

Item No. N/A	Classification: Open	Date: 9 April 2024	Decision Maker Cabinet Member for Communities, Democracy Finance
Report title:		Gateway 0 - Strategic Options Assessment for the replacement of an Enterprise Resource Planning system	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance	

RECOMMENDATION

1. That the Cabinet Member for Communities, Democracy and Finance approves the Strategic Options Assessment for replacement of the Enterprise Resource Planning (ERP) system.
2. That the Cabinet Member for Communities, Democracy and Finance notes the next steps set out in this report and particularly the intention to bring a procurement strategy Gateway (GW1) report for this service to Cabinet in June 2024

BACKGROUND INFORMATION

3. Southwark has used the current ERP system (Business Suite 7) for human resources (HR), Finance, Purchase to Pay and Payroll since 1999. The current SAP system will not be supported from 2027 and will be retired completely in 2030. Therefore, the decision for the replacement of the ERP system needs to be made now to ensure there is sufficient time to procure and implement the solution prior to the existing legacy system becoming end of life.
4. There are several identified challenges to update an ERP system to support a modern, dynamic organisation. These include:
 - Reporting for finance, budget and people managers within the current system is limited and time-consuming.
 - The current system is not mobile enabled, so employees and managers require their own Southwark Council supported laptop to access the system.
 - Several additional bolt-on systems have over time, been purchased and separately maintained due to an ageing system.

- Current processes can be difficult to navigate with several bolt-on solutions resulting in inefficiencies.
- The current system is not easily adapted to policy and legislative changes and the council is reliant on a broad range of support partners and internal resources to maintain it.

Key Drivers for Change

5. Southwark requires a system that is able to support Southwark's 2030 ambitions and meets the principles of Southwark's Technology and Digital Inclusion Pillars.
6. A new ERP system will have mobile functionality and be more usable for those who find it hard to access council services. The selection and implementation of a new solution needs to align with Southwark's Technology and Digital Inclusion Strategy, relevant aspects of which include:
 - **Improving resident experiences:** Reviewing the customer experience end to end, to enable a seamless experience; reducing calls by automating and digitising processes; giving residents updates on service progress; ensuring payments can be made online; and joining up technology to create a single customer record.
 - **Supporting staff by delivering modern, reliable, secure, and cost-effective access to technology and improved end user experience;** developing a new front-line worker programme to provide technology solutions that aim to address IT disconnected staff; embedding a digital culture to promote new ways of working; and promoting technology transformation as a strategic enabler.
 - Southwark Council operates several other bolt-on systems that makes it difficult to support and would typically be part of an ERP application suite, Appraisals, Applicant Tracking, Budget Management are all undertaken by other applications in addition to existing system related costs so may offer opportunities for rationalisation.

KEY ISSUES FOR CONSIDERATION

Future service requirements and outcomes

7. The role of digital technology in the way Southwark Council works and interacts with employees, residents, and businesses is evolving and the current ERP solution does not allow support for this in a way in which technology and working practices require. This includes the lack of any mobile interface, limited opportunities to interact with suppliers and customers digitally, a counter-intuitive user experience leading to poor compliance, and a lack of visibility and reporting capability.

8. It is important to state that the ERP replacement programme will be a complete organisational transformation programme encompassing not only systems but will be underpinning Southwark's 2030 ambitions. The programme will seek to include an archiving solution, data migration and a support model post go-live.

Strategic service delivery options and assessment

9. The various options related to this software and the route to market are set out in an options appraisal in the following paragraphs:
10. **Implementation of a new Cloud ERP system:** This route may mean only one system implementation partner to manage. It would also be a less complex solution (without interconnectivity between solutions) and so provide better overall resilience, flexibility and integration. This could lead to better master data management. It may result in a reduction in some niche products and potential sub-optimal self-service across HR and Finance.
11. This could be costly to implement dependent on vendor and solution selection. There is the possibility of some shortfalls in functionality around local government specific requirements, and HR capabilities such as recruitment and learning where technology solutions are evolving most rapidly, and some integration to additional solutions may therefore still be required.
12. There would be simpler but still significant data quality and migration effort required for a fully integrated solution. An integrated solution that will underpin as well as complement our Southwark's 2030 ambitions (compared to Best of Breed). A critical risk is that there would be significant business change required, potentially more so than with Best of Breed solutions since implementation will be less staggered and take place over a shorter period. In addition, the council lacks experience in delivering such a significant programme.
13. **Do nothing** If no change is made, there will be no change impact on Southwark; things will stay the same until external drivers force a change (i.e. Southwark's existing product going out of support in 2027). A change would be required from 2030 (this will impact Southwark's 2030 ambitions and/or council wide transformation) when the current system would be unavailable, and this is needed to maintain finance budgets and payments to suppliers and staff.
 - By maintaining the status quo in the short term however, the council would continue to operate sub-optimally with excess non-value adding activity through disjointed processes.
 - There will also continue to be compliance issues given the number of off-line processes, and corporate teams will be unable to move to more value-adding non-transactional activity without the move to genuine universal self-service.
 - The risks of this option are continued compliance issues evident because of offline processes and that Southwark will be forced to migrate to new solutions as the current estate reaches end-of-life support, regardless of readiness.

