

Report to Cabinet

18 January 2023

Subject:	Oracle Fusion ERP System Implementation Costs and Benefits Case
Cabinet Member:	Finance and Resources Cllr Bob Piper
Director:	Director of Finance Simone Hines
Key Decision:	Yes Expenditure above £1m
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1 Recommendations

- 1.1 That details of the current progress being made with the implementation of the Oracle Fusion Enterprise Resource Planning (ERP) system be received.
- 1.2 That the implementation budget for 2022/23-2024/25 as set out at section 4.14 be added to the Capital Programme in each respective year.
- 1.3 That additional implementation costs of £2.5m be funded from capital resources as part of the overall capital financing strategy.
- 1.4 That the Director of Finance be authorised to undertake all steps and actions necessary to implement the Oracle Fusion Enterprise Resource Planning (ERP) system.







2 Reasons for Recommendations



- 2.1 To ensure the implementation of Oracle Fusion is delivered in a timely and efficient manner in order to bring transformation benefits to the way the Council currently works and to complete the actions from the Grant Thornton Governance Review.

3 How does this deliver objectives of the Corporate Plan?

An effective and efficient ERP system supports the Council in achieving all of its Corporate Plan objectives.

	The Best Start in Life for Children and Young People
	People Live Well and Age Well
	Strong Resilient Communities
	Quality Homes in Thriving Neighbourhoods
	A Strong and Inclusive Economy
	A Connected and Accessible Sandwell

4 Context and Key Issues

Background

- 4.1 The Oracle Fusion Programme is a key component of the Council's Corporate Improvement Plan and is a workstream in the Transformation Plan underpinning the Medium-Term Financial Strategy. The Programme will impact on all services and Directorates in relation to the Payroll, HR, Finance and Procurement processes that the Council uses. It will modernise business processes through better use of technology and enable greater access to data to support decision making.
- 4.2 The Oracle Fusion ERP system was also one of the Key Lines of Enquiry in the Grant Thornton Governance Review in autumn 2021. The



recommendations from that review included reviewing governance arrangements for the project, ensuring there is sufficient corporate ownership, and agreeing a realistic Go Live date, as well as resolving the contractual issues with the existing Systems Integrator (SI). In December 2021 Cabinet agreed to pause the implementation to allow the recommendations from Grant Thornton to be considered and actioned.

- 4.3 Since then a significant amount of work has been undertaken to refresh the project including:
- Securing a new Systems Integrator
 - Legal action to pursue compensation from the existing SI
 - A Health Check of the status of the implementation at that point (January 2021) to inform the next steps for the programme
 - A fundamental review of the governance arrangements of the Programme supported by Socitm Advisory
 - A revised Programme narrative and branding to create fresh energy and a clear direction and purpose
 - A revised resource model to ensure the programme has sufficient staffing resources and expertise to deliver the programme
 - A revised implementation plan
 - Change Readiness Assessment and Change Strategy
 - Procurement of a new SI in August 2022 following a public procurement exercise through the Crown Commercial Services framework agreement.
- 4.4 The outcome of the Health Check early in 2022 identified that insufficient progress had been made with the previous implementation to be able to place any reliance on the work that had been done so far, and the recommendation from all three suppliers was that a fundamentally different approach needed to be taken which would effectively mean taking the programme back to the very start rather than being able to make use of the work that had already taken place.
- 4.5 As part of the review set out above the Programme Board agreed that a fundamentally different approach need to be taken. This would be to move away from a 'lift and shift approach', whereby the Council's current processes would be recreated in the new system, and instead a transformational approach would be adopted to ensure the Council benefitted from the new business processes that Fusion facilitates. It would therefore be an 'adopt not adapt' approach. A number of design principles have been agreed for the implementation which are as follows:



- Adopt-not-adapt
- Maximising self service and empowerment
- Paper-free working
- No offline-processes
- Automation where possible
- Oracle Fusion first (i.e. closing down satellite systems where possible)
- One source of the truth – Oracle Fusion as the core source of HR and Finance information

4.6 As part of the Programme refresh, a new resource model has been put in place which provides significantly more capacity and expertise to the project than previously whereby much of the implementation was being carried out by employees alongside their current roles. The new resource model includes Workstream Leads, Subject Matter Experts and testing and data migration technical resources. Additional support is also being provided by Socitm Advisory. A copy of the Programme Structure is shown at Appendix A.

4.7 Following the Cabinet decision to terminate the contact with the existing SI, a new procurement process was undertaken from March 2022, which included a completely new scope. Again, this was supported by Socitm. The process was completed in August 2022 and the new SI contract was awarded to Infosys.

Timescales

4.8 The implementation plan from Infosys initially showed a 15-month timescale, meaning implementation could take place in January 2024. However, after taking advice from external partners and carrying out benchmarking with other authorities, the decision was taken to defer implementation to April 2024 to coincide with the start of a new financial year. An options appraisal was carried out on the advantages and disadvantages of each date, and this also considered whether a phased or ‘big bang’ approach was preferable.

4.9 The deferred implementation date does incur additional costs and these are captured in the cost summary at para 4.14.

