

REPORT TITLE: The replacement of the current SAP Enterprise Resource Planning (ERP) System

Cabinet Date	23 rd June 2021
Cabinet Member	Finance and Change Cllr Lynden Stowe
Key Decision	Yes
Purpose of Report	<p>To consider the replacement of the current SAP on premise system through the procurement of:</p> <p>a) A cloud hosted ERP Software as a Service (SaaS) solution b) the services of an implementation and support partner in relation to such solution</p>
Recommendations	<p>That Cabinet delegates authority to the Executive Director of Corporate Resources in consultation with the Cabinet Member for Finance and Change to:</p> <ol style="list-style-type: none"> 1. Seek expressions of interest from suppliers under the Crown Commercial Services Back Office Services (BOS) framework agreement (RM 6194) for the purpose of determining whether such suppliers would be interested in the opportunity to bid for the Council’s proposed ERP SaaS solution contract; 2. Conduct a mini-competition process under such framework agreement, in a format determined by the council with reference to the content of such expressions of interest, in respect of a call-off contract for the supply of a cloud hosted ERP SaaS solution (the “ERP SaaS Contract”). The proposed ERP SaaS Contract shall continue for an initial period of 5 years and include two extension options each 12 months in length; 3. Award such ERP SaaS Contract to the preferred tenderer; 4. Determine whether to exercise the options to: <ol style="list-style-type: none"> a. extend the term of such ERP SaaS Contract for a further period of 12 months on the expiry of the initial 5 year term; and b. extend the term of such ERP SaaS Contract again for a further period of 12 months on the sixth anniversary of the contract.

<p>Recommendations contd.</p>	<p>5. Conduct a mini-competition process under Crown Commercial Services Software Design & Implementation Services (SDIS) Framework (RM6193) in respect of a call-off contract for the supply of implementation and support services (the “Implementation and Support Contract”) in relation to:</p> <ul style="list-style-type: none"> a. the proposed ERP SaaS Contract; b. the support of existing SAP modules and existing applications which do not form part of this programme; c. the supply of support services in respect of the council’s existing on-premise SAP solution while the proposed new ERP SaaS Contract is implemented. <p>The proposed Implementation and Support Contract shall continue for an initial period of 5 years and include two extension options each 12 months in length.</p> <p>6. Award such Implementation and Support Contract to the preferred tenderer;</p> <p>7. Determine whether to exercise the options to:</p> <ul style="list-style-type: none"> a. extend the term of such Implementation and Support Contract for a further period of 12 months on the expiry of the initial 5 year term; and b. extend the term of such Implementation and Support Contract again for a further period of 12 months on the sixth anniversary of the contract
<p>Reasons for recommendations</p>	<p>The council’s current SAP solution, which provides HR, payroll, finance and procurement functionality does not provide the transformation and digital tools that GCC require in the future.</p> <p>A decision to introduce a modern, efficient cloud hosted Enterprise Resource Planning (ERP) system will transform the user experience for staff and managers and provide a range of digital tools to support day to day operations in line with the Council’s Digital Strategy.</p> <p>Moving to a modern cloud hosted ERP Software as a Service (SaaS) solution will support the ICT strategy to move applications to cloud hosted solutions and hardware estate out of the data centre and if the council were able to implement an ERP SaaS solution before December 2023 there would be a cost avoidance of £0.5m which would be required to keep SAP servers running.</p> <p>Extensive soft market testing and two comprehensive reviews confirmed that a cloud hosted ERP SaaS solution would deliver improved usability and increase the efficiency of business processes.</p>

