Head of Legal and Democratic Services, to enter into the contract extension with Capgemini.

Reason(s)

The existing contract expires in July 2016 and the Oracle system will not be available to the Council and schools unless alternative contractual arrangements are put in place. The recommendation represents the best way forward in the circumstances.

1. Introduction and Background

- 1.1 During 2012, the boroughs of Brent, Croydon, Barking & Dagenham, Havering, Lambeth and Lewisham procured jointly a solution to provide an enterprise resource planning (ERP) solution based on Oracle technology (R12).
- 1.2 This solution was made up of three elements; the software itself, the external hosting and on-going support for the solution and the implementation of the solution. These contracts were provided by Oracle in the first case and Capgemini in the latter cases. The elements with Capgemini were procured as framework agreements, with call off contracts taken by each of the boroughs.
- 1.3 The external hosting and support call-off contracts are due to expire in July 2016 and replacement is required to enable the on-going provision of the system.
- 1.4 The One Oracle R12 system is managed by a Joint Partnership Board, representing the six partner Boroughs. Decisions need to be made jointly by the Partnership Board and the recommendation of the Board is to extend the contract with Capgemini, for the reasons set out in this report. Each partner Council contracts

individually with Capgemini and must make a decision on how to proceed by the end of January, in line with their own governance arrangements.

2. Proposed Procurement Strategy

2.1 The original Capgemini contracts for provision of One Oracle external hosting and Service support allow for contract extension and the recommendation of this paper is to enter a two year extension for Lot 2 and Lot 3 as described in 2.2 below.

2.2 Outline specification of the works, goods or services being procured.

The original contract was for three Lots. Lot 1 was for implementation. The other two Lots covered the following:

Lot 2 – system hosting and support (infrastructure and infrastructure management) - the system will be 'hosted' or run at a single location – and the services accessed from a secure 'government trusted' data centre and accessed via 'cloud' or secure internet based connections. The computer servers and databases will be based at the provider's premises, and the resources to manage the servers and network systems will be managed by the provider.

Lot 3 – Oracle licensing and application support. The Oracle application system requires Oracle licences and also Oracle support of the application and standard interfaces. This will include providing support for complex Oracle issues.

The contract extension proposed covers Lots 2 and 3.

Application support covers Level 3 support only. Level 1 and 2 support is provided through the Joint Application Support Team, for which there is an additional annual cost.

2.3 Estimated Contract Value, including the value of any uplift or extension period.

The cost to LBBD across the two years of the contract will be £1,027,935.

2.4 Duration of the contract, including any options for extension.

Two years. This is a proposed extension of an original four year contract. No further extension will be allowed for.

2.5 Is the contract subject to the (EU) Public Contracts Regulations 2006? If Yes, and contract is for services, are they Part A or Part B Services.

No. The original contract for Oracle implementation, hosting and support contained the following clause 25.1

"This agreement shall commence on the Commencement Date and shall (subject to earlier termination pursuant to clauses 24 and 25) terminate on the Termination date, unless the Council elects to extend the term of this agreement by a further period."

We are therefore proposing to exercise our right to extend the contract for a period of two years.

2.6 Recommended procurement procedure and reasons for the recommendation

Contract extension as per the terms of the original contract – see paragraph 2.5 above.

The options considered and the rationale for proposing a contract extension are set out in Section 3.

2.7 The contract delivery methodology and documentation to be adopted.

Not applicable.

2.8 Outcomes, savings and efficiencies expected as a consequence of awarding the proposed contract

Capgemini have made a number of proposals to the Partnership in order to control contract costs. The proposal for the contract extension varies the current provision in three key ways:

- The use of utility models of hosting to control demand for custom solutions
- Changes in the service levels to reflect historic performance
- The use of a new sub-contractor (Kainos) to manage the infrastructure

The offer by Capgemini is to provide these services for £6,844,340 over the two year period with an average charge of £40,740 month per council in the One Oracle Partnership.

The offer by Capgemini is made up of three elements: (i) costs of infrastructure as a service, (ii) costs of management of the infrastructure, which is termed “hosting”, and (iii) costs of application support.

The cost of application support is £3,953,936, equating to an average of £23,535 per council per month.

The costs of hosting (infrastructure and infrastructure management) total £2,890,404, equating to £17,204 per council per month.

The cost to LBBB of the three elements combined for the two years of the contract is as follows:

Year 1 - £522,639

Year 2 - £505,296

The principle of the partnership is that all partners pay the same price (although LB Lewisham pays less, as they only use the financial modules in Oracle). However in the original contracts, this was not the case and the difference in pricing for LBBB over the two years reflects some smoothing of the increase for those councils previously paying less for hosting and support.

