

CHESHIRE EAST COUNCIL CHESHIRE WEST & CHESTER COUNCIL

SHARED SERVICES JOINT COMMITTEE

Date of Meeting:	20 May 2016
Report of:	Sam Brousas – Cheshire West and Chester and Peter Bates – Cheshire East
Subject/Title:	ERP Replacement Programme

1.0 Report Summary

- 1.1 The purpose of this report is to update Members on the progress being made in the development of a business case in relation to the future provision of the Councils' core HR and Finance system, following approval of a previous outline business case in January 2016.

2.0 Decisions Requested

Members are asked to:

- 2.1 Note and endorse the work of the ERP Programme since the previous ERP Outline Business Case was approved in January 2016;
- 2.2 Approve and comment upon the Programme Vision which has been developed in support of this programme of work;
- 2.3 Note the positive opportunities which have been identified to date to deliver significant financial savings to both Councils through the implementation of a replacement HR and Finance system and processes;
- 2.4 Endorse the request to initiate a joint procurement exercise, for the purpose of refining and confirming the business case and in advance of a formal decision to procure a replacement solution;
- 2.5 Provide appropriate support to the Cabinet decision making process in both Councils to formally endorse and approve this request and secure the necessary funding and resources to deliver this activity; and
- 2.6 Approve the formation and membership of a Member / Officer ERP Steering Group, with the objective of coordinating, directing and providing oversight to the Joint ERP Programme.

3.0 Reasons for Recommendations

- 3.1 To allow Members to review and comment on progress made in developing the business case for the future HR and Finance systems and processes for the Councils and its partners, and to ensure appropriate approval is obtained prior to commencing a formal procurement exercise.

4.0 Report Background

- 4.1 The two Councils and a wide range of their partners utilise the Oracle "e-Business Suite" to support the operation of their core Finance and HR / Payroll business processes. The system was implemented by the County Council in 2002 and has been successfully supporting our business processes since then. The system has been upgraded and modified over its period of operation, with the last major upgrade taking place in 2012. The base processes rely in the main on the design put in place in 2002, which have also required partners and the new Council owned companies to follow a similar approach in their use of the system.
- 4.2 During the latter part of 2015/16, the two Councils commissioned a review of the system and an exploration of the market place, to assess what the most appropriate solution would be to meet the organisations' requirements in respect of HR and Finance. This review progressed with direction from the Shared Services Joint Committee in January 2016, seeking to further explore the costs and savings to both the business and technology aspects of the operation.
- 4.3 Whilst the two Councils continue to operate Oracle on a perpetual licence, the ongoing capital and revenue cost of operating the current solution has not been subject to any formal market testing via a procurement arrangement over its lifetime. A major change to the current version of the Oracle product will be required in the next few years, and the work in late 2015 suggested that the market should be formally tested prior to committing to a further upgrade to the next major Oracle release.
- 4.4 The review has continued during the early part of 2016, exploring a range of possible business changes and improvements that will reduce the cost of providing the relevant functionality to our user / customer base, will improve the user experience, and will help to improve compliance using standard and simple processes.

5.0 Strategic Case

- 5.1 The current arrangement utilising Release 12 of the Oracle e-Business suite will fall out of support by Oracle in December 2019, and alongside this the current hardware will require an upgrade during this timeframe.
- 5.2 Arrangements for managing this type of technology solution have evolved over the period since Oracle was implemented, and are rapidly developing in the marketplace now. Both Councils have determined that they will deploy new systems on a 'cloud first' (hosted by another organisation and provided to the Councils' users via the Internet) basis where they can, seeking to reduce the cost

of local hardware. The latest version of Oracle's system, called "Oracle Fusion" and/or "Oracle Cloud", is based on an externally hosted model.

- 5.3 The programme vision builds on four concepts of simplicity, standardisation, shared arrangements and self service, with the following vision:
- The Programme's vision is to deliver a finance and human resources solution of the Councils and our subsidiaries and partners, which supports our desire for how we want to work in the future.
 - Our chosen solution will be **simple**, easy to use, intuitive and unobtrusive.
 - We will actively adopt **standard** best practice processes and solutions and will not customise those processes without good reason.
 - We will **share** common processes and working practices across our organisations; and
 - We will roll out processes based on a **self-service** driven approach, delivering ways of working which are modern and efficient.
- 5.4 The goal is to utilise technology that will bring the Councils up to date with the latest solutions available in the market place today, and where possible replicates the revolution in the domestic IT market in terms of ease of use and flexibility of deployment across a range of different devices. The aim is to ensure our managers and staff are responsible for delivering a range of processes and activities independently using self-service functionality, but with a system which is intuitive and supportive, and even perhaps enjoyable to use, rather than one which is perceived as a barrier to effective business processes.
- 5.5 The intended outcome from this programme is a more engaged, more enthusiastic and better supported workforce, able to focus more on outcomes and less on process, with access to business information which allows easier decision-making.
- 5.6 Key risks associated with this programme have been captured in a register, and a summary of the most significant risks and mitigating actions is attached at **Appendix 1** to this report.

