

Report

Report to:	Finance and Corporate Resources Committee
Date:	1 September 2021
Prepared by:	Executive Director (Finance and Corporate Resources)

Subject:	Oracle HR/Finance Replacement
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1. Purpose of the report

1.1. The purpose of the report is to:-

- ◆ provide committee with an overview of the options available for the replacement or upgrade of core HR/Finance systems and seek approval to commence the project to replace the current systems

2. Recommendation(s)

2.1. The Committee is asked to approve the following recommendation(s):-

- (1) that the need to upgrade the current HR/Finance systems be noted;
- (2) that the evaluation of the range of options be noted;
- (3) that the upgrade of HR/Finance systems to Oracle Fusion be noted as the preferred option;
- (4) that work to secure the project team as detailed at Section 8 be approved; and
- (5) that approval for the allocation of capital funding be sought at the meeting of the Executive Committee on 22 September 2021.

3. Background

3.1. The Council is moving towards a more transformational approach to service delivery, and this will require a change in the way it works to ensure it is making the best use of its resources. Employees are a key part of this and empowering them to take decisions creates a high performing workforce and aids evidence-based decision making, planning and delivery. The recent rollout of Microsoft Teams has demonstrated the benefits of enabling the workforce to be both more agile and collaborate more easily.

3.2. A new, modern system for HR and Finance to support the future needs of the whole Council is the next step on this journey and can deliver transformational and cultural change across Resources. This includes increasing access to meaningful data, reducing operating costs per employee, but more importantly empowering:-

- ◆ Employee engagement, better workforce planning, performance management, learning and development, leadership, and management
- ◆ Greater levels of automation and improved management information
- ◆ Improved spend control
- ◆ System improvements including automatic upgrades delivering new functionality, increased uptime/availability, and support for agile working

- 3.3. The current Oracle E-Business Suite (EBS) system, in place since 1999, is on a version which will no longer be supported by Oracle after December 2023. This means that regulatory updates, such as tax changes in payroll, changes to pension regulations and bug fixes will not be issued by Oracle after this date.
- 3.4. A working group was formed to consider the options available, direct activity and progress to a recommendation. The Group included the Head of Personnel Services, Head of Finance (Strategy), Head of Finance (Transactions) and Head of IT Services. Managers across these services have also supported the evaluation exercise through participation in demonstrations and collation of information and analysis.
- 3.5. An exercise was undertaken to look at the options available, identified as:-
- ◆ **Option 1** - Do nothing - keep running with systems as they are.
 - ◆ **Option 2** - Upgrade the current on-premise EBS system to a fully supportable solution.
 - ◆ **Option 3** - Upgrade to Oracle Fusion - move from on-premise EBS system to Cloud.
 - ◆ **Option 4** - Upgrade to a third-party cloud solution.
- 3.6. This report provides a summary of the appraisal of the options with a particular focus on the costs, benefits, contractual considerations, and governance arrangements associated with the preferred option.

4. Findings

- 4.1. Having examined the options available, two were quickly discarded at an early stage for the following reasons:-
- ◆ **Option 1** - Do Nothing
The current EBS system will no longer be supported by Oracle after 2023. This leaves the Council at significant risk of being unable to effectively deliver the wide range of finance and HR functions.
 - ◆ **Option 4** – Upgrade to a third-party cloud solution
There are a range of providers who could offer third-party solutions to meet the requirements for delivering Personnel, Financial Accounting, Payables, Payroll and Procurement services. This option was considered to present several significant challenges, some of which would also apply to options 2 and 3 but not to the same extent.
 - ◆ Migrating to a non-Oracle cloud solution was considered as introducing significant complexity requiring extensive change management. There are many feeders and links that are used between the existing Oracle modules and other service-based systems to ensure the flow of financial and personnel data. The introduction of new systems, potentially from different suppliers would require the re-configuration of all feeders and links, thereby introducing a further level of complexity that would add risk, time and cost to the project.
- 4.2. This left two options remaining that were subject to more in-depth assessment including an evaluation of the risks presented:
- ◆ **Option 2** - Oracle EBS upgrade
 - ◆ **Option 3** - Oracle Fusion

4.3. Oracle EBS upgrade – Key Features

The option of upgrading Oracle to the latest version has been evaluated. The upgraded system contains a minimal level of enhancements compared to the version of the system currently in use (changes are in the presentation of information, not functionality).

