

Enterprise Resource Planning System Cloud Hosting

To: Assets and Procurement Committee

Meeting Date: 17 September 2024

From: Executive Director for Finance and Resources

Electoral division(s): All

Key decision: Yes

Forward Plan ref: 2024/074

Executive Summary: The purpose of this report is to convey essential information, analysis and recommendation for the immediate future direction of the Shared Service's Enterprise Resource Planning solution, considering the impact of the supplier's de-support announcement, and the strategic options for the short to medium term (now until 2029).

The Enterprise Resource Planning solution implemented across the Shared Service (Cambridgeshire County Council, Milton Keynes City Council, North Northamptonshire Council, West Northamptonshire Council), underpins each Council's ability to administer and manage Financials, HR and Payroll processes and associated statutory compliance.

The Committee is being asked to consider the options and recommendations presented, ensuring a continued safe and legal provision for Enterprise Resource Planning for the Council until at least 2029.

Recommendation: The Committee is recommended to:

- a) Approve recommended option to commence procurement of Enterprise Resource Planning System Cloud Hosting, through the Lead Authority Shared Service arrangements, with West Northamptonshire Council as the lead Contracting Authority.
- b) Delegate responsibility for awarding and executing a contract for the provision of Enterprise Resource Planning System starting April 2025 and extension periods to the Executive Director for Finance and Resources in consultation with the Chair and Vice Chair.
- c) Delegate authority to the Executive Director of Finance and Resources, in consultation with the Chair and Vice-Chair, to agree, for the County Council's part, to any minor variations that may arise

during the progression of this proposal and to agree to any revised or updated inter-authority agreements that result.

Officer contact:

Name: Jonelle Philipsz
Post: Senior Project Manager, Shared Services, West Northamptonshire Council
Email: Jonelle.philipsz@westnorthants.gov.uk

Name: Tom Kelly
Post: Service Director: Finance and Procurement
Email: tom.kelly@cambridgeshire.gov.uk

1. Creating a greener, fairer and more caring Cambridgeshire

- 1.1 This proposal aims to meet Ambition 1: Net zero carbon emissions for Cambridgeshire by 2045. Our communities and natural environment are supported to adapt and thrive as the climate changes of the Council's 2023-2028 Strategic Framework:
- *Plan for and manage climate risk, so we can cope with the impacts our changing climate brings*
 - *Reduce the councils' direct carbon emissions to net zero by 2030*
 - *Support partners, residents, businesses and communities to live and work more sustainably*
 - *Embed net-zero by design and climate resilience into our transport delivery and infrastructure asset maintenance*
- 1.2 The proposal will aim to reduce the councils' carbon emissions by using Microsoft Azure data centres in the United Kingdom. Microsoft has been carbon neutral since 2012 and is committed to being carbon negative by 2030, with the commitment by 2050 to remove all the carbon it has directly emitted since its founding in 1975.
- 1.3 The Council's Enterprise Resource Planning system is vital to the organisation's day-to-day operations. It enables us to pay our workforce and suppliers, workflow and govern our administration and decision making and to record, monitor and manage our resources. In these ways the delivery of all of our Ambitions rely on its effective and continuous operation.
- 1.4 This proposal aims to meet Ambition 1 - Net zero carbon emissions for Cambridgeshire by 2045, and our communities and natural environment are supported to adapt and thrive as the climate changes of the Council's 2023-2028 Strategic Framework. It will do this by reducing the Council's carbon emissions by using Microsoft Azure Data centres in the United Kingdom. Microsoft has been carbon neutral since 2012 and is committed to being carbon negative by 2030, with the commitment by 2050 to remove all the carbon it's directly emitted since its founding in 1975.

2. Background

- 2.1 In 2015, ERP Gold (local branding of the councils' Enterprise Resource Planning software) was procured as the strategic solution for providing a single suite of Enterprise Resource Planning software to manage day-to-day business activities such as accounting, HR, Payroll, Accounts Payable, Accounts Receivable and Procurement.
- 2.2 The ERP Gold solution was implemented to support a 'public to public' Shared Services Partnership operation (LGSS) across Northamptonshire, Cambridgeshire and Milton Keynes councils with the objective of significantly reducing operating costs of common 'back office' corporate business systems and services through leveraging economies of scale and standardisation.
- 2.3 In late 2023, the councils' incumbent Enterprise Resource Planning supplier announced to all customers that the software will reach End of Support on 31 December 2024.

