

Financial Appraisal Report

Replacement of the Council's Sandwell Business System (SBS)

Report to Cabinet

Date Issued: 30th September 2019

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1 Executive Summary

Introduction

The Resources Directorate are seeking approval to purchase and implement a new cloud-based business system to replace the Council's current system, Oracle E-Business Suite (EBS). The present business system, which provides a range of key functions for Finance, Human Resources, Payroll, and Procurement will become unsupported from 31st December 2021.

The proposed system replacement will provide an Oracle cloud-based solution, where software is accessed as a service, through the internet, rather than bought and installed locally on servers or PCs.

The project will require the services of an implementation partner to provide technical resources and support to deliver the project.

The provision of a cloud-based business system aims to provide a sustainable solution for a minimum of 10 years and enable more streamlined, efficient processes, along with the ability to support agile and mobile working.

The Council needs to replace the e-business suite before the system becomes unsupported on 31st December 2021. An upgrade to the current system is available but would only be supported until 2030. The current system is not considered 'fit for purpose' as modifications to it have undermined the functionality and integration of the software, with high levels of user dissatisfaction.

Strategic Finance has been asked to carry out an appraisal of the funding application, which has been evaluated against HM Treasury Green Book guidance. The appraisal process recorded a score of 66%, with some areas of risk identified.

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Project Objectives

- To implement a sustainable, legally compliant business system, which is fit for purpose and satisfies the business need by December 2021.
- To transform services and generate efficiency savings.
- To support the Council's Vision 2030, where Sandwell has a national reputation for getting things done and ensuring that the Council keeps pace with technological developments and provide an improved service and user experience.

Project Details

Project proposals involve implementing an Oracle cloud-based business system for Finance, Human Resources, Payroll, and Procurement. Software will be accessed as a service and paid for annually on a subscription basis, in accordance with a pre-determined number of users. The initial contract will be for a 5-year period, commencing in November 2019.

The project will require the services of an implementation partner to provide technical resources and support to deliver the project. Implementation of the cloud-based system will be completed by November 2020.

The total cost for the implementation and delivery of the system is fixed for the first 5 years at £5.642m.

Funding of £2.501m will be utilised from the Council's E Business Suite Replacement Reserve. It is proposed that the remaining funding of £3.141m will be provided from existing resources used to support the operation of the current system.

Future annual revenue costs for years 6-10 are estimated to be in the region of £0.806m per annum.

Scope and objectives of financial appraisal

The purpose of financial appraisals is to consider the guidance provided by HM Treasury in evaluating business case proposals and assessing the potential risk to the Council in achieving its objectives. The following components and risks are assessed:

HM Treasury Green Book	Potential Risks
<u>Strategic Case</u> Objective, need, demand and reasonableness	Insufficient justification for project/will not meet strategic objectives
<u>Economic case</u> Option analysis and risk	Poor use of council resources & excessive risk to Council

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<u>Commercial Case</u> Legal and statutory implications	Project may contravene legal/statutory regulations
<u>Financial Case</u> Affordability	Proposals are not affordable or realistic
<u>Management Case</u> Governance, project management, monitoring and evaluation	Non-delivery of project and outputs
Limitations to scope of appraisal	Information provided by Project Officer

LEVEL OF ASSURANCE GAINED FROM FINANCIAL APPRAISAL		
Limited (0%-65%)	Satisfactory (66%-80%)	Substantial (81%-100%)
There is a high risk of objectives not being met due to insufficient assurance within the project proposals. There is limited evidence to confirm that the risks to the Council could be adequately mitigated.	There is adequate assurance that objectives could be met, but further actions are required to adequately mitigate the risk to the Council.	There is good assurance that objectives will be met, with little risk to council resources.

Overall Conclusion

The appraisal scored 66% and provides **satisfactory assurance** over the adequacy of the proposals.