Benefits Case



- 4.10 As part of the programme review, a benefits case has also been prepared to identify the strategic priorities for Sandwell from the implementation of Fusion and the cashable and non-cashable savings that are expected to be achieved. This is attached at Appendix B. In summary the key focus areas are:
- People
 - Systems
 - 3rd Party Spend and Compliance
 - Organisational Costs
 - Compliance and Overpayments
- 4.11 This will be an ongoing piece of work as the new system is designed and implemented but the initial assessment shows cumulative benefit over a 10-year period of £15m with further savings still being assessed. The 'People' related savings only relate to the Core functional teams at present but there will also be an impact on wider business support activity which is currently being reviewed. Socitm recommends a savings target of 10-30% for whole organisation business support efficiencies and a review is ongoing to identify further business support activities across the whole Council. Another area of opportunity still being explored is a reduction in 3rd party contract spend, which is a separate workstream within the Transformation Savings Plan. The improved management information available in Fusion will enable a drive to review contract spend with partners and suppliers. A case study is included within Benefits Summary at Appendix B. There are also productivity savings and risk mitigations expected from the new system and these are also outlined in the Benefits Summary.
- 4.12 Oracle Fusion will also bring a range of non-cashable savings in terms of improved financial management processes and improved financial reporting capabilities. The CIPFA follow-up Financial Management review still scored the Council has a One Star authority for both of these areas, and notes that Oracle Fusion will bring significant improvements, but that it's important to streamline business processes as much as possible as part of the implementation.
- 4.13 Although the Council has already taken the decision to move to Oracle Fusion, the benefit case and cost model are compared against a 'do nothing' option which would be retaining the current Oracle system.



Financial Implications

- 4.14 In December 2021 Cabinet agreed General Fund resources of £4.3m be earmarked for the Oracle Fusion project, in addition to £0.23m which was still available from a previous approval. However, this was prior to the Health Check being completed which has since indicated that the implementation with the new SI is not able to make use of any of the work of the previous SI. It was also before the procurement process for new SI was undertaken. The costs have also been affected by the exceptionally high inflation costs in the UK and the recruitment issues that the Council is experiencing across other services.
- 4.15 The Health Check work alongside market intelligence, benchmarking and external advice has given the Council a much greater understanding of the costs and expertise required to deliver such a fundamental system implementation. Therefore the revised cost model now gives a more accurate forecast of the resources, benefits and risks required to deliver a programme on this scale.
- 4.16 The revised financial model based on revised SI contract costs, new resource model and implementation date shows total project costs of £9.8m. The HRA has provided a further contribution based on 25% of project costs and the compensation payment is also available to fund the project. This leaves a funding shortfall of £2.5m but as this is a system implementation the costs can be capitalised which gives greater flexibility in how the costs can be funded.
- 4.17 Benchmarking has been undertaken with other Local Authorities that have implemented Fusion in recent years and this shows that costs range between £8.5-11m for similar size authorities. Birmingham City Council anticipated their total Fusion costs to be £38m based on a report taken to their Cabinet in March 2021.
- 4.18 The programme budget now represents a realistic estimate of the costs to implement Oracle Fusion by April 2024. The revised budget takes into account all contractual and resource costs, including a 15% total contingency and the additional costs of deferring the implementation to April 2024.
- 4.19 The implementation costs are shown in the table below:

	2022/23	2023/24	2024/25	Total
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	£m	£m	£m	
Programme Team costs	1.608	3.562	0.440	5.610
System Integrator costs	0.658	1.667	0.400	2.725
3 rd Party Integrations cost			0.200	0.200
Contingency	0.270	0.784	0.155	1.209
Total	2.536	6.013	1.195	9.744
Funding available*	2.536	4.398	0.300	7.234
Shortfall		1.615	0.895	2.510

4.20 It is recommended that the additional costs for 2023/24 and 2024/25 be added to the Capital Programme in those years with appropriate funding identified as part of the overall Capital Financing Strategy. This could be Prudential Borrowing, Capital Receipts, Earmarked Reserves, Revenue Contributions, or a combination.

4.21 There are also annual revenue running cost of the system in terms of licensing, maintenance and support. These are already incurred with the current Oracle system but during the implementation period there will be costs for both the existing and new systems which is unavoidable. The annual revenue costs and funding are shown below. The £0.15m per annum shortfall has been included as a budget pressure for 2013/14 onwards.

	2022/23 £m	2023/24 £m	2024/25 £m	Ongoing £m
Existing Oracle annual system costs	0.707	0.837	0.02	0
Fusion annual system costs	0.761	0.917	1.045	0.946
Total	1.468	1.754	1.068	0.946



Funding available	1.318	1.604	0.918	0.796
Annual Shortfall	0.150	0.150	0.150	0.150

4.22 These costs now take into account a realistic estimate of the resources needed for an effective implementation to maximise transformational benefits. It also now reflects the fact that there was little value to be taken from the work completed with the previous SI meaning the project is effectively starting from the beginning rather than a mid-implementation point.

5 Alternative Options

5.1 The Council could choose to scale down the resource model to reduce costs but this would significantly reduce capacity to undertake the implementation on time and achieve transformational benefits of the system.



6 Implications

Resources:	The implementation requires additional capital resources of £2.5m and additional revenue costs of £150k p.a. ongoing. However, expected benefits are in the region of £15m over a 10-year period with further cashable and non-cashable savings still being assessed.
Legal and Governance:	A revised governance model is in place for the programme to ensure decisions are taken appropriately. The procurement process for the new Systems Integrator was completed compliantly using a government framework.
Risk:	The Programme Risk Register is reviewed regularly at Programme Board. A 15% contingency is built into the cost model.
Equality:	N/A
Health and Wellbeing:	N/A
Social Value:	N/A
Climate Change:	N/A

7. Appendices

Appendix A – Resource Model
Appendix B – Benefits Summary
Appendix C – Exempt

8. Background Papers

List source/background documents





Governance

