Title: Oracle Enterprise Resource Planning [ERP] System – Procurement of Replacement Solution

Report of the Cabinet Member for Finance, Performance and Core Services

Open Report	**For Decision:** Yes
Wards Affected: None	**Key Decision:** Yes
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Accountable Director: Claire Symonds, Chief Operating Officer

Summary:

The Council's Oracle ERP solution manages and reports upon HR, Payroll, Finance, Purchasing, Expenses and Debtors activities across the organisation as well as some schools & external organisations for whom the Council provides services.

The current release - Oracle 12.1.3 - will not be supported after December 2021 and costs will increase when our hosting partner, London Borough of Brent, moves off this release on or before that date.

The Oracle system was procured 20 years ago and ERP market offerings and prices, as well as the Council's requirements and ambitions, have changed significantly during that period. This report seeks Cabinet approval to undertake a formal procurement exercise to ensure that the Council's replacement ERP solution is both fit for purpose and competitively priced.

Recommendation(s)

The Cabinet is recommended to:

(i)   Agree that the Council proceeds with the procurement of a contract for a replacement ERP system in accordance with the strategy set out in this report; and

(ii)   Delegate authority to the Chief Operating Officer, in consultation with the Cabinet Member for Finance, Performance and Core Services, the Finance Director and the Director of Law and Governance, to conduct the procurement and enter into the contract and all other necessary or ancillary agreements with the successful bidder(s) [and/or other related parties] in accordance with the strategy set out in the report.

Reason(s)

The replacement ERP solution is required due to the current software release being unsupported after December 2021. It will also be a key enabler for delivering the

benefits of the Core Transformation Programme and A New Kind of Council and supports and enables the 'well run organisation'.

1. Introduction and Background

1.1 The Council procured its current ERP solution [Oracle e-Business Suite] in 2000 to bring the processing, management and reporting of HR, Payroll, Finance, Purchase to Pay and Sundry Debtors activities within a single system. The ERP system was initially hosted by the Council before being moved onto a shared platform (alongside 6 other London Boroughs) as part of the OneOracle project with CapGemini. The system was last upgraded in 2014 to Release 12. In May 2018, the London Boroughs of Brent and Barking & Dagenham exited the collaborative OneOracle platform and Brent co-hosted the system for both Councils at their own datacentre. As of April 2020, both Councils are on Oracle e-Business Suite Release 12.1.3.

1.2 The key drivers for this project are:

- The current release [12.1.3] goes out of Oracle Support at the end of December 2021 and would require a significant upgrade to the next supported release 12.2.8 in advance of that date. Remaining on Release 12.1.3 means that the Council would not receive any software updates & patches – including Year End Payroll updates – from January 2022 onwards. This issue alone necessitates the move to an alternative solution.

- London Borough of Brent intend to move to Oracle Cloud during 2021 and will no longer require the Oracle e-Business Suite platform after December 2021. This will mean that Barking & Dagenham will no longer be able to share the cost of this platform with Brent and there will be an increase of approximately £100k per year in the associated hosting & support costs.

- Feedback on the User Experience (UX) from staff who use Oracle is that it is not intuitive and it has been difficult to build/extract and report on information.

- Changes / enhancements to Oracle are slow, expensive and are often outside of the remit of the Council to undertake themselves. This makes it extremely difficult to respond to new demands (e.g. setting up new companies) and to deliver on simple improvements requested by users (e.g. new performance management fields). This was due to the London Borough of Brent being the managing partner and the host for the infrastructure.