Feedback from key business and council wide users suggested that the current system is dated and lacking in several key areas:-

- ◆ Is not intuitive and provides a poor user experience.
- ◆ Does not provide a single version of the truth for HR/Finance.
- ◆ Does not support agile working.
- ◆ Does not meet the needs of the Council's ambitious transformation and digital agendas.
- ◆ Needs manual intervention to carry out standard processes
- ◆ Lack of functionality to support procurement and contract spend controls, requiring manual intervention

In short, this option would not deliver any improvements, with no new functionality being added, and the council would be left with having to upgrade again. No other Local Authority that has chosen this upgrade path and as a result this does introduce a further degree of risk.

4.4. Oracle Fusion – Key Features

This is the upgrade route other Local Authority customers have taken (Scottish examples are Fife, Stirling, and South Ayrshire Councils). Implementation of a Cloud solution will provide the platform for the adoption of best practice business processes. The principles around this include eliminating unnecessary manual steps that hinder delivery, using more self-service technology, using automation and workflows, and improving performance reporting. These are all key in the consideration of a fully integrated Finance/Procurement and HR/Payroll system.

Engagement activities undertaken with managers and employees during the Business Case Options Appraisal defined a set of business drivers to aid the assessment of whether to implement a fully integrated system. These were:-

Business Drivers	
Improving Back Office Efficiencies	Self Service
Best Practice Processes	Single Source of the Truth
Automation and Integrated Solution	User Experience
Effective Governance	Real Time Reporting
User Acceptance	Future Proofing
Data Security	Cloud solution / software as a service

Oracle Fusion can support all the above.

The introduction of the new processes offered by Oracle Fusion would have a significant impact on employees across the Council, who will need support and guidance to be able to successfully transition to new ways of working.

The Fusion platform is modern, user friendly, fits with the council's digital strategy and, through cloud-based updates, provides a level of future proofing in both functionality and accessibility. For example, security updates are ongoing as requirements develop, whereas keeping on the current upgrade and support path will not deliver this to the same extent.

5. Efficiencies – Oracle EBS Upgrade and Oracle Fusion

- 5.1. The Oracle EBS upgrade is not considered to offer any efficiencies due to the minimal level of enhancements available.
- 5.2. There are significant efficiencies to be gained in a move to the modern cloud solution offered by Oracle Fusion, these will include cashable and non-cashable efficiencies from the following areas:-

- ◆ Hardware/software
- ◆ Support Services
- ◆ Manager time
- ◆ Employee time

Some of these are readily secured, others will require further activity to release.

- 5.3. Cashable savings of £2.253 million would be expected be realised by 2024/2025 (one year after full implementation) over the following main areas, with Appendix 1 providing a full breakdown. These savings will come from all Resources:-
- ◆ Automation of HR/Finance processes reducing the need for staff input in HR/Finance teams
 - ◆ Replacement of the current online learning, flexi and recruitment systems with a saving in their associated cost
 - ◆ Faster recruitment and improved absence management with associated reduction in premium rate overtime
 - ◆ Savings in management and employee structures from more efficient HR and Finance processes including recruitment, particularly for internal posts; employee changes; recording absences, performance appraisal etc delivered through greater automation and self-service
- 5.4. In addition to the cashable benefits there are wider operational and service benefits associated with the system implementation that will contribute to the smooth running of Council Services.

6. Costs – Oracle EBS Upgrade and Oracle Fusion

- 6.1. For the purposes of evaluation, the estimated project costs for the two options are detailed in the table below:-

Options	Project cost £ m	Comment
Oracle EBS Upgrade	£0.600m	No savings anticipated
Oracle Fusion	£6.548m	Significant savings anticipated

- 6.2. The higher cost for Oracle Fusion is attributable to the significant change this would require and the need to second employees from Finance and HR, alongside the requirement for significant external support in delivering the project. A Systems Integration (SI) Partner would be required due to the significant level of technical IT work required in a project of this scale.