6.0 Economic Case

- 6.1 The proposal that has been explored has reviewed the option to replace the current version of the Oracle e-Business Suite, which is managed in-house and onsite, with an externally hosted and supported arrangement.
- 6.2 There are two key strands to the economic case which supports this proposal - firstly the transformational change which can be achieved using a new back office system as a platform, and secondly the savings which can be achieved simply by replacing our existing solution with a modern replacement product.

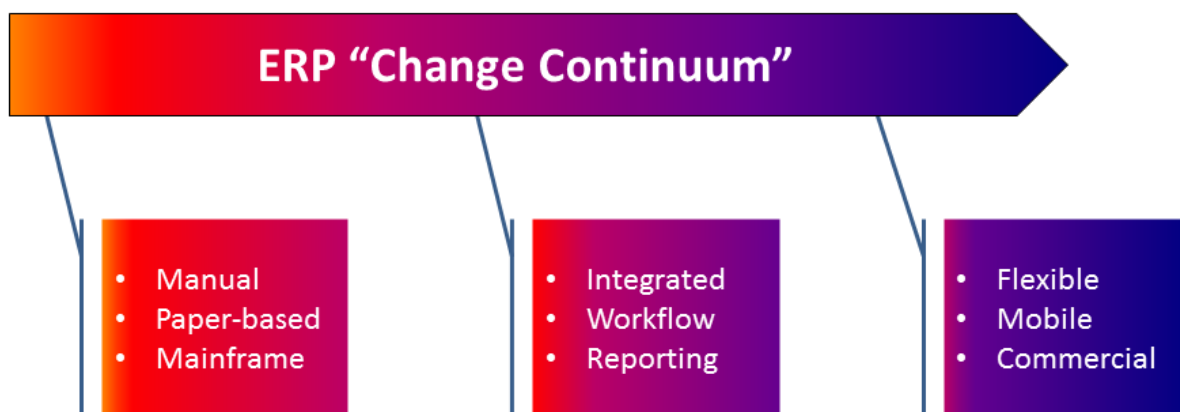
Business Process Transformation

- 6.3 The work of the programme team to date has identified through market testing that HR and Finance solutions are available in the marketplace which offer a

once in a decade (or longer) opportunity to drive significant business process transformation across all aspects of our organisations.

- 6.4 A range of officers from across a variety of disciplines from both Councils have explored what is available in the market place, via a soft market testing approach, meeting with potential organisations and companies with solutions operating with a proven track record in the UK public sector.
- 6.5 The team has engaged with a number of similar local government organisations who have recently implemented modern integrated HR and Finance solutions. Typical savings achieved by these organisations in their strategic back office and transactional teams have been of the order of 30%.
- 6.6 However, these organisations are typically upgrading from the mainframe / paper-based working environment that existed within the Council prior to Oracle being implemented, or from existing non-integrated systems for Finance and for HR / Payroll. Figure 1 represents a view of the "change continuum" which we believe exists for organisations as they modernise their HR and Finance systems.

Figure 1: ERP Change Continuum



- 6.7 The programme team's view is that our Councils are further along the continuum than the reference sites we have engaged with so far, with Oracle having already helped us to move some way along the journey. On this basis we believe a minimum target of **10% savings** in respect of business process delivery is a realistic and achievable target.
- 6.8 Further work is underway to determine how a savings target of 10% would be translated across the strategic back office and transactional teams in both Councils. At this stage there is a high degree of confidence that the business process savings which can be achieved using a replacement HR and Finance solution as a platform for transformation will be significant and will form a vital component in the final business case for this programme.
- 6.9 This "top down" view of potential process savings has been supplemented by a high level "bottom up" review of our existing business processes. This has identified a number of key system / process deficiencies which are known to

cause inefficiency, and which represent specific, objective opportunities which will contribute to this overall savings target.