2. Proposed Procurement Strategy

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

The specification for procurement of the ERP solution will cover the following:

Requirement Category	Explanation
1. Functional & Cross-Functional Requirements	The functional scope of the solution, as well as requirements that apply across all functional areas. For example: • **Functional:** General Ledger, Budget Setting & Monitoring, HR, Payroll, Purchase to Pay, Debtors etc • **Cross–Functional:** Configurable Reports & Enquiries, Workflow Tools, Tasks & Notifications to Users etc
2. Non-Functional Requirements	Technical components that do not relate to functional requirements. For example: • Enhanced Employee, Line Manager and Budget Manager User Experience (UX) Back-up & Restore SLA, Disaster Recovery, System Availability, Accessibility Standards, Mobile Device, Browser & Operating System Compatibility etc
3. Project Implementation Requirements	Requirements for successful delivery of an implementation project with the Council. For example: • Required Internal Resource Profile, Proposed External Resource Profile, Data Migration Approach, Integrations / Interfaces Approach, Testing Approach, End User Training Approach etc
4. Post Go-Live Support & Development Requirements	Requirements for ongoing support and development of the solution post go-live. For example: • Internal Resource Profile, Support SLAs, Application Roadmap and Enhancement Schedule etc

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

2.2.1 It is estimated that the value for the full 10-year contractual term – including extension – would be £6.5m. This estimate comprises:

- Annual Software as a Service [SaaS] costs which cover the provision of software licenses, hosting and support services
- External services for delivery of the ERP implementation project
- External services for delivery of post-live support & development services
- Contingency

2.3 **Duration of the contract, including any options for extension.**

2.3.1 It is recommended that the contract duration be an initial 5 years followed by a further optional extension up to a maximum of 5 years (in 1 year increments).

2.4 **Is the contract subject to (a) the (EU) Public Contracts Regulations 2015 or (b) Concession Contracts Regulations 2016? If Yes to (a) and contract is for services, are the services for social, health, education or other services subject to the Light Touch Regime?**

(a) - Yes
(b) - No

2.5 **Recommended procurement procedure and reasons for the recommendation.**

2.5.1 The following routes to market were considered for this procurement:

1. OJEU Open Tender
2. OJEU Competitive Dialogue [CD]
3. OJEU Competitive Procedure with Negotiation [CPN]
4. Crown Commercial Services Framework – Data & Application Solutions [CCS-DAS-RM3821]

2.5.2 It is recommended that this procurement follows the OJEU Competitive Procedure with Negotiation [CPN], supported by Preliminary Market Engagement [PME] in advance of commencing the procurement procedures.

2.5.3 CPN is well aligned with ERP procurement because it is designed for complex projects where Customers already have a relatively firm grasp on their objectives and requirements. The negotiation element can include any aspect of the agreement including contractual clauses, costs or ways in which the solution will be implemented. Given that the Council last procured an ERP solution 20 years ago, the ability to negotiate in relation to any aspect of the proposed solution should enable greater certainty that the chosen supplier can meet the Council's ERP requirements at the lowest possible cost.

2.6 **The contract delivery methodology and documentation to be adopted.**

2.6.1 The Council will procure a Cloud Software as a Service (Cloud SaaS) solution, meaning that the contracted organisation will host the ERP solution for LBBD. The Annual Cloud SaaS charge encompasses the software licence, support & maintenance and hosting costs.

2.6.2 Implementation of the ERP solution will be delivered via a combination of external System Integrator (SI) and Internal resource which will be either backfilled or contracted in. Cost estimates for all project implementation resources are included within the overall project costs. The implementation project will be managed by the LBBD ERP Project Manager.

2.6.3 Subject to Cabinet approval, the table below outlines the expected procurement and implementation timescales:

Cabinet Meeting	21st April 2020
Issue Invitation To Tender	w/c 4th May 2020
Complete supplier evaluation	w/c 31st August 2020
Approval and award of contract	w/c 7th September 2020
Start of Project Implementation	w/c 5th October 2020
Target Go-Live Date	1st October 2021

2.7 **Outcomes, savings and efficiencies expected as a consequence of awarding the proposed contract.**

2.7.1 Award of the contract is expected to deliver the following outcomes:

- o Cost avoidance of approx. £5.6m over 10 years (estimated cost of implementing and operating a replacement system compared to the cost of upgrading, operating and replacing Oracle Release 12)
- o Significantly improved user experience for Employees, Line Managers and Budget Managers, enabling more efficient workflows and easier access to information that is critical for rapid decision making
- o Simplification and automation of key Finance, Procurement, Expenses, Debtors, Budgeting, HR and Payroll processes which will also enable improved compliance checks/monitoring against policies and regulations

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

2.8.1 It is recommended that the evaluation criteria for award of this contract be set at:
Quality 70%
Price 30%
It is essential that the ERP solution fully meets the requirements of the Council given the length of the contract period.