- 14. Adaptions/modules of current system:** This would be updating the current system to increase the functionality of the current system; however, the current system will be unsupported and not in use from 2030. There would be improved data quality and reduced multiple handling of data through rationalised and consistent processes, including better management of the production of reports, removing duplicates, and improving visibility. This option would bring improvements that would support future technology enhancements. However, it only offers partial improvement and alignment with identified strategic drivers, and officers will continue using outdated technology that is difficult to use and lacking functionality because of lack of investment and updating of the current system. Key processes would remain fragmented and inefficient, with duplicate handling of transactional data, without further technology to interface the current solutions, improve integration and propagate master data. The plethora of technology solutions and customisations makes the current ERP estate fragile and unable to be flexed with changing business, legal and statutory requirements. The risk of this option is that there will still be a requirement to undertake another major programme when the current system is out of support, which would mean greater cost. This option would pose a procurement risk and an increase of costs.
- 15. Implement latest version of SAP:** To derive sufficient benefit to justify upgrading the current system it would be necessary to upgrade to S/4HANA, the latest cloud version of SAP. SAP have confirmed that there is an upgrade path available for this. However, it would be equivalent in every sense to the implementation of a new cloud ERP system and therefore is included within the Cloud ERP option below. This option would pose a procurement risk and an increase of costs that may be managed via the use of frameworks but may be comparable to the cost of implementing a new ERP system.
- 16. Implementation of new Best of Breed systems:** Best of Breed refers to individual cloud-based systems as opposed to one fully integrated solution. This approach could be a better fit with the council's functional requirements and avoids the risk of compromise across HR and Finance functionality. This approach would lend itself to the option of a sequential implementation approach. However, it will require a complex interface between the HR and Finance systems and there will be an additional cost to migrate to two separate solutions. As there could be more than one implementation partner, this would present a more complex relationship backdrop to manage within the programme with a more complex technical design, a longer implementation period, and potentially higher programme costs. Significant business change will be required to deliver and embed changes, as well as staff needing to access multiple systems with different user interfaces. The solutions in this option would mean potentially more support challenges with multiple bolt-on systems to support and keep up-to-date, and the council will need to manage multiple supplier contracts with potentially misaligned implementation periods.

17. **In-Source:** The council does not have the required capacity to manage a programme of this complexity and will seek to utilise external expertise as required. Internal resources will be utilised throughout the programme (i.e. work stream leads for each functional area and IT support) utilising external contractors where necessary.

18. **Shared Service Delivery:** The option to develop a shared service model has additional benefits that reduce the risk attached to some areas set out above in the in-source option. However, this is not considered to be a viable option for the council currently, as neighbouring authorities are using similar methods or already accessing frameworks, so it is not viable to join with them as they already have agreements in place. The framework agreements achieve competitive rates by accessing the market on behalf of a significant number of authorities nationally, so this option has not been explored further.

19. The shared service with Lewisham and Brent is not an option as both councils have recently undertaken a replacement ERP system through a procurement exercise. Details of lessons learnt on this have been sought.

Voluntary sector / not for profit

20. The small and relatively well-developed market that operates within this sector, has meant that the voluntary and not for profit organisations do not directly operate in this market at present. The opportunity exists; however, for appropriate not for profit agencies, where they exist, to form part of the supply chain as suppliers to larger agencies where appropriate.

Decommissioning Services

21. There is no plan to decommission services although there will be a review of all IT systems to streamline where possible to ensure efficiencies and enhanced level of reporting are achieved.

Critical Success Factors

22. The system(s) implemented will need to provide a core foundation across HR and Finance / Procurement. The table below details high level critical success factors which will be fundamental for the programme to deliver.

HR	FINANCE / PROCUREMENT
Direct access for all Southwark employees	Intuitive budget monitoring solution for managers and accountants
Targeting one single HR system used by all managers, and if this is not possible,	Configurable reporting solution

then one portal for users to create a seamless user experience	
Prevention in over and underpayments to staff	Reduction in resources needed for transactional processes
Configurable reporting solution	Reduction in processing times for accounts payable and accounts receivable
Single view of the employee and full view of the establishment	A user friendly CIPFA code compliant fixed assets system fully integrated to the General Ledger
Eradication of manual recording and processing	Link between gateway procurement approval levels and vendor spending limits.