The total cost to LBBB for the two years is £1,027,935. This compares to the £1,064,651 paid to date for implementation, infrastructure management and application support (Level 3). In pure financial terms it is difficult to present this as a good deal, but the broader risk issues make this the best option in the circumstances.

The budget available in 2015/16 to meet these costs is £360k, meaning that there will be a pressure on the budget in 2016/17.

2.9 Criteria against which the tenderers are to be selected and contract is to be awarded

The rationale for choosing to extend the contract, rather than re-procure is set out in Section 3.

2.10 How the procurement will address and implement the Council's Social Value policies.

There is no impact on the Council's social value policies.

3. Options Appraisal

3.1 The contract expires in July 2016 and a new contract must be in place at that point to ensure continuity of service of a system upon which each Council relies. The Joint Management Board has therefore considered two options:

- 1). Re-procuring the contracts for hosting and systems support on the open market;
- 2). Extending the existing contract with Capgemini for a further two years.

3.2 Option 2 has been proposed as a way forward by the One Oracle Partnership Joint Management Board.

3.3 A test for value for money was determined in accordance with the objectives of the Joint Management Board. This test was to:

- Assess the market rates of the service where appropriate;
- Assess the costs of provision to the provider and allow for reasonable profit margin;
- Assess whether the proposed service levels would give rise to a practical level of performance.

3.4 This test has been performed against the following solution characteristics:

- The solution will operate at the current level of security. Whilst Capgemini has offered a reduction in cost for a reduction in the level of security, the Partnership has rejected this.
- The non-production elements of the solution will be required on a 'during work hours' basis, rather than a 24/7 basis, although these will remain available on demand. This is achievable due to the use of infrastructure as a service to provide the base technology.

- 3.5 In order to assess the value for money of this proposal, a benchmarking exercise has been performed on the different elements of the contract.
- 3.6 The benchmarking, which indicates that costs are towards the upper end of reasonable, and the service levels, which are towards the lower end of acceptable, combine to suggest that the overall value of the offer is towards the lower end of the reasonable range when looked at solely on a commercial basis.
- 3.7 This assessment also however needs to consider the ability of the approach to mitigate technical risks and to minimise internal costs.
- 3.8 The approach as set out mitigates the technical risks associated with the infrastructure of the solution and increased demands placed on the solution during the on-boarding of Newham Council.
- 3.9 There is a small risk related to the transfer of the infrastructure management to a new supplier. The commercial consequences of this are however borne by Capgemini.
- 3.10 It should additionally be noted that the simple, fixed price structure of the commercial arrangement passes all risks in terms of increased cost to meet demands on the supplier, which has clear value as the requirements caused by the Newham on-boarding are, to a greater or lesser extent, unknowable.
- 3.11 The approach also fully mitigates any internal costs associated with transfer. In particular, the costs for testing and ensuring seamless data migration have been eliminated in full.
- 3.12 The assessment is therefore that this proposition does provide reasonable value for money when looked at in terms of commercial acceptability and business risk handling. In the Financial Implications section, it is made clear that on pure financial grounds the proposition does not represent value for money. However it is now no longer possible, in the timescales available, to pursue Option 1 and re-procure through competition.

4. Waiver

Not applicable.

5 Future Strategy

- 5.1 The One Oracle partnership has not delivered the benefits set out in the original business case. Running costs have been higher than expected, only LB Newham have joined the partnership (and this has not resulted in a lower annual cost) and the partners have yet to develop any shared services on the back of the platform, beyond a shared Application Support Team (for Level 1 and 2 enquiries).
- 5.2 The partners have already started discussions about the future of the partnership in light of its failure to deliver all of the expected benefits and the future shape of each of the participating Councils. The possibility of creating smaller clusters, as a means to ensure a commonality of processes and thereby drive shared services, has been

discussed. This Council, independently and with the partnership, is evaluating the potential of a cloud-based version of Oracle, which may offer better value and would enable further services to be offered, thereby offering some future-proofing, given the current uncertainty around the shape of the Council in 2020 and beyond.

- 5.3 We are currently developing a decision path through to June 2018, when the contract extension with Capgemini will end and an alternative solution will need to be in place.

6. Equalities and other Customer Impact

Not applicable.

7. Other Considerations and Implications

- 7.1 **Risk and Risk Management** - There is substantial technical risk in transferring technical platforms with a resultant loss of performance of the solution and the councils' ability to conduct business. This risk is compounded by the intended on-boarding of Newham during the same period, which would increase demands on the platform and support service.