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

This procurement is not expected to address or impact the Council's Social Value policies.

3. **Options Appraisal**

3.1 There are essentially two options open to the Council:

- o **Option 1** – "Do Minimum" and remain on Oracle E-Business Suite Release 12 until support is withdrawn in 2030:

Option 1 – "Do Minimum" – remain on Oracle	
Advantages	**Disadvantages**
• Does not require significant investment during the next 2 years (although 1 technical upgrade estimated at £1m will be required) • Does not require a Procurement exercise	• Will need to re-host Release 12 from LB Brent when they move to Oracle Cloud <u>or</u> pay the additional hosting costs of approx. £100k per year • Two mandatory Technical upgrades – estimated to cost £1.75m - will be needed within the next 6 years to keep the system in support & operational • Will need to change ERP systems before 2030 because Oracle will not maintain nor develop Release 12 beyond 2030 • Does not deliver any functional improvements or benefits to Employees, Line Managers, Budget Managers and Core

o **Option 2** – Procure an alternative ERP or Best-of-Breed solution (Recommended)

Option 2 – Procure alternative ERP or Best of Breed solution	
Advantages	**Disadvantages**
• Provides platform to deliver Core Transformation benefits as well as improve the User Experience for Employees, Line Managers and Budget Managers • Estimated to cost £5.6m less across 10 years than "Do Minimum" option	• Will require significant investment in 2020/21 and 2021/22 to implement a new solution • Challenging timescales to deliver both a procurement exercise and go-live before December 2021 when Oracle cease support for Release 12.1.3

Although Option 2 does require additional investment over the next 2 financial years, it is estimated to cost less than remaining on Oracle Release 12 for the next 10 years. It will also provide the platform and tools for LBBD to deliver benefits from the Core Transformation programme and significantly improve the user experience for all employees, line managers and budget holders.
Option 2 is recommended.

4. Waiver

4.1   Not applicable.

5   Equalities and other Customer Impact

5.1   This procurement is not expected to impact the Council's legal and other customer impact and policy obligations.

6.   Other Considerations and Implications

6.1   Risk and Risk Management

Risk & Issues - Title	Description	Priority (H/M/L)	Mitigations
Go-Live Date Slippage	Slippage of the project go-live date beyond 3 months would result in the Council using an unsupported system from 2022	H	Milestone reporting at Project Board Develop contingency plan options in the event of missing key milestones
Inadequate or Incomplete Requirements	Failure to fully engage or free up sufficient time from Core and End Users could result in insufficient or incomplete requirements within the tender documents, impacting the quality of the chosen solution	H	Workshop schedule in progress and target review/completion dates Preliminary Market Engagement should help clarify Supplier expectations CPN procurement procedure provides more scope to discuss requirements
Pressures/Capacity – BAU vs Project work	ERP Project activities require time & input from business resources – especially in the Core – and these are already competing with significant BAU pressures / demands and Service Transformation demands. If we do not manage this effectively then there is a risk that BAU, Project or both sets of activities will be negatively impacted	H	Regular discussions needed with Core Heads of Service on project demands. Consider backfilling key roles now to free up time for input to requirements and evaluation
Project Resourcing - Internal	If we do not prepare role profiles and start to backfill / mobilise our project team resource in advance of contract signature there will be increased risk of not delivering by the target go-live date	M	Set target date for all role profiles to be drafted and approved Validate roles with suppliers during CPN procedure
Project Resourcing - External	It may be challenging / time consuming to secure external expert ERP resource (throughout the project) if sourcing via existing channels and subject to procurement regulations	M	Examine whether a framework or tender should be put in place to enable rapid and cost-effective sourcing of specialist ERP resources

6.2   TUPE, other staffing and trade union implications

6.2.1   This procurement is not expected to have any TUPE, staffing or trade union implications.

7.   Consultation

7.1   The proposals in this report were considered and endorsed by the Procurement Board on 16 March 2020 and the Corporate Strategy Group on 19 March 2020.