Financial appraisals will identify the following levels of issues:

Fundamental

Action is imperative to ensure that the objectives of the project are met

Significant

Action is required to avoid exposure to significant risks in achieving objectives

Merits Attention

Action is advised to enhance operational efficiency

Summary of key issues identified

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- The financial appraisal has identified 1 ‘fundamental’ issue
- The financial appraisal has identified 2 ‘significant’ issues
- The financial appraisal has identified 1 ‘merits attention’ issue

2 Issues Arising

Action is imperative to ensure that the objectives for the area under review are met
Fundamental

2.1 Financial Case – Funding

Total costs for the first 5 years of the contract are fixed at £5.642m. It is proposed that, along with the use of £2.501m from the Council’s E Business Suite Replacement Reserve, funding of £3.141m will be provided from existing resources used to support the operation of the current system. However, the current budget allocation for the operation of the existing system is £0.525m per annum and will only provide available funding of £2.458m for the period November 2019 to March 2024. This will result in a funding gap of £0.171m per annum from 2020/21 (£0.682m over the proposed contract period).

Implication:

There is insufficient funding available to fund the project.

Recommended action:

- With effect from April 2020, additional revenue resources of £0.171m per annum must be identified from within the Resources Directorate to ensure there is sufficient funding available to implement and operate the replacement business system over the contract period.

Action is required to avoid exposure to significant risks in achieving objectives
Significant

2.2 Financial Case – Contingency

Based on current estimates and subject to sufficient revenue resources being allocated to the project as detailed in 2.1 above, there will be unspent balances of £0.125m within the E-Business Suite Replacement Reserve at the end of the 5-year contract. It is proposed that this balance is used for contingency purposes, to fund any unplanned additional costs incurred in the implementation of the system. However, if sufficient revenue resources as detailed in 2.1. above, are not identified, the unspent balances may be required to support the ongoing operating costs of the system and may not be available for contingency purposes.

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Implication:

That any unplanned costs for the implementation of the system cannot be funded.

Recommended action:

Ensure that any unplanned additional costs incurred can be adequately resourced.

2.3 Financial Case – Sustainability

The long term operational costs (years 6 – 10) of the Oracle cloud-based system are estimated to be in the region of £0.806m per annum. This does not include any price increases imposed after the initial five-year contract has expired or any increase in the number of licences that may be required. Current budgets for the Sandwell Business System have been identified to the value of £0.565m per annum, resulting in a minimum annual shortfall of £0.241m from year 6 onwards.

Implication:

That the long-term operation of the Oracle cloud-based business system may not be financially sustainable.

Recommended action:

- Ensure long term strategic planning is undertaken to manage the shortfall in funding for the long-term operation of the replacement business system and to ensure that the operational costs of the system can be managed within available resources.

Action is advised to enhance operational efficiency
Merits Attention

2.3 Commercial Case – Contract terms & conditions

The proposed contract with Oracle Corporation UK Ltd for the provision of the Oracle Fusion system is based on an agreed number of user licences for the duration of the contract. The contract does not allow for a reduction in price if the numbers of licences required by the Council reduces during the five-year contract period.

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Implication:

The Council will be unable to realise savings through the reduction of users of the system should future service reorganisations result in reduced staff numbers during the five-year contract.

Recommended Action:

Ensure that the user numbers agreed within the contract are assessed against any planned organisation/service reviews to ensure that they are reasonable and that any reductions within the contract term would not significantly impact on the reasonableness of the price agreed.

Other observations not requiring action**2.4 Economic Case – Value for Money & Added Value**

The preferred solution for the replacement business system is the costliest option examined and although detailed option analysis was undertaken on 3 possible solutions, the option to procure an alternative cloud software solution was not fully investigated. Whilst it is acknowledged that such a system may have higher implementation costs, an alternative system may have provided a better fit at a lower long-term cost. This option does not appear to have been fully investigated in terms of the net benefits and costs to the Council.

The final option analysis was produced by the Council's current support partner, who is also the proposed implementation partner for the Council's new business system. The impartiality of the option analysis undertaken could therefore not be confirmed.

Implication:

That the proposed option may not optimise value for money for the Council.

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