Finance and Resources Committee

10.00am, Thursday 8 September 2022

Enterprise Resource Planning (ERP) Funding

Executive/routine	**Executive**
Wards	**All**
Council Commitments	

1.   Recommendations

1.1   The Council continues to move forward with the implementation tasks to bring all aspects of the ERP Programme in to live production. The R12 upgrade programme is planned to complete in this financial year.

In order to conclude this programme this paper has set out the funding required to complete the necessary implementations.

1.2   The funding being requested of £0.961m one off costs and £102k recurring costs are critical as explained in this report to ensure successful operational completion of both the Finance and Debt Management upgrades. This funding has been identified within the Corporate Services budget to meet these costs; however, there are resulting risks to funding the programme in this way that will require mitigating actions.

1.3   The programme management team will continue to apply strict financial monitoring controls and scrutinise any additional costs to keep the contingency spend to a minimum. Contingency funding not required will be returned.

1.4   The Council's Change Board actively monitors and tracks progress on all Council wide programmes ensuring that targeted action is taken should timelines, benefits or costings deviate from the original business case; this includes the ERP Programme.

Richard Carr

Interim Executive Director of Corporate Services

Contact: Nicola Harvey, Service Director, Customer and Digital Services,

Customer and Digital Services Division, Corporate Services Directorate

E-mail: Nicola.harvey@edinburgh.gov.uk | Tel: 0131 469 5016

Report

ERP Funding

2. Executive Summary

2.1 The purpose of this report is to provide an update and financial overview on the Council's ERP (Enterprise Resource Planning) Programme and request the funding that is needed to support the required infrastructure upgrade and other potential ERP commitments on both the Finance, Procurement and Debt Management elements of this programme, along with highlighting the importance to complete and finish it this financial year.

2.2 It should be noted that the current version of Oracle EBS has been in extended support since March 2018 and is only receiving security patching. The current support contract extends to March 2023, and there are no guarantees of extended support beyond that. It is therefore critical that this programme completes, and the finance and debt system are upgraded.

2.3 The current DMS system is used for both debt management and debt recovery and is nearing end of life. The system also has limited functionality compared to more modern systems. There is a requirement to complete the upgrade to ensure we can continue to provide a debt function and collect monies.

2.4 The financial transactions and monetary amounts that the system supports are detailed below and highlights the criticality of completing this programme and securing the additional funding requested.

Banking & Payments

The functionality for Banking and Payments will allow the team to deal with payments out and allocating income

All Invoices paid April 21 – Mar 22 - Totalling £1,155,153,188

All Income Allocated Apr 21 – Mar 22 - Totalling £2,409,846,327

Bankline Payments – Totalling £1,709,219,810

Procurement

The Oracle system supports procurement activity across the Council with the majority of third party spend processed through the system.

To put into this context, in the 2021/2022 financial year third party spend was £874,410,083 across four thousand suppliers of services, goods and works required by the Council.

Debt Recovery

System functionality is utilised by the Council's Accounts Receivable Team to recover appropriate sums owed to the Council. This functionality is required to support a range of standard financial tasks, including financial write on/offs, credit notes, refunds, remittances, maintaining instalment plans and wider aged debt actions. The system also supports the maintenance of external recovery actions such as inhibitions, summons and Sheriff Officer referrals.

The system supports over 120 debt/service types including Health & Social Care accommodation, community alarm and care at home charges. Other key activities include Common Charges, Shared Repairs, Garage Rents, Commercial Rents & Licensing.

Background Data

20/21 - total invoices raised 40502 and total Value £127m

21/22 - total invoices raised 30519 and total Value £ 94m

2.5   If the work to replace the existing Oracle EBS does not continue, the Council will be at risk from:

- Being unable to make or request payments – including payments to support our most vulnerable citizens

- Being unable to purchase goods or services

- Failure to meet new financial regulations or legislation changes from unsupported and out of date software

- System failure without the specialist support to access our data

- Security breaches and cyber threats from unpatched software

2.6   If the Debt system is not replaced, there is the risk of the Council being unable to collect monies across the organisation as the current system is at end of its support life and will run out of invoice numbers in April 2023.

2.7   Any further delay in agreeing to continue with the programme will also lead to additional costs of around £100k per month which may also be further impacted with increased costs related to current inflation on good and services. Therefore, it is critical to proceed now, not only to keep costs as low as possible but also to ensure the Council's Financial system is secure and supported with regular maintenance in place to protect us from security breaches or cyber threats.

3. Background

3.1 The ERP Programme will deliver a range of upgrades and improved interfaces between core systems in Finance, HR/Payroll and Banking and Payments Services and is in full delivery with contracts in place through CGI with a range of partners to support this delivery.

3.2 The ERP programme is delivering a technical upgrade of Oracle E-Business (EBS) to the existing Finance and Procurement system with the addition of an Oracle E-Business (EBS) debt management solution (DMS). Both are proposed to go live during this financial year. This upgrade is required as the current Oracle EBS system version is at end of life and in extended support.

3.3 Additionally, through testing it has become clear that further upgrades to the Frontier finance budget management system are required to support the enhanced functionality provided through the upgraded Oracle EBS.

3.4 The current DMS is used for both debt management and debt recovery and is nearing end of life. The system also has limited functionality compared to more modern systems.