- 2.4 This report responds to the supplier announcement with an assessment of options and recommendations to secure a safe, legal, costed and fully funded Enterprise Resource Planning solution to meet the councils' needs until at least 2029.

3. Main Issues

Current position

- 3.1 In late 2023, the councils' incumbent Enterprise Resource Planning supplier announced to all customers the software will reach End of Support on 31 December 2024. This means that no support and maintenance would be available from January 2025 unless a new commercial agreement (contract) is in place, and the councils migrate to the supplier's own cloud hosting solution (the councils are currently in contract with a 3rd party cloud hosting provider). This is despite owning a 25-year perpetual licence, with a 2040 expiry date, and utilising the most current version of the software.

- 3.2 The risk and impact of no ERP support and maintenance:

- Statutory Compliance: High Risk/High Impact
Non HMRC compliant system from April 2025 (annual HMRC driven payroll updates from the incumbent supplier are released every February). Without compliance, the councils are unable to run Payroll from April 2025 for over 15,000 employees.
- Security Updates/Hot Fixes: Medium Risk/High Impact
No ERP system security updates, which may open the councils to security vulnerabilities/risk of cyber-attack.
- Bug fixes/Issue Resolution: Medium-Low Risk/Medium-Low Impact
No ERP system bug fixes or able to receive issue support and/or resolution from the incumbent supplier with issues that councils find within the system.

3.3 Current negotiation with incumbent supplier

Since the announcement, as lead authority, West Northamptonshire Council has been negotiating with the supplier who has conceded to provide the Shared Service Partnership with:

Since the announcement, the four Councils have adopted a unified position in negotiations with the supplier who have conceded to provide the Shared Service Partnership with:

- An extended period for ongoing support and maintenance, through to end of March 2026. Thereafter, support and maintenance will only continue if the Shared Services have signed a new commercial agreement and commenced migration to the supplier's Cloud solution.
- Preferential whole life contract rates from leveraging the councils' scale (negotiation is ongoing), under a new four-year agreement.

3.4 Legal case

Shared Services have sought both internal (Lead Authority West Northamptonshire Council

Legal Team) and specialist external legal advice in respect of a potential breach of contract by the supplier, following their announcement. Due to the impact of announced timeframes, Shared Services also sought advice on compliance with UK market competition law.

The legal advice concluded, on the basis that support and maintenance will not expire until at least 31 March 2026, the current provider has not yet breached the contract. Only when the current provider does withdraw support to the services or software, may there be a case for breach of contract.

The contract provides adequate remedies where there is a breach.

The legal advisors also confirmed that compliance with UK market competitions law can only be decided by the Competitions Market Authority. Any case, any report or complaint to the Competitions Market Authority will take time to investigate (up to 18 months) and may not yield a favorable result.

3.5 Procurement

West Northamptonshire Council is the contracting authority under the Shared Services Partnership Agreement.

A compliant Government Framework has been identified as the procurement vehicle that would best fit with the timeframes with which the project has to work.

Use of this framework has been endorsed by West Northamptonshire Procurement as it allows for quick and seamless selection and sourcing of the contracts and is a typical route to market for these types of purchases (cloud hosted software). It provides a standard basis for IT procurement, e.g. in contractual terms and conditions and by increasing transparency.

This framework has been established by the UK Government's Crown Commercial Services and enables public bodies to contract with suppliers which have been through nationally run competitive processes, without the need to go through their own full tender exercise.

3.6 Preferred option

Whilst several options have been considered, the outcome of the options appraisal assessment has determined the following as the preferred option:

Enter into new commercial agreement for ERP Gold with the current provider via a compliant procurement route.

High level analysis of this option:

Short to Medium Term (now until 2029)

Option	Impact on Budgets	Impact of Change	Overall Risk	Score*
Enter into new commercial agreement for ERP Gold with current provider via compliant procurement route	Minimal	Minimal	Minimal	15

Medium to Long Term (2030 to 2034+)

Option	Impact on Budgets	Impact of Change	Overall Risk	Score*
Enter into new commercial agreement for ERP Gold with current provider via compliant procurement route	Minimal	Minimal	Major	25

Scoring: Minimal = 5. Moderate = 10. Major = 15. (the lower the score* the better)

Details of the indicative timeline and costs of the preferred option is in *Appendix 1* of this report.