Resource Implications	<p>The estimated implementation costs and the on-going revenue running costs are deemed to be commercially sensitive and are therefore included in an exempt annex.</p> <p>This report recommends the procurement of an ERP SaaS Contract and an Implementation and Support Contract. The implementation costs will be a combination of capital and revenue costs so will be funded from a combination of the Transformation Reserve and the Digital / ICT Roadmap capital budget. The exact split between revenue and capital will not be known until the detailed tender submissions have been received.</p> <p>Funding for the implementation and the on-going revenue costs will be met from within existing budgets</p> <p>See Annex 1 for cost breakdown (exempt)</p>
Background Documents	None
Statutory Authority	Section 1 of the Localism Act 2011
Divisional Councillor(s)	
Officer	Name: Cheryl Millyard Tel. no: 01452 324100 Email: cheryl.millyard@gloucestershire.gov.uk
Timeline	<ul style="list-style-type: none"> • Cabinet approval – June 2021 • Consultant appointed and commences work on developing user requirements – August 2021 • Dependant on the outcome of the procurement process the following timescales will apply:- <ul style="list-style-type: none"> ▪ ERP SaaS Contract – commences between July 2022 and May 2023 ▪ Implementation and Support Contract relating to the provision of implementation and support services in respect of the ERP SaaS Contract and also the support of the council's on premise solution – commences between April 2022 and May 2023 ▪ Go Live – between December 2023 and November 2024 ▪ Decommission SAP on-premise servers – between March 2024 and February 2025

Background

1. SAP currently provides GCC with Enterprise Resource Planning (ERP) software to undertake the following functions; HR, payroll, finance, procurement and employee and manager self-service. SAP ERP is a business-critical system that allows us to fulfil our operational statutory and legislative obligations which include payments to staff and suppliers for the County Council and provides traded services for City Council, Gloucestershire Constabulary and Schools.
2. It has been used since 2007, with little investment, and is now considered to be largely out-dated, not user friendly and does not support the Council's digital strategy.
3. The current SAP system runs on servers owned by GCC that sit in the GCC managed data centre. Over the next 5 years these systems will be migrated to cloud in line with the ICT strategy. SAP is installed on a large number of these servers and is a priority to de-commission.
4. In 2027 SAP will withdraw support for the council's SAP on-premise software solution.
5. Soft market research was carried out in December 2020 to:
 - Assess market capacity and flexibility to meet the council's requirements
 - Understand the market's ability to deliver these requirements
 - Understand advances in functionality and products that may be of interest to help inform the council's proposed procurement approach;
 - Assess the potential level of interest in bidding for the proposed ERP SaaS Contract and Implementation and Support Contract. The Council had no predetermined approach concerning any future procurement hence sought to explore the most cost effective options available to it.
 - Understand the indicative costs associated with such routes to market.
6. Responses were received from 4 different software as a service suppliers and 10 different system implementers.
7. The introduction of a cloud hosted ERP SaaS solution will affect every user of the current SAP system. It is clear that the deployment of the technology alone will not deliver the desired outcomes; changes to business processes and improvements in the way that staff work will be required going forward. To ensure this change is managed effectively dedicated resource will be allocated to manage business impact, to engage with stakeholders and to develop on-line training and support material.

Options

8. Option 1: Do nothing; allow the current SAP system to go out of support, extend the data centre contract and upgrade the associated hardware and operating system components

The SAP system is a critical support service needed to enable the council to operate effectively and meet its statutory duties including paying staff and suppliers. Not replacing the ERP system and allowing it to operate when not supported could result in service users and staff being adversely impacted if the Council is unable to pay suppliers or purchase goods/services for them. There would also be a high risk of security breaches resulting in fines and loss of reputation.

Users would continue to struggle with out-dated and user unfriendly tools and the digital strategy would be severely impacted.

If the Council does nothing it will not be possible to de-commission the data centre and an additional investment of £500k will be required for SAP servers (hardware and software) in December 2023

This option is not recommended.

Option 2: Seek expressions of Interest in relation to the proposed ERP SaaS Contract and then conduct mini-competition processes under the framework agreements identified in the “Recommendations” section of this report in respect of the proposed ERP SaaS Contract and Implementation and Support Contract

The council’s rationale for procuring the proposed ERP SaaS Contract and the Implementation and Support Contract is that:

- The Council relies on a robust ERP system in order to operate effectively and meet its statutory duties including payment staff and suppliers.
- The implementation of a cloud hosted ERP SaaS is in line with the Council’s digital strategy which recommends the introduction of modern, digital tools which are user friendly and have the capacity to improve the efficiency and effectiveness of processes
- The ICT strategy is to move applications that are currently hosted in the GCC managed data centre onto cloud hosted solutions
- If the council is able to implement a cloud based ERP SaaS solution by December 2023 it will be able to avoid making a further investment of £500k which would otherwise be required to up-grade the hardware and operating software on the existing SAP servers which go “end of life” in December 2023.