8.   Corporate Procurement

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

8.1   The Councils Contract Rules require all spend over £50,000 is to be tendered, the recommendations support this requirement, but at this stage the final procurement route is to be defined once the full specification of requirements has been fully developed and agreed, this will then guide the required process.

8.2   At the point of this paper being written the full detail is not known, but due to the timescales involved to award and implement a new system, the decision to procure should be granted with the final decision being delegated as stated, this will mitigate the risk of slippage in the process.

9.   Financial Implications

Implications completed by: Katherine Heffernan, Group Manager – Service Finance

9.1   The current annual cost of the Oracle ERP system and associated systems in HR, procurement and finance (Talentlink/IGrasp, Learning Pool, Bravo etc) is £1.15m. This is largely funded within the overall IT target costs budget but as the Council has not made full provision for price increases in previous years there is already some underfunding that will need to be rightsized.

9.2   All the options outlined in this paper will require some additional funding to be found. Even the "Do Minimum" option will incur unfunded costs for a mandatory upgrade (approx. £1m over two years in 2021 and a similar amount after a further three years) and additional hosting costs once Brent move to their new arrangement (approximately an additional £100k a year.)

9.3   There are two significant funding elements for the ERP replacement project; implementation costs and the ongoing costs of the ERP system(s) for the duration of the contract. The costs of replacing the current system is estimated to be in the region of £6.7m.

9.4   Implementation costs will be a combination of revenue and capital costs. The revenue costs could be funded through the flexible use of capital receipts utilising the flexibility offered by MHCLG. Should there be a shortfall in capital receipts to fund these costs or if the flexible use dispensation is withdrawn there will be a call on reserves. Capital costs will be funded through the capital programme and financed through capital receipts and/or borrowing.

9.5   There is an existing budget for the annual cost of the Oracle 12.1.3 system. It is anticipated that the cost of the replacement ERP system(s) will be contained within this budget and no budget growth will be required. There may instead be some

level of revenue savings (potentially up to around £0.38m annually) which could be used to fund the financing costs of any borrowing.

9.6 The replacement of the ERP system should also bring other advantages through providing a more user-friendly system and improved business processes. This will support the Council's core transformation programme but is unlikely to result in further cashable savings.

10. Legal Implications

Implications completed by: Graham Marlow, Contracts and Procurement Solicitor

10.1 This report seeks Cabinet's approval to engage in an OJEU-compliant Competitive Procedure with Negotiation for the procurement of an Oracle Enterprise Resource Planning [ERP] System – Procurement of Replacement Solution

10.2 A procurement of this nature and value must be carried out by means of a competitive tender, in accordance with LBBD's constitution and contract rule and the Public Contracts Regulations 2015 ("the Regulations").

10.3 In addition to the above, a procurement of this value requires that the procurement strategy report must be approved by Cabinet, in accordance with contract rule 28.8.

10.4 The proposed procurement route set out in this report complies with the requirements for competitive tendering set out in LBBD's constitution and contract rules and the Regulations.

10.5 An OJEU Competitive Procedure with Negotiation is permissible for a procurement of this nature as there are significant bespoke elements required, as set out in this report, and in accordance with contract rule 32.1 (c).

10.6 Cabinet may authorise the officers set out in part (ii) of the Recommendations section of this report to conduct the procurement and enter into the contract at award stage of the process.

Public Background Papers Used in the Preparation of the Report: None

List of appendices: None