- 6.10 Further analysis of existing processes is expected to identify many more opportunities to deliver improvements. The review to date has focussed on strategic corporate and transactional functions, and takes no account of potential savings / efficiencies for managers and staff across the organisations - including "failure demand" resulting from deficiencies in the existing system or processes.
- 6.11 The work to date therefore gives confidence that the overall savings target identified through our "top down" approach is realistic, and is supported by some objective examples of specific improvements we expect a replacement solution to deliver.
- 6.12 It should be noted that the success of this implementation will depend to a great extent on the delivery of these process savings once a replacement system is operational. It is absolutely critical that Members and senior officers are fully supportive of the vision which underpins this programme, and of the need to "adopt not adapt" blueprint business processes provided to us by a supplier with experience in working with other local authorities and public sector partners, with the minimum possible changes being made to the system to adhere to existing local policies or working practices.

Technology Savings

- 6.13 As well as providing a platform for transformational change, the implementation of a new solution is expected to deliver savings simply in respect of the cost of providing an HR and Finance solution to the Councils, when compared to our existing product.
- 6.14 Work carried out as part of the programme to transfer the former CoSocius activities into Council-hosted shared services has helped to improve our understanding of the ongoing cost of our current Oracle solution. Ongoing activity to reshape the delivery of ICT Services, now led by Cheshire East Council, will deliver savings associated with the Oracle product during 2016/17. However, discussions both within the Council's ICT team and with a number of system suppliers in the market indicate that significant further savings will be achievable from the implementation of a new solution.
- 6.15 In addition to the financial factors it is important to note that the "do nothing" option is not a viable approach in this case, for a number of reasons:
- The current system falls out of support in December 2019, after which it will become increasingly difficult to secure support from the supplier ORACLE to maintain the system and resolve any problems which require their assistance.
 - The hardware which the current system uses is aging and becoming increasingly difficult to maintain. There is no disaster recovery provision in place to assist in the rapid recovery of the system should this hardware fail.
 - Procurement colleagues have advised that the current approach of renewing support arrangements with ORACLE on an annual basis without pursuing a formal procurement process fails to demonstrate value for money.

- Both Councils' external auditors have noted that they view Oracle as a "complex" system which requires additional annual testing as part of their year end audit process, ultimately pushing up both Councils' external audit fees when compared to other systems.

- 6.16 On this basis, no analysis has been presented in relation to the possibility of upgrading our current Oracle solution, as this option is not tenable. Adoption of the latest Oracle solution remains a valid approach which will be considered, if proposed by ORACLE as a potential solution to our published requirements and principles following the procurement process. It is also important to note that the latest Oracle solution, in a similar vein to other solutions, would require a fundamental re-implementation rather than a "simple" upgrade.
- 6.17 Engagement with suppliers of potential replacement solutions, combined with information obtained from references sites, indicates that an indicative future cost for an externally-hosted modern ERP system will achieve significant savings when compared to the current cost of the existing Oracle solution. There is a high degree of confidence in this analysis. However, a future procurement exercise will undoubtedly provide a firmer view of future solution costs, once a preferred product and implementation partner have been selected through a competitive exercise.

Cost of Change

- 6.18 Having identified the potential savings which can be delivered through system and process change, the viability of this proposal rests in part on the cost of implementing the change.
- 6.19 It is difficult to determine the cost of change for a solution which has not yet been formally selected through a procurement exercise. Engagement with potential suppliers and with our internal ICT Service as well as stakeholders across both Councils will be required to develop a firm view of implementation costs, before any procurement decision is finally taken.
- 6.20 However, engagement with potential suppliers through market testing, and with reference sites who have recently implemented similar solutions, has helped us to estimate at a high level the potential cost of change for our organisations.
- 6.21 The Programme team now seek permission to initiate a formal process to competitively test the market in order to develop a more definitive view of the cost of replacing our current solution with a suitable alternative. The market is competitive and the Cheshire market place one that has a strong historic reputation and will keenly contested, so it is difficult to assess with any real accuracy the true cost until the market has been tested competitively.

Payback / Return on Investment

- 6.22 Based on the current view of potential benefits and the potential cost of change, it appears likely that an investment in a modern HR and Finance solution is likely to pay for itself within a five year period, and will generate a significant positive net present value to the two Councils over its expected lifespan.