There is also considerable uncertainty about the future size and shape of the Council in light of the squeeze on resources and the growth in demand for some services. The Council has initiated the Ambition 2020 Programme, to consider the potential impact of the future operating environment. It is not clear at this stage what kind of organisation any future ERP system may need to support and there is therefore a risk in committing to a four year contract and a new provider.

Given the above, decisions were taken to avoid these risks as far as possible. As such, the procurement strategy has been to negotiate a further two year contract, subject to satisfaction with regard to reasonable value for money, with Capgemini with a view to testing the market in 2017 for a transition, either in part or in full during 2018.

This decision was taken following a soft market test exercise and consequent assessment of options by the Joint Management Board, established by the boroughs to manage the solution.

8. Consultation

- 8.1 Consultation has taken place with the portfolio holder and the Corporate Management Team. The Procurement Board has considered the issue in detail and agreed with the Partnership Board that the proposal set out in this paper represents the best option for the Council, although all are concerned about the increased in costs, when the original business case projected a saving for the Council.

9. Corporate Procurement

Implications completed by: Euan Beales, Head of Procurement and Accounts Payable

- 9.1 By Minute 68 (22 November 2011, the Cabinet approved the re-procurement of the Council's finance and accounting system through a collaborative procurement with five other London Boroughs. The main purpose was to gain economies of scale and service efficiencies.
- 9.2 The contract was drafted and entered into by the London Borough of Lambeth and holds a provision to extend the hosting service and the Licensing and Application Support Lots by further time periods.
- 9.3 The Council's Contract rules require all spends over £500,000.00 to be presented to Cabinet for formal ratification.
- 9.4 Based on the information provided, the extension would be compliant with EU Procurement Rules and a full re-procurement would not be possible due to long lead in time and data migration and is the appropriate route for the provision of this service.

10. Financial Implications

Implications completed by: Kathy Freeman, Divisional Director of Finance

- 10.1 The current cost of hosting the contract is £0.750m across two years ending July 2016. When the contract was initially set up, it was the understanding of the Council that the hosting charges would decrease as further boroughs on-boarded onto the One Oracle system.
- 10.2 Only LB Newham have joined the One Oracle system since implementation, however this has not equated to a decrease in the cost of the hosting.
- 10.3 The current proposal is to enter into a contract with Capgemini to host One Oracle for a further two years beginning August 2016, at a cost of £1.027m. This is an increase in cost of £0.277m. The current annual budget available for hosting is £0.40m per annum and the current financial year Oracle Hosting cost is £0.38m, with £0.020m budget available for ad hoc changes and modifications. The new hosting arrangements will create a budget pressure of c£0.10m in 2016/17 and an additional budget pressure of c£0.030m in 2017/18 which will need to be addressed. These pressures will be incorporated as part of the Council's budget setting process and will be funded through the Medium Term Financial strategy.

11. Legal Implications

Implications completed by: Daniel Toohey, Principal Corporate and Commercial Solicitor

- 11.1 This report is seeking approval to extend the Oracle R12 contract for the provision of hosting and support services, with Capgemini. The contract was procured via a framework set up by Lambeth Council, and which was accessed by six other

boroughs including LBBD. This report states that the resultant call-off contract commenced in July 2012 and is due to expire in July 2016.

- 11.2 The Oracle contract was procured under the Public Contracts Regulations (PCR) 2006. Generally under the PCR 2006, and as interpreted by the then Government Guidance on Framework Agreements, framework agreements were generally limited to a four year period from their commencement. However, although framework agreements are generally limited to four years, and albeit not specifically set out in the PCR 2006, research suggests that call-off contracts may extend beyond this four year limit, within reasonable parameters. It should also be noted that under the new PCR 2015 Guidance (replacing the previous PCR 2006), the regulations have now clarified that call-off contracts may extend beyond that four year period.
- 11.3 Contract notice 267911-2011, published by Lambeth Council on 25 August 2011, contains a provision which states that “the duration of an individual call-off under the framework agreement will not necessarily be limited to four years but will be governed by the terms of the call-off contract concerned”. The hosting and support services agreement entered into between LBBD and Capgemini also provides that the Council could elect to extend the contract.
- 11.4 Legal Services will be on hand to assist in the preparation of a Deed of Variation in order to extend this Contract and to answer any queries that may arise throughout the process.

Background Papers Used in the Preparation of the Report:

Report to Cabinet 22 November 2011 entitled “Shared Procurement of Oracle R12 Upgrade” <http://moderngov.barking-dagenham.gov.uk/documents/s53761/Oracle%20R12%20report.pdf>

List of appendices: None