3.5 Throughout the programme, confirmed programme costs have been built into the financial model, which is rigorously monitored by Finance and the programme board which meets fortnightly. Internal Audit remain fully engaged with and provide agile audit support for this programme.

3.6 It should be noted that our current version of Oracle EBS has been in extended support since March 2018 and is only receiving security patching. Our current support contract extends to March 2023 with no guarantees of extended support beyond that.

4. Main Report

Budget Management System

4.1 The Frontier system is used for budget management and reporting, has already been upgraded to enable Frontier to be compatible with the Oracle EBS version.

4.2 The Oracle upgrade teams in CEC and Offa (the provider of Frontier) have consistently reported performance speed issues with the infrastructure housing the instances of the upgraded solution.

4.3 The infrastructure was upgraded in October 2019 to support the Frontier software upgrade as part of the ERP Programme. However, it has now been identified that the processor speed should be increased to mitigate the risk of performance issues when the upgraded Frontier product goes 'live'. As the previously upgraded infrastructure would not be able to accommodate the necessary processor upgrade, the move to a Cloud hosted solution has been identified as the optimal solution to mitigate performance risk.

Storage Solution for Oracle EBS

4.4   CGI have identified that the hardware Storage solution which Oracle EBS sits on is nearing end of life and was due to be replaced as part of the ongoing infrastructure monitoring programme. As this may be contributing to and impacting on the performance speeds, CGI have committed to upgrading the Net Apps storage during 2022, along with decommissioning and replacing the existing unit by January 2023.

4.5   As with all new hardware, additional testing will be required by both the Council and our managed service partner (i.e., CGI) before this goes live.

4.6   It should also be noted that to accommodate the extended timeline required for the infrastructure changes, there may be a requirement to extend support for the existing DMS solution beyond its current end date of October 2022.

5.   Next Steps

5.1   The Council continues to move forward with the implementation tasks to bring all aspects of the ERP Programme in to live production.

5.2   In order to conclude this programme this paper has set out the funding required.

6.   Financial impact

6.1   The ERP financial tracker reported to the Board on 21st March reflected a programme contingency of £0.124m with a provision for £0.102m for costs associated with enhancements to Frontier infrastructure.

6.2   Based on current assessments, to conclude the programme additional one-off investment funding is required of between £0.761m and £0.961m, as detailed in the table below, along with associated recurring costs of £0.102m which will require approval.

	Best Case One off	Best Case recurring	Worst Case One off	Worst Case recurring
	£000's	£000's	£000's	£000's
Frontier Infrastructure	42	102	42	102
Debt Management extension - supplier	410	0	410	
Debt Management - Invoice Numbers	0		200	
Debt Management - CGI	14		14	
Change Requests inc additional supplier costs	79	0	79	
Storage Infrastructure	200		200	
Contingency/Resources	240		240	
TOTAL	985	102	1,185	102
Less Contingency already included in budget	224		224	
Net Funding required	**761**	**102**	**961**	**102**

6.3 The Frontier infrastructure costs above are based on additional costs for the functionality we now require.

6.4 Therefore, to ensure that all requirements can be funded to conclude the ERP Programme a maximum one-off funding of £0.961m is required and also that provision be made for the associated recurring costs of £0.102m. These costs are based on a delivery for Finance R12 within the current financial year.

6.5 The funding requirement is based on a number of assumptions:

- This is based on an assumed extension for the DMS solution with the worst-case scenario incorporating addition costs of £0.2m if an extension of the invoice numbers range is required. It should be noted that the likelihood of the programme requiring additional invoice numbers is low.

- The costs associated with the earlier than anticipated upgrade of the storage solution to be confirmed but anticipated at £0.2m.

- Additional Change Requests are based on future requirements of 5 x Simple Change Requests and 1 x Complex Change Request = £79,784

   o this amount is based on the average cost of the last 5 Simple Change Requests with an average cost of £2,657

   o and the average cost of the last 5 Complex Change Requests with an average cost of £66,499

- A potential extension to the current DMS solution is estimated to be around £410,000

6.6 The detail below sets out how this funding gap of £961k can be met, and to acknowledge the risks that will have to be managed within Corporate / Customer & Digital Services as a result.

There are options to use one-off non-recurring potential opportunities within the Corporate Services account, these are detailed below and do come with some element of risk.

1. Corporate Services projected underspend of £0.279m if all initiatives are delivered.
2. Provision for potential legal challenges on licensing costs of £0.559. This funding is subject to successful conclusion on contract negotiations and as such comes with a risk.
3. Balance of £0.123m which still requires to be mitigated, with the view to managing and negotiating the estimated project spend with suppliers, to reduce this outstanding balance.

Pressures to be managed

Point two above was being held to offset potential risks in the Customer budget, if these recommendations are accepted the following pressures remain unfunded.

- Ukraine Crisis – Additional funding still to be confirmed £0.399m

- Cost of Living/ Covid costs - £0.258m

To mitigate these pressures, confirmation of funding from the Scottish Government is required to meet both Ukraine costs and COLA administration costs incurred within Customer. This is being progressed by the Ukraine project via Finance and the Customer team are progressing COLA funding with Scottish Government.

7. Stakeholder/Community Impact

7.1 The Council's Change Board actively monitors and tracks progress on all Council wide programmes ensuring that targeted action is taken should timelines, benefits or costings deviate from the original business case, this includes the ERP Programme.

8. Background reading/external references

8.1 Digital & Smart City Strategy 2020-23

9. Appendices