- 6.23 Based on our experience with Oracle and using intelligence from other organisations, we expect a replacement solution to have a lifespan in excess of 10 years.
- 6.24 Achievement of business process savings has a significant impact on the viability of this business case. If additional savings can be identified through more detailed process analysis activity, this may reduce the potential payback period and improve the overall net present value. Delivery of business process savings is of vital importance to the success of the programme.
- 6.25 In order to provide a more robust view of the potential cost of change and the potential future running costs for a new HR and Finance solution, permission is now sought to initiate a formal competitive procurement process. A revised business case will be produced as a deliverable from this process, providing greater certainty around the cost of implementing and operating a replacement product, and providing confirmation that the investment required from both Councils is justifiable in terms of payback and overall benefits to the organisations relative to the cost of change.

7.0 Commercial Case

- 7.1 The implementation of a new HR and Finance system, and the associated business process transformation programme required to deliver anticipated savings, will require a blend of internal and external resources and expertise.
- 7.2 The Councils will be ultimately responsible for the success of the programme, and will retain accountability for programme delivery and the management of external partners' contribution to the work.
- 7.3 To secure the necessary external support, the programme proposes undertaking two parallel procurement activities:
- A full OJEU-compliant procurement exercise to secure a product and a partner to provide implementation / system build support, utilising a procurement route called “competitive procedure with negotiation”; and;
 - A separate compliant procurement process to secure dedicated change management expertise and support, to work with the Councils' organisational development experts to ensure the successful delivery of the required transformation programme which will underpin the delivery of business process savings.
- 7.4 A number of solution delivery and future solution management principles have been discussed, and will be refined during negotiation with suppliers:
- Any new solution must come with predefined best practice business processes developed for local government – supported by reference sites who have successfully implemented the proposed solution;
 - We expect to be challenged by our implementation partner – “adopt not adapt” as a guiding principle, aligning with the programme vision of a simple, standardised solution;

- The implementation approach must strike an appropriate balance between speed and efficiency of system build, and appropriate engagement of business users in the build process;
- The future solution should require minimal ongoing configuration, with any local configuration needing to be easy to manage, inexpensive to maintain, and business-led;
- The existing locally-managed Oracle solution must be maintained leading up to the implementation of the selected replacement, at minimum cost, and with any discretionary spend being justified either through payback during the remaining life of the existing product, or through a positive contribution to implementation activities for the replacement solution.

7.5 Consideration will need to be given to the potential staffing impact inherent in this proposal. Arrangements for the support and development of the existing Oracle solution have involved a sizable team of internal staff and contractors; it is expected that a future solution will be much less resource intensive to maintain, and this will have an impact on the internal support team which currently exists.

7.6 Also, arrangements will need to be made to ensure appropriate consultation with impacted staff across both organisations who will be affected by the business process transformation which underpins this business case.

8.0 Financial Case

Impact on capital and revenue costs

8.1 Significant capital expenditure is anticipated across both Councils in order to implement a replacement solution, assuming permission is given by each organisation to do so.

8.2 It is anticipated that activity during the financial year 2016/17, which will form part of the total overall cost of change for the programme, will focus partly on the competitive procurement process, and partly on certain activities which are essential to support a successful migration, and where initiating the work sooner rather than later will be of benefit in terms of preparing for the post-procurement implementation programme and in terms of risk mitigation.

8.3 **Appendix 2** to this report provides a breakdown of the resources believed to be required to deliver the activities in 2016/17 which will support a procurement exercise and the other programme activities outlined above.

8.4 This further phase of activity in relation to this programme will deliver:

- An OJEU-compliant competitive procurement exercise which will validate current thinking around cost of change and future running costs and result in a final business case being produced;
- Detailed business analysis of current processes, to identify further opportunities for business process savings to be achieved through this programme; and
- Pre-implementation preparatory activity in relation to data cleansing, data migration and archiving strategies, and detailed mapping of integration

requirements between a future HR and Finance solution and both Councils' other line of business systems and emerging Digital platforms.

- 8.5 The Committee's support is sought at this stage to support the decision making and governance mechanisms in each Council necessary to initiate a formal procurement process. This will enable the development of a full business case, ahead of a procurement decision, which itself will be subject to the approval of appropriate governance forums within each Council. An outcome of this activity may be to demonstrate that the procurement of a replacement solution is not appropriate, at which point this Programme would be realigned towards a future preferred approach to provision of an HR and Finance solution for the Councils.
- 8.6 Based on the work of this programme to date, significant savings in both capital and revenue expenditure are anticipated over the likely lifespan of a replacement solution, when compared to the existing Oracle product.