High Level Key Risk Summary

Option	Short to Medium Term	Medium to Long Term
Enter into new commercial agreement for ERP Gold with current provider via compliant procurement route	<u>Minimal Risk</u> Same ERP supplier, same software and minimal impact on budgets	<u>Major Risk</u> Support and Maintenance not guaranteed beyond 2032

4. Alternative Options Considered

4.1 Alternative options considered:

- Procure 3rd party payroll support and retain ERP Gold solution
- Outsource payroll to a payroll managed service provider, and retain unsupported ERP Gold for financials
- Procure and implement a separate payroll software solution, and retain unsupported ERP Gold for financials
- Procure alternate integrated ERP solution

High level analysis of these options:

Short to Medium Term (now until 2029)

Option	Impact on Budgets	Impact of Change	Overall Risk	Score*
Procure 3 rd party payroll support and retain ERP Gold solution	Minimal	Moderate	Major	30
Outsource payroll to a payroll managed service provider, and retain unsupported ERP Gold for financials	Major	Major	Major	45
Procure and implement separate payroll software solution, and retain unsupported ERP Gold for financials	Major	Major	Major	45
Procure alternate integrated ERP solution	Major	Major	Major	45

Medium to Long Term (2030 to 2034+)

Option	Impact on Budgets	Impact of Change	Overall Risk	Score*
Procure 3 rd party payroll support and retain ERP Gold solution	Minimal	Moderate	Major	30
Outsource payroll to a payroll managed service provider, and retain unsupported ERP Gold for financials	Major	Major	Major	45
Procure and implement separate payroll software solution, and retain unsupported ERP Gold for financials	Major	Major	Major	45
Procure alternate integrated ERP solution	Major	Major	Moderate	40

Scoring: Minimal = 5. Moderate = 10. Major = 15. (the lower the score* the better)

High Level Indicative Timeline and Costs for Shared Services

Option	Time to procure & implement	£ Total for 4 Years (inc. implementation)
Procure 3 rd party payroll support and retain ERP Gold solution	10 months	circa 1.6m
Outsource payroll to a payroll managed service provider, and retain unsupported ERP Gold for financials	18 months	circa 5.6m
Procure and implement separate payroll software solution, and retain unsupported ERP Gold for financials	18 months	circa 4.9m
Procure alternate integrated ERP solution	36 months	circa 11m

High Level Key Risk Summary

Option	Short to Medium Term	Medium to Long Term
Procure 3 rd party payroll support and retain ERP Gold solution	<p><u>Major Risk</u> Approach has not been attempted before within the UK and/or local authority payroll, therefore there is no guarantee of success</p> <p>Local authority payroll configuration is complex across the Shared Services, significantly</p>	<p><u>Major Risk</u> Approach has not been attempted before within the UK and/or local authority payroll, therefore there is no guarantee of success</p> <p>Local authority payroll configuration is complex across the Shared Services, significantly</p>

	increasing the risk profile.	increasing the risk profile.
Outsource payroll to a payroll managed service provider, and retain unsupported ERP Gold for financials	<u>Major Risk</u> Does not address unsupported financial system, procurement / implementation timeframe is close to time available, and high organisational change impact	<u>Major Risk</u> Does not address unsupported financial system, further investigation for alternative financial options required
Procure and implement separate payroll software solution, and retain unsupported ERP Gold for financials	<u>Major Risk</u> Does not address unsupported financial system, procurement / implementation timeframe is close to time available, and high organisational change impact	<u>Major Risk</u> Does not address unsupported financial system, further investigation for alternative options
Procure alternate integrated ERP solution	<u>Major Risk</u> Procurement / implementation exceeds time available, potential high impact on budgets and high organisational change impact	<u>Moderate Risk</u> Further investigation required on available products in the marketplace and their costs