External Procurement

23. Given the size of the proposed investment there would be multiple governance steps that would need to be completed as part of the procurement process. An outline project plan and timeline are set out in the procurement timeline at paragraph 30.

Market considerations

24. Market testing took place during 2022 including Oracle, Unit 4 SAP, Workday, Technology One, itrent, Advanced and MS Dynamics, supported by the Society for Innovation Technology and Modernisation (Socitm), and a substantial number of reference calls have taken place with other Local Authorities both in London and further afield to understand their experiences of implementing both best of breed solutions and a single ERP platform across HR, Finance, and Procurement. The market testing work will inform the future procurement route for this requirement.

Policy Framework Implications

25. The council's ERP system plays a critical role in facilitating essential public services and enabling the achievement of priorities and commitments in the Council Delivery Plan for example value for money, managing finances and income and supporting staff.

Identified risks for the service and recommended strategic option

26. Based on the information and details outlined in this report, it is recommended that the council consider a cloud-based ERP and/or Best of Breed solution. The Gateway 1 will further explore the procurement strategy for a replacement ERP system.

27. Several initial risks to the programme have been identified and mitigations will be put in place to address them:

- It may be a challenge to recruit and back-fill roles to support the secondment of business subject matter experts to the programme.
- The programme may not be delivered to the planned schedule resulting in a cost over-run and delayed realisation of programme benefits.
- The business transformation and culture change may not be effective resulting in programme objectives not being achieved.
- The data in the current and ancillary systems may require extensive cleansing before it can be migrated into the new solution.
- Existing business processes and practices are not fully documented, and this will impact the speed of transition and scope of the programme as we seek to understand the gap between what we have, and solution led best practice design.

28. Detailed risks (and their mitigations) will be included in GW 1 procurement strategy report.

Key/Non Key decisions

29. This is a key decision.

Next Steps

30. We will bring a procurement strategy Gateway 1 report, through to Cabinet in June 2024.

Service Delivery Project Plan (Key Decisions)

31. The procurement timeline for the next stages of this programme is set out below:

Activity	Complete by:
DCRB Review Gateway 0	14/12/2023
CCRB Review Gateway 0	21/12/2023
LMB Gateway 0	29/01/2024
CMT Gateway 0	06/02/2024
DCRB Review Gateway 1	21/03/2024
CCRB Review Gateway 1	28/03/2024
Notification of forthcoming decision – Gateway 0	24/04/2024
Approval of Gateway 0	30/04/2024

End of Scrutiny Call-in period and notification of implementation of Gateway 0 decision	09/05/2024
CMT Gateway 1	21/05/2024
Notification of forthcoming decision – Gateway 1	10/06/2024
Approval of Gateway 1: Procurement Strategy Approval	18/06/2024
End of Scrutiny Call-in period and notification of implementation of Gateway 1 decision	27/06/2024

Community, equalities (including socio-economic) and health impacts

Community impact statement

32. The nature of the systems being procured are such that they have no direct equalities impact on local people or communities.

Equalities (including socio-economic) impact statement

33. The nature of the systems being procured are such that they have no direct impact on equalities.

Health impact statement

34. The nature of the systems being procured are such that they have no direct impact on health.

Climate change implications

35. The nature of the systems being procured are such that they have no direct equalities impact on climate change.

Social Value considerations

36. The Public Services (Social Value) Act 2012 requires that the council considers, before commencing any procurement process, how wider social, economic and environmental benefits that may improve the well-being of the local area can be secured.

37. Any route to procurement will consider social value, whether it is included within the framework itself. This will be explored more fully in GW1, however, would look wherever possible to incorporate the following: -

- guarantee the London Living wage/Living Wage (as appropriate) for any relevant staff whether that is its own staff and any subcontractors used
- follow all relevant standard provisions on blacklisting
- follow the standards for financial transactions and payment windows for their entire supply chain

- make every effort to reflect the council's fairer future principle by 'looking after every penny as if it was our own.'

38. Apprenticeships/internships

- The utilisation of local contractors and apprenticeships will be investigated further, and details included in Gateway 1 report.

Economic considerations

39. The procurement exercises associated with this recommendation will take into consideration how the delivery of these services can benefit the local area will be set out in the GW 1 report.

Social considerations

40. Nothing additional envisaged through the contract delivery to existing arrangements at present but social value will be considered and included fully in the GW 1 report. Any supplier looking to do business with the council will need to comply with requirements in the recognition of trade unions and prevention of Trade Union blacklisting.