Sources of Funding

- 8.7 The programme will be shared and jointly funded by both Councils. For Cheshire West and Chester Council, other than the costs associated with the current phase, the programme will be funded through a bid against the Council's Invest To Save capital allocation, and will be required to demonstrate payback within an acceptable period with cashable savings being achieved.
- 8.8 For Cheshire East Council, an existing ERP Transformation capital budget has already been established. This has been carried forward into 2016/17. The cost of the proposed procurement phase will be funded from this allocation. The final business case will be needed to justify a decision to incur any further expenditure against this allocation, again through demonstrating payback within an acceptable period with cashable savings being achieved.

9.0 Management Case

- 9.1 This proposal will ensure successful delivery through utilisation of:
- A software solution that has demonstrable evidence of delivering a return on investment in Local Government;
 - Third party expertise with experience of implementing similar software solutions;
 - A blend of internal and external skilled resource;
 - External change consultants to underpin the delivery of transformational change management;
 - Strong governance model with commitment from Members and senior management from both Councils; and
 - A realistic and achievable delivery plan
- 9.2 An indicative procurement and implementation timetable is set out below:

Activity	Timetable
Call for competition	July 2016 (following Cabinet approvals)
Shortlisting	October 2016
Contract award	March 2017
Mobilise / commence implementation	April 2017
Design and build solution	May to October 2017
Testing	November 2017 to February 2018
User training	February to May 2018
Go live	April 2018

- 9.3 Contract award and implementation activities will only proceed upon approval of the final business case which will be developed following the outcome of a procurement process. This timetable will be refined during the process of negotiation with potential suppliers, and will be finalised prior to contract award and mobilisation of the implementation team.
- 9.4 Reference site discussions and visits have repeatedly emphasised the importance of senior leadership engagement (Member and officer) in this type of transformation programme, with strong programme leadership and governance being essential to the success of an investment which is expected to impact in some way on almost every employee, customer and supplier of the Councils.
- 9.5 Figure 2 below sets out the current governance arrangements for the emerging programme, which is anticipated to support the remainder of the implementation.

Figure 2: Programme Governance



- 9.6 The ERP Steering Group is a new forum which is intended to meet on a monthly basis, beginning in June 2016. The proposed Terms of Reference and membership of this group are attached at **Appendix 3** to this report. The Committee is asked to review and approve the membership and terms of reference, ahead of the first formal meeting of this Group.

- 9.7 The ERP Programme Board has already been formed, and has typically met on a fortnightly basis since late 2015, to review and approve key programme deliverables to date, to review progress against the current plan, and to discuss and assist in the resolution of key risks and issues.

10.0 Wards affected

- 10.1 None.

11.0 Policy implications

- 11.1 None.

12.0 Financial Implications

- 12.1 Each Council spends a significant amount of money on provision of our core Finance and HR system. This programme will ensure that the Councils receive value for money for their taxpayers and ensure effective use of resources through provision of systems which can be demonstrated to offer value for money.
- 12.2 This committee is responsible for the oversight of management of the shared services to ensure effective delivery and to provide strategic direction. However approving the budgets for the functions discharged by the committee are reserved to the Councils and any future investment requirement will require approval by CWaC and CE respectively.

13.0 Legal Implications

- 13.1 Where the decisions flowing from this programme require procurement activity, including any pre market consultation, this will be carried out in accordance with the Public Contracts Regulations 2015, The European Procurement Regulations and the Treaty of Rome.

14.0 Risk management

- 14.1 Programme risks are being identified and reported as necessary to the ERP Programme Board, through normal programme management mechanisms. The Board will escalate any significant risks to the proposed ERP Steering Group, and to this Committee, as appropriate during the course of the programme.

15.0 Access to Information

- 15.1 The background papers relating to this report can be inspected by contacting the report writers:

: Peter Bates / Samantha Brousas

: Cheshire East – Chief Operating Officer / Cheshire West and Chester – Director of Professional Services

Tel No: 01270 686013 / 01244 972739

Email: peterbates@cheshireeast.gov.uk /

samanthabrousas@cheshirewestandchester.gov.uk

Background Documents:

Documents are available for inspection at:

Cheshire East Democratic Services

Westfields

Middlewich Road

Sandbach

CW11 1HZ

or:

Cheshire West & Chester Democratic Services

HQ Building,

Nicholas Street,

Chester,

CH1 2NP