Agenda Item 11

Leicestershire County Council

SCRUTINY COMMISSION – 14TH NOVEMBER 2017

"FIT FOR THE FUTURE" – PROGRAMME UPDATE

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

Purpose of Report

1. The purpose of this report is to explain the overall programme approach being adopted to replace the Oracle e-Business Suite as part of the County Council's partnership with Nottingham City Council; to outline the approach to procurement and also to advise members of the intention to deliver this change as a transformation programme and not just as a system implementation. The report also highlights some of the options that officers will have to consider as the process evolves. The overall programme has been branded as "Fit for the Future".

2. A further report will be submitted to the Cabinet on 9th January 2018.

Policy Framework and Previous Decisions

3. The Medium Term Financial Strategy for 2017/18 to 2020/21 was approved by the County Council in February 2017. Over the autumn and winter of 2017 it will be reviewed and updated. The MTFS includes funding of £16.7m for future major developments. One such major development will be the replacement of the Oracle e-Business software which has been deployed by the council since the early 1990s. There was also reference to Oracle as a future development in the June outturn report and to additional funding being added to support such developments.

4. In January 2018 the Cabinet will be asked to: approve the purchasing of new software, endorse the programme as an opportunity to deliver real transformation and business change rather than as a systems implementation, approve the outline business case and agree to delegate the award of the system implementer and the approval of the full business case to officers. It is estimated that the full implementation costs of this type of undertaking will be in the region of £10m, these costs will be shared across the partnership.

Background

5. In 2012 Leicestershire County Council (LCC) and Nottingham City Council (NCC) formed the East Midlands Shared Services partnership (EMSS). Under EMSS both councils have established shared service arrangements to deliver HR, Payroll and Finance services for each council and for other customers, including schools and academies. The partnership is delivering savings of £1.6m per

annum to the two authorities. The partnership has a shared instance of Oracle e-Business Suite (Version 12.1.3). The instance is externally hosted by Velocity Technologies but support and development is currently provided by Leicestershire County Council IT services.

6. There are two key milestones in relation to the current platform which both councils need to plan for:

- The contract date for the current hosting arrangements ends in March 2019, with an option to extend to March 2020.
- The Oracle support for the version (12.1.3) of the Oracle e-Business used by the partnership ends in December 2021.

7. The latest version of the e-Business Suite (EBS) available from Oracle is version 12.2.6. The published end of support date for EBS version 12.2.6 is September 2023, although it could extend beyond this, as Oracle has a history of extending their support dates. The direction of travel for Oracle is to move to a cloud solution. Legal and procurement advice is that we could not consider moving to Oracle Cloud without undertaking an open tender process.

8. The current software version has a large amount of customisations and not all of the standard functionality available within the software, is being fully utilised across both councils. There are numerous "workarounds" in place and a large number of spreadsheets and other systems are also being used and this variation in working practices compromises the quality of reporting. The current arrangements have also inevitably meant that processes have not been standardised in accordance with best practice. Additionally, satisfaction with the current arrangements varies considerably across different teams within both authorities.

9. The impending contract end dates, particularly the hosting contract with Velocity provide both councils with an opportunity to go beyond a system technical "upgrade" and to invest in a new solution with considerable business transformation and associated changes to working practices. In adopting a more transformative approach, there is an opportunity to replace the existing software either by a complete "reimplementation" to a new version of the same EBS software or with an entirely new product, which could be provided by Oracle or another vendor.

10. It is acknowledged by both LCC and NCC that replacement of the current information system, in and of itself, will not allow the councils to realise the opportunity in full and therefore the transformation programme "Fit for the Future" has been initiated to address the broader scope of work required and inform the development of the new solution.

11. The benefit of a more transformational approach is that not only will existing software issues be resolved but there will be greater benefits realisation if the implementation is conducted in tandem with a business transformation programme which changes policies and process and embraces new digital ways of working with greater automation.

Governance

12. Replacing a Finance HR and Payroll system is a huge undertaking for any organisation, in this situation made all the more complex by the fact that the change is being conducted in partnership with another council and also involves a shared service centre.

13. To manage this complexity, governance arrangements were established in June 2017 with the creation of the "Fit for the Future" programme board. The board is jointly chaired by the Directors of (Corporate) Resources for the two councils. Senior officers representing Human Resources, Finance and other key functions from both organisations are also members of this board. This board will oversee the procurement of the replacement software and implementation partner and the subsequent implementation of the new solution.

14. Through the joint programme board an early decision was made to appoint an external partner, to help both councils to asses and articulate their respective organisational needs and to develop a business case for change including options appraisals. Capgemini was selected through a tender process as they have significant and recent experience of working with other local authorities on advising, implementing and supporting several technological implementations.

15. At an early stage, the programme board recognised that before the programme could move forward effectively there was a need to take stock and review the existing arrangements. It was imperative that partners had a clear understanding of their respective business strategies but also that they reaffirmed their commitment to progress together to procure the same system.

16. As soon as Capgemini were appointed, they were requested by the programme board to facilitate a workshop to enable the partners to build a common view of their situation, gain an understanding of the art of the possible and develop the creation of a joint vision.

17. Through this process the partners had an opportunity to reaffirm the partnership arrangements and commit to purchasing software together. The joint purchase of software will not only be more economical it will also enable a more streamlined approach to implementation and the future running the shared service centre.