7. Scoring of Options Appraisal – Oracle EBS Upgrade and Oracle Fusion

- 7.1. Each of the options have been scored against the criteria used in the Transformational Review Framework reflecting the key features, efficiencies, and costs with a summary below and the full scoring provided in Appendix 2:-

Option	Score
Oracle EBS Upgrade	37
Oracle Fusion	56

- 7.2. The scoring reflects the following costs and benefits for each option:-

Option	Oracle EBS Upgrade	Oracle Fusion
Cost	<p>£0.600m</p> <p>Despite the above cost, no efficiencies would accrue due to the minimal improvements in functionality that would be expected.</p>	<p>£6.548m</p> <p>Benefits outweigh the costs with identified efficiencies recurring, and the potential for future efficiencies.</p>
Benefits	Oracle EBS would be easier to implement as it only contains minimal changes from the current version	Oracle Fusion will meet customer needs to a greater extent with more advanced processes, greater automation, and a better user experience
	Would involve less risk	Oracle Fusion is estimated to provide recurring annual efficiencies of £2.253m
		<p>Oracle Fusion provides a degree of future proofing through automatic upgrades to ensure compliance with legislation and continuous improvements</p> <p>Oracle Fusion is one of the best cloud solutions available and will deliver transformation of services</p>

7.3. The Group therefore recommended progressing Oracle Fusion as the preferred option. The Council could have to go down this route after the last available upgrade on EBS in any event, with potentially higher costs, having lost the opportunity in the interim for delivering significant efficiencies and having incurred the cost of the EBS upgrade.

7.4. The remaining sections of the report focus on the project team, financial and employee implications associated with the preferred option.

8. Implementation - Project Team

8.1. The upgrade of the Council's Finance and HR systems would represent a significant undertaking that would necessitate the creation of a large project team and require the appointment of a Systems Integration (SI) Partner, considered an essential requirement for projects of this scale.

8.2. It is estimated that a project team of 30.0 FTE would be required in addition to current establishment. A breakdown of the main groupings and roles is provided below:-

- ◆ Core Team

- ◆ 19.5 FTE employees with expertise across Finance, Personnel, and IT Services to support development work including business change, business process analysis, internal audit, and logistical support.
- ◆ 10.5 FTE external staff brought in to perform specific functions (e.g., data migration, data entry analysts, solution application architects, project management support and functional leads)

8.3. The role of the SI partner will assist with the:-

- ◆ Technical design of Oracle Fusion solution to meet SLC needs
- ◆ Build of approved SLC design on Oracle Fusion platform
- ◆ Partner with SLC business leads to configure and test system
- ◆ Partner with SLC IT to develop, implement and test integrations with other SLC and external systems
- ◆ Partner with SLC to export data from current EBS system to cloud system and fully test
- ◆ Support parallel running including maintaining integrity of two systems
- ◆ Partner with SLC IT and Oracle to identify and resolve technical issues
- ◆ Partner with SLC IT to develop any non-standard functionality which is not included in Oracle Fusion modules

8.4. The primary role of the SI partner will be to perform technical tasks within the Oracle cloud environment to the SLC specification. The SI partner will do this under the direction of the core team who will specify requirements, perform client-side tasks, manage overall progress and handle escalations. The core team will comprise SLC functional leads supported by external staff to provide additional client-side capabilities where internal skills and/or capacity are not available.

8.5. The project is expected to take around 15 to 18 months with an expected go live date between January and March 2023.

9. Contractual Requirements

- 9.1. The use of Fusion will require a new contractual arrangement to be put in place with Oracle covering an initial period of 5 years with options for a 3-year extension at year 6 and for a 2-year extension at year 9 giving a total contract period of up to 10 years. A separate procurement exercise is required for the appointment of the SI partner covering the period of implementation.