This option is recommended.

Project Risks

The key risks are identified as:

9. Challenge(s) to Awards –

There is a risk in respect of any contract award that such award may be subject to legal challenge under the Public Contract Regulations 2015 (“PCRs”).

The council shall seek to mitigate such risk in respect of the proposed ERP SaaS Contract by:

- a. first seeking expressions of interest from framework suppliers in order to establish whether such suppliers would be interested in the opportunity to bid for the Council’s proposed ERP SaaS solution contract, thereby enabling the council to determine an appropriate format for the council’s proposed mini-competition process;
- b. conducting a mini-competition process in accordance with the rules of the framework (that is, rather than make a direct contract award without competition); and
- c. issuing a voluntary standstill letter to all suppliers on the framework before awarding such contract;

The council shall seek to mitigate such risk in respect of the proposed Implementation and Support Contract by:

- a. conducting a mini-competition process in accordance with the rules of the framework (that is, rather than make a direct contract award without competition); and
- b. issuing a voluntary standstill letter to those suppliers on the framework who provided bids in the mini competition before awarding such contract.

10. Timescales impact successful transition – The Council will seek to mitigate this by robust project planning and securing dedicated project resources including a consultant for gathering business requirements and preparation of Invitation to tenders.

11. Inadequate resourcing of skills and/or loss of key personnel during the project’s lifecycle. The Council will seek to mitigate this by backfilling for subject matter experts involved in the implementation.

12. Responses to ITT exceeds budget – From the Soft Market Testing the council is confident that costs can be managed within existing resources.

Financial implications

13. The estimated implementation costs and the on-going revenue running costs are deemed to be commercially sensitive and are therefore included in an exempt annex (Annex 1).

14. The report recommends the procurement of the proposed ERP SaaS Contract and the Implementation and Support Contract as a service solution. The implementation costs

will be a combination of capital and revenue costs and will be funded from a combination of the existing Transformation and ICT Reserves and the Digital / ICT Roadmap capital budget. The exact split between revenue and capital will not be known until the detail bids have been received.

15. The on-going revenue costs will be funded from within existing Corporate Resources budgets

Climate change implications

None

Equality implications

Has an Equalities Impact Assessment (EIA) been completed? Yes

Data Protection Impact Assessment (DPIA) implications

16. All current arrangements and mitigations implemented with support of the Information Management Service (IMS) will be transitioned to the new cloud hosted solution where applicable. The Data Protection Impact Assessment is currently being drafted with the support of IMS, however the full scope of the implications will not be understood until the chosen supplier is confirmed and their approach is understood.

Social value implications

None

Consultation feedback

- a. Consultation with key stakeholders took place during 2 SAP reviews in 2017 and 2019 to determine future requirements for the core services for HR, Payroll, Finance and Procurement. This has determined that whilst the current on-premise version of SAP provides a robust industrial base it does not provide a modern, user friendly tools available on any device. Further stakeholder engagement will take place once the decision to replace the current ERP system has been approved by Cabinet.
 - b. A cross service project group has been set up which includes BSC, Strategic Procurement, Finance, IMS, HR, ICT and Legal Services.
17. Soft market testing has been undertaken and responses received from four software as a service providers and ten system implementers.
 18. External specialist IT Legal procurement advice was also obtained with regard to the risks associated with the options for procurement of a new cloud hosted ERP SaaS solution.

Performance Management/Follow-up

The project will follow the GCC recommended project management methodology, with governance provided by a project board, chaired by the project sponsor/s, who will meet on a monthly basis. The dedicated project team will be derived primarily from current staff fulfilling the roles of subject matter experts, with back-filling for their sustentative roles as appropriate. Weekly highlight reports will be produced by the project manager and business analysis and business change management will also be required. The project will report into the Digital Transformation Programme Board.