Environmental/Sustainability considerations

41. Nothing additional envisaged through the contract delivery to existing arrangements but will be considered in greater detail in the GW 1 report.

Plans for the monitoring and management of project

42. The council's contract register publishes the details of all contracts over £5,000 in value to meet the obligations of the Local Government Transparency Code. The Report Author must ensure that all appropriate details of this procurement are added to the contract register via the eProcurement System.

43. Annual performance reports are required to be presented in line with Contract Standing Orders.

44. Key Performance Indicators and acceptance criteria for payment for the delivery of any system will form part of the contract and tender documentation following the GW 1 report.

Resource implications

45. A procurement that seeks best of breed solution rather than a fully integrated ERP solution is more complex by its nature, therefore the contractual and support arrangements required to maintain the solution will be more complex.

TUPE/Pensions implications

46. Any TUPE implication will be explored in more detail in the GW 1 report.

Financial implications

47. Modelling undertaken has given indicative figures required to deliver either a Best of Breed or ERP replacement. These figures will be dependent on the solution or solutions selected, and whether the programme is implemented concurrently over three years or sequentially over four years. The final costs will be determined following the procurement of the software alongside the procurement of an implementation partner(s) and further indicative costs will be provided in the closed GW 1 report.
48. The figures that will be included in the closed report is based on a financial model developed by Socitm and comparisons with similar programmes at other local authorities. However, further validation of these costs will be provided in the closed GW 1 report.
49. This programme is predicated on a long-term payback and would enable a truly transformational change to how the council works. Modelling by Socitm indicated that the adoption of a new solution could deliver approximately 10% in transactional efficiency savings.
50. Further detailed cost breakdown including the estimate for revenue and capital will be provided in a closed GW 1 report.

Consultation

51. Internal Southwark departments have been consulted and this programme has a broad stakeholder group who will be working closely with staff and trade unions throughout the programme. A programme team has been created to commence the engagement.

Other implications or issues

52. Existing contract and dates to align to this programme may need to be considered and an extension of the current contract in the form of GW3 may need to be presented once the detail of the programme has been set out and agreed.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance (FIN23/38)

53. The report sets out the Strategic Options Assessment for the replacement of the ERP system, which will become obsolete from 2030. The replacement will enable long term improvements to the way the council delivers its services and will deliver efficiencies, best quality and value for money. It has been assessed that the procurement will require further resource, which will potentially be funded from set aside reserves. The ongoing revenue costs

will eventually be part funded by savings from discontinuing a number of existing systems with the remainder being a commitment for future year's revenue budgets.

Head of Procurement

54. This report seeks approval from the Cabinet Member for Communities, Democracy and Finance for the replacement of the Enterprise Resource Planning (ERP) system as detailed in this Gateway 0 report.
55. The Cabinet Member for Communities, Democracy and Finance should note that the strategic options are detailed in paragraphs 7 to 21, the risks are detailed in paragraphs 26 to 27, there is NO impact on equalities, health and climate change, management and monitoring of the contract is detailed in paragraphs 40 to 42, payment of London Living Wage, social value commitments will be detailed in the Gateway 1 report.

Assistant Chief Executive – Governance and Assurance (KM/CON20240213)

56. This report seeks the Cabinet Member for Communities, Democracy and Finance approval to the Strategic Options Assessment for replacement of the Enterprise Resource Planning (ERP) system and to note the next steps to be taken.
57. Under the council's Contract Standing Orders, a pre-procurement/Gateway 0 report is required for any service contract with an estimated contract value of £10m or more, or for other strategically important contract for services, goods or works where requested by the relevant cabinet member. The decision to approve the report recommendations is reserved to the relevant cabinet member after consideration of the report by the Corporate Contracts Review Board.
58. Paragraphs 9-21 of this report sets out the strategic service delivery options, and their assessment. Subject to approval of this report, future investigation of the externally procured approach to delivery of this service will be undertaken, which will be included in the Gateway 1 report which is due to be presented to Cabinet in June 2024. Legal officers from Governance and Assurance will continue to assist the report author and her team as this project progresses and will give the Cabinet additional advice in due course.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Stephanie Cryan, Cabinet Member for Communities, Democracy and Finance	
Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Jason Martin, Programme Director ERP	
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Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Finance	Yes	Yes
Head of Procurement	Yes	Yes
Assistant Chief Executive – Governance and Assurance	Yes	Yes
Director of Exchequer (For Housing contracts only)	No	No
Contract Review Boards		
Departmental Contract Review Board	Yes	Yes
Corporate Contract Review Board	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		8 April 2024