5. Conclusion and reasons for recommendations

5.1 Short to Medium Term

After completing a high-level assessment of options available, the recommended outcome for the Short to Medium Term is to **enter into new commercial agreement for ERP Gold with current provider via a compliant route.**

This option:

- Provides a supported Enterprise Resource Planning system for at least the next four years, ensuring the councils remain compliant for Payroll, retaining overall support and maintenance from the software supplier.
- Is achievable within the timeframes, has minimal impact on budgets and organisational change, and presents minimal overall risk to the Shared Services.
- Will require the councils to migrate to the supplier's ERP cloud provision. This has been taken into account as part of the assessment, and does not present significant risk

5.2 Medium to Long Term

Looking further forward, the review has highlighted that a refinement of options should be considered for the Medium to Long Term as part of the Shared Services overall Enterprise Resource Planning Strategic Review.

The options to be considered/assessed in the future:

1. Outsource payroll and procure alternative financial solution
2. Procure and implement best of breed (separate) Payroll and Financial solutions
3. Procure and retain existing Enterprise Resource Planning solution
4. Procure and implement a new integrated Enterprise Resource Planning solution

To ensure the councils identify the best possible approach, as lead authority, West Northamptonshire Council recommends a full evaluation of the products available within the marketplace, which will be based on the four options stated above, ensuring the strategic requirements of the shared service are met.

6. Significant Implications

6.1 Finance Implications

Whilst West Northamptonshire Council is still in commercial discussions with the supplier, the estimated cost profile for Cambridgeshire County Council is presented below:

	Does not include annual indexation costs				
	£ Y1 (25/26)	£ Y2 (26/27)	£ Y3 (27/28)	£ Y4 (28/29)	£ Total
Estimated annual cost	285,261	279,119	279,119	279,119	1,122,618
Current budget provision	275,740	275,740	275,740	275,740	1,102,960

In 25/26, additional funding of £9k will be required, reducing to £3k per annum which will need to be incorporated in mid-term financial plan as a part of budget setting process. It is expected this can be absorbed within aligned lead authority back-office budgets.

6.2 Legal Implications

West Northamptonshire Council is the contracting authority under the Shared Services Partnership Agreement and will be procuring the Enterprise Resource Planning Solution on behalf of Cambridgeshire County Council, Milton Keynes City Council, North Northamptonshire Council and West Northamptonshire Council.

The Crown Commercial Service's Framework is compliant with The Public Contract Regulations 2015 as will be the Procurement Act 2023 (especially sections 45-49) commencing in October 2024 (replacing the PCR), so a supplier can be appointed to undertake the provision, implementation and support of the ERP solution as set out in this report. The appointment must comply with the Framework's processes, it must be fair and transparent, and an audit trail must be maintained. Under this Framework, it is possible to

call-off and apply a direct award if the framework evaluation criteria have been correctly applied as well as the transparency provisions of the PA23.

6.3 Risk Implications

Risk(s) associated with not undertaking the proposal:

Risk	Risk Rating
<p>Statutory Compliance: Non HMRC compliant system from April 2026 (annual HMRC driven payroll updates from the incumbent supplier are released every February). Without compliance, the councils are unable to run Payroll from April 2026 for over 15,000 employees.</p>	High Risk/High Impact
<p>Security Updates/Hot Fixes: No Enterprise Resource Planning system security updates, which may open us to security vulnerabilities/risk of cyber-attack.</p>	Medium Risk/High Impact
<p>Bug fixes/Issue Resolution: No Enterprise Resource Planning system bug fixes or able to receive issue support and/or resolution from the incumbent supplier with issues that the councils find within the system.</p>	Risk/Medium-Low Impact

Risk(s) associated with the proposal:

There are no significant risks arising from the proposed recommendations in this report.

6.4 Equality and Diversity Implications

This proposal does not have any impacts on Equality and Diversity.

6.5 Climate Change and Environment Implications

In common with most big scale computer systems, the key climate impact is from the data centre where the system is hosted. The proposed Enterprise Resource Planning Solution supplier hosts the system in Microsoft Azure UK data centres in London and for Disaster Recovery in Cardiff.

Microsoft has been carbon neutral since 2012 and is committed to being carbon negative by 2030, with the commitment by 2050 to remove all the carbon it has directly emitted since its founding in 1975.

7. Source Documents

None.