Proposals and options

18. The programme board has commissioned Capgemini to deliver an outline business case and an options appraisal. The outline business case will be ready in early December; the options appraisal was completed in early October. The options appraisal document has examined the key decisions facing both councils and made a series of recommendations. Before examining choices and making any recommendations the options analysis makes the following assumptions:

- Both councils would continue with the EMSS partnership.
- Both councils were committed to transformational change as part of the systems implementation

- A single system would be procured to support both councils and their shared service centre

19. Within the Capgemini options appraisal there are three key options that are examined:

   I. The first option considers conducting an "upgrade" of the existing Oracle instance to a newer version of Oracle e-Business Suite. This choice would simply be a technical upgrade led by ICT and not by the business. Although it would be the least costly option it would deliver no real business change, as the current arrangements and processes would remain the same. The alternative to a technological upgrade is to adopt a more transformative approach, which would mean either a re-implementation of Oracle or procuring a replacement solution, which could include procuring an Oracle Cloud solution or be a solution provided by a different vendor. An upgrade is distinct from a re-implementation of Oracle as the latter means starting from scratch and re-implementing as if it is a new product and would involve considerable business change.

   II. A second option considers the various ways of hosting the solution and examines if any of these options can be eliminated. In a broad sense the options considered are: "on premise", hosted or cloud.

      - "On premise" means that the councils are responsible for managing the application
      - Software as a Service (SaaS) and Hosted Service means that the hosting/service provider is responsible for managing the application
      - Cloud based services are paid by a subscription based upon usage.

      This option takes into consideration a number of key factors: currently both councils use a hosted service from Velocity Technologies, which is up for renewal and has a shared cost of £880k per annum and also considers the fact that Government policy is that the public sector should be moving towards cloud solutions.

   III. The third option explores the procurement process and whether the solution should be procured in a single procurement, software and implementer together or two separate procurements.

20. Various options are explored around the dates for an implementation and go-live. Capgemini draws upon its experience to suggest that a phased implementation could be delivered in 12 months. The fact that the hosting with Velocity Technologies ends in March 2019 would suggest that this is a reasonable date to aim for. There is the possibility of an extension of the contract to March 2020. This will provide some flexibility to account for any unforeseen circumstances.

21. The programme board have considered the options and the recommendations from Capgemini and provided the following responses:

I.   The recommendation from Capgemini around upgrading was that a straight technological upgrade would not be sufficiently transformative to match the ambitions of both councils and would not deliver sufficient business benefits. Therefore if the councils retain Oracle e-Business Suite they should re-implement from scratch with considerable business change and broader use of the functionality or alternatively consider purchasing a new solution. It should be noted that the current version of Oracle e-Business Suite will be out of support in 2023.

The programme board endorsed this recommendation, to maintain the status quo by conducting a system upgrade would actually be a backward step. Alternatively by adopting an approach that focuses more on business transformation, there is a significant opportunity to streamline processes in line with best practice, to automate, standardise and simplify and also to remove costs from the shared service centre.

II.   As the contract date for the current hosting arrangements ends in March 2019, the second option reviewed hosting choices. The recommendation from Capgemini was that the councils should pursue a cloud first policy, which is also aligned to the county councils IT strategy.

However whilst acknowledging that this is where the market is heading, officers believe it is better to keep all options open in their procurement exercise. Although cloud solutions will have less capital costs, without conducting a procurement exercise, it is difficult at this stage to understand full revenue costs. The indicative costs that will be provided through the software procurement will update the outline business case and enable more informed decision making around the direction of travel.

III.   Officers have followed the recommendation from Capgemini to separate the procurement into two stages. The first procurement for software has already been initiated and once the software has been selected on 5 December 2017, procurement for an implementer will commence. The benefit of splitting procurement is that, having selected the software, a second stage procurement allows for another exercise to select the best implementer for this product. Selecting the software earlier will also enable the business case to be updated with more certainty around hosting costs. A further benefit around separating the procurement was that splitting the work into two separate procurements provided more certainty around being able to commence the implementation in April 2018.

The proposed approach

22.   After a joint evaluation officers from both councils will provisionally select the chosen software on 4 December and at this stage no payment will have been made. Once the selected software has been approved by Cabinet in January, officers will then commence the separate procurement for an implementation partner. The expectation is that an implementer will be selected and ready to commence in April 2018.

23. Having assessed the partners' current position and the potential options for the way ahead, it is clear to both councils that to be fit for the future, maintaining the status quo is not sustainable. There are lessons learnt from the previous implementation of Oracle e-Business Suite, which include the need to focus more on configuration and product optimisation, rather than on customisation and to place a greater focus on business change rather than system change.

24. Capgemini is currently working with the two councils to develop an outline business case, which will be completed by December 2017 in preparation for submission to Cabinet on 9 January.

25. The correct programme governance will ensure that any future investment in systems and business change will enable a significant improvement in the user experience and the performance of corporate support services and the EMSS shared service centre.

26. Further complexity is added to this programme by the fact that the partnership has no preferred solution and is committed to ensuring that a robust procurement and evaluation process determines the right outcome. In the procurement for the software solution the weighting has been placed as 70% on quality and 30% on cost.

27. For HR, Payroll and Finance information systems, there are a wide range of different vendors in the marketplace and a variety of products available. There are a number of classifications that these systems fall into:

   - Oracle e-Business Suite, the existing product
   - Tier 1 - two main players - Oracle Cloud or SAP S/4 Hanna
   - Tier 2 - Technology One or Microsoft Dynamics etc
   - "Best of Breed" a mixture of products

Indicative costs

28. Once a decision to procure the software and further work is conducted on the outline business case the indicative costs will be much clearer. At this stage the councils are only able to estimate costs based upon the responses from the PIN and also the experience of Capgemini. Indicative estimates would suggest that the full cost will be in the region of £10m.

Background Papers

Report to full Council: Medium Term Financial Strategy for 2017/18 to 2020/21
http://politics.leics.gov.uk/documents/s126527/MTFS%202017%20-2021.pdf

Circulation under the Local Issues Alert Procedure

None.

<u>Equalities and Human Rights Implications</u>

None.

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