10. Financial Implications

10.1. Oracle Fusion: Costs of Implementation and Licences

Work has been ongoing to estimate the costs of moving to Oracle Fusion with there being two main costs to consider:

- ◆ **Projects costs:** for implementation of the system (one off, capital costs)
- ◆ **Licences:** the ongoing annual subscription costs for licences

- 10.2. **Project costs:** The costs of implementation are estimated at £6.548 million comprising the costs of the implementation team, the provision of external support and the SI partner.

- 10.3. The exact profile of these costs plus the staffing costs will only be confirmed when the final project plan is developed. Staffing costs assume people are in post from January 2022, but it is expected that they will be in place on a phased basis prior to this.

- 10.4. **Licences:** The annual cost of licences is £1.25 million. There are currently budgets held (approximately £0.570m) that will not require to be incurred going forwards, therefore the net ongoing costs are expected to be approximately £0.678 million before the costs of borrowing are considered (see section 10.7 below).

- 10.5. **Efficiencies expected:** As detailed in Section 5, it is expected that efficiencies can be achieved through implementing Oracle Fusion. Cashable savings of £2.253 million have been estimated across Finance, HR, and IT and from wider efficiencies in Resources.

- 10.6. **Funding:** There are several funding sources identified which can contribute towards the costs of the implementation and the ongoing running costs of the system.

- ◆ Existing approved capital funding - (£1.000m) (approved Executive Committee 4 November 2020)
- ◆ 2021/2022 capital investment in digital transformation (£1.557m) - (approved Executive Committee 28 April 2021 - £1.891m)
- ◆ £1 million set aside in reserves as a contribution towards the project (£1.000m) – (approved Executive Committee 23 June 2021)
- ◆ Existing budget available to contribute towards ongoing license costs (£0.571m)

- 10.7. The capital funding of £2.557 million will contribute towards the costs in years 2021/2022 and 2022/2023. This will leave a borrowing requirement to meet the remaining costs of £5.682 million (assuming that the first year's license costs are capitalised). This figure is shown in Appendix 3 under Borrowing (balance of capital). The annual costs of borrowing are estimated at £0.398 million assuming implementation costs are repaid over 20 years. Total costs of borrowing would therefore be £7.960 million.

- 10.8. The ongoing net costs from 2023/2024 including the costs of borrowing are around £1 million. Efficiencies are expected through more efficient business practice through using the new system (estimated at £2.253m) and will be available from 2024/2025. Until then, the reserves funding will cover these costs.
- 10.9. A benefits realisation plan based on the efficiencies identified at 5.3 will be put in place following implementation, that will allow the savings to be drawn from Resource budgets.
- 10.10. If these levels of efficiencies are achieved, there is a residual benefit of £1.177 million from introducing the system. This is illustrated in the table below. The additional revenue costs by 2024/2025 total £2.076 million including the costs of borrowing. From 2024/2025 the efficiencies are expected to be £2.253 million so the extra costs are covered within 2 years and the project then goes onto to deliver a net recurring saving.

	2023/24	2024/25
	£m	£m
Costs (licences)	1.173	1.249
Costs of Borrowing	0.398	0.398
Extra costs	1.571	1.647
Budget available	(0.571)	(0.571)
Net additional costs	1.000	1.076
Funded by:		
Reserves	1.000	-
Efficiencies	-	2.253
Net position	-	1.177

- 10.11. **Inflation:** An inflationary uplift is built into the contract for licenses. This will be in region of £0.108 million in 2025/2026 and a further £0.118 million in 2029/2030 should the two extension periods be taken. This will reduce the overall net benefit from those years, albeit costs will be avoided from the increases in the salary and contract costs that are subject to efficiencies.

11. Employee Implications

- 11.1. Where possible, the team (or backfill) will include employees displaced through the efficiency savings process. A number of temporary employees will also be required, and recent graduates may be targeted for this. The services will balance the need to ensure experience is available in both the project and service teams to provide continuity in delivery.
- 11.2. Delivery of the cashable efficiencies will require a Switch2 approach to redeploy any affected employees.

12. Climate Change, Sustainability and Environmental Implications

- 12.1. The use of Fusion is expected to further support agile working due to the range of functionality provided and will therefore contribute to the environmental benefits derived from reduced travelling. Continuing to enable self-service for all employees will have a positive impact in terms of reduced use of paper and other resources.

13. Other Implications

- 13.1. Section 4 identifies the risks associated with the options of a do nothing, a minimal upgrade, a full market review or a move to Oracle Fusion. In the event of a move to Oracle Fusion a project specific risk register would be prepared given the significant scale of the exercise.
- 13.2. Oracle are providing a range of community benefits to the council that would accompany a contract award. Areas of support under discussion include:-
- ◆ Promotion of the training opportunities provided by the Oracle Academy
 - ◆ Start up support for technology businesses in South Lanarkshire
 - ◆ Employability

14. Equality Impact Assessment and Consultation Arrangements

- 14.1. There is no requirement to equality impact assess the content of this report.

Paul Manning

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10 August 2021

Link(s) to Council Values/Ambitions/Objectives

- ◆ Accountable, effective, efficient, and transparent

Previous References

- ◆ None

List of Background Papers

- ◆ None

Contact for Further Information

If you would like to inspect the background papers or want further information, please contact: -

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Fusion - Cashable Savings

Area	Cashable £ m	Justification
Efficiencies in the delivery of HR Services - 13 FTE	£0.300m	Self-service and automation will reduce HR admin tasks. 3FTE to be invested in value added professional HR tasks supporting Resources
Efficiencies in HR admin tasks outwith Personnel Services – 10FTE	£0.260m	Self-service and automation will reduce admin tasks in Resources
Payroll error reduction – 1.5 FTE	£0.050m	Self-service and automation will reduce errors
Faster recruitment	£0.100m	On average 1 week will be reduced from the time to recruit, the saving is the premium rate OT element where posts must be filled
Absence management efficiencies	£0.250m	More accurate recording, reporting and action prompting will reduce absence and overtime costs
Associated software	£0.083m	Oracle Fusion can replace the current online learning, flexi and recruitment systems
Finance (Strategy) – 3 FTE	£0.100m	Efficiencies across general accounting, period and year end closures and forecasting.
Finance (Transactions) – 2 FTE	£0.060m	Improved spend analysis, more user friendly iproc functionality, auto holds management and improved GRN, catalogue management, including Punchout, supplier portal
IT – 1 FTE	£0.050m	No requirement to support on-premise system, enabling efficiency in IT staffing
Managers	£0.500m	More efficient tasks around managing employees
Employees	£0.500m	More efficient tasks, self-service, and automation
Total	£2.253m	

Options Appraisal – Scoring

Criteria / Option	Oracle EBS Upgrade	Oracle Fusion
Meets Customer Needs	4	8
Level of Financial Saving	1	6
Ease of Implementation	9	3
Employee Impact	1	8
Governance / Compliance	6	8
Reputation / Best Practice	3	9
Performance	5	8
Risk	8	6
TOTAL	37	56

Each criteria is scored from 1 to 10, with 10 being the highest score (best) and 1 being lowest (poorest)

Financial Estimates

	Total 2021/22 to 2023/24	2024/25 (steady state)
Total Estimated Project costs	6,548,070	-
Licences		
Licence costs	3,721,147	1,249,494
budget available	(1,427,500)	(571,000)
Net cost of licences	2,293,647	678,494
costs of borrowing	397,774	397,774
Total Costs in year	9,239,491	1,076,268
- capital	6,548,070	
- revenue	2,691,421	1,076,268
Funding Available		
Capital		
- existing budget	1,000,000	
- digital transformation	1,557,000	
Reserves	1,000,000	
Borrowing (balance of capital)	5,682,490	
Efficiencies		
HR (F&C) 10 fte		300,000
HR (other resources tasks) 10 fte		260,000
Payroll error efficiencies		50,000
Faster Recruitment (reduced overtime)		100,000
Absence management efficiencies (reduced overtime)		250,000
Associated Software costs (Learning, Flexi, and recruitment)		83,000
Finance		160,000
IT		50,000
managers		500,000
employees		500,000
Total efficiencies		2,253,000
Annual Net Efficiencies		1,176,732