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## CABINET

**Subject Heading:**

**Oracle Fusion Contract Renewal**

**Cabinet Member:**

Councillor Paul Middleton

**SLT Lead:**

Glyn Peach, Director of Technology and Innovation, onesource

**Report Author and contact details:**

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**Policy context:**

Resources - A well run Council, that delivers for People and Place.

**Financial summary:**

Award of a 5-year contract costing £3.015m.

Budget of £0.691m covers this contract and service support. Renewed combine spend will be £0.753m per annum requiring a budget increase of £0.62m, equal to a 9% increase.

**Is this a Key Decision?**

This is a key decision as the expenditure will be greater than £500,000.

**When should this matter be reviewed?**

February 2024

**Reviewing OSC:**

Overview and Scrutiny Board

### The subject matter of this report deals with the following Council Objectives

People - Things that matter for residents

Place - A great place to live, work and enjoy

Resources - A well run Council that delivers for People and Place. **X**

## **SUMMARY**

This report relates to the Council's Oracle Fusion Enterprise Resource Planning (ERP) system. The system enables key operational processes and reporting that allow the Council to effectively operate.

The system covers HR, Payroll, Procurement, Sourcing, Financial transactions, Financial Management, budgeting and forecasting.

The contract with Oracle is due to expire on the 7<sup>th</sup> March 2024 and a decision is required on how to proceed.

The report provides background to Oracle Fusion ERP, its implementation cost and timescales as well as its current use and considers risks and implications for the continued use or replacement of the Councils ERP system.

The intention is to agree how to proceed with regards to Havering's ERP system over the next 5 years.

## **RECOMMENDATIONS**

The recommendation is:

1. To directly award a new 5-year contract to Oracle at a cost of £3.016m and continue using Oracle Fusion as the council's ERP system.
2. At the 1-year anniversary of the new contract, Officers should commence a review of the ERP market, consider alternative options and compare those to the continued operation of Oracle as the Council's ERP system.
3. Present those findings to agree future direction and either
  - a. Continue to utilise and optimise Oracle Fusion ERP
  - b. Replace all or part of Oracle Fusion with alternative solutions

## **REPORT DETAIL**

### **Background**

In February 2019, Cabinet approved a Project to replace the existing Oracle EBS on premise System with Oracle Fusion Cloud. The overall project and running cost was anticipated to be £11.5m over 10 years, inclusive of £4.5m in project costs for implementation.

The costs were broken down as follows:

1. £4.5m for implementation
2. £4.343m – 10-year contract with Oracle

3. £1.49m –contract for implementation services (Evosys now called Mastek)
4. £0.2m – agreement with London Borough of Lambeth to provide expert support
5. £0.3m Change Management
6. £0.67 Contingency fund

Following delays to implementation, caused by the Covid Pandemic, Fusion went live in October 2020 with an implementation cost of £6.09m.

The contract with Oracle was signed for 5 years and the agreement with Lambeth was no longer considered necessary and was not executed.

From conception to implementation, the Oracle Fusion project ran for 2 years.

### **Current Position**

During the term of the contract, additional Oracle requirements (licences and infrastructure) have increased the annual contracted spend to £0.502m from an initial forecast of £0.434m.

Oracle Fusion licencing is relatively complex and licences are triggered, based on a user's subscribed role in the system, which gives that user specific privileges which in turn triggers a licence. Oracle measure and report on licence utilisation monthly, against licence purchases.

The current measured usage of licences shows an annual cost of £0.550m. Whilst we have been able to mitigate some of these licences and have not been charged these higher costs by Oracle under our current agreement, there will be additional costs under the new contract.

There is also an increase in costs for inflation, although there is a contractual cap of 5%, predicated on Havering signing a renewal with at least the same number of licences.

Based on usage and inflation increases, annual Oracle costs will increase to £0.603m per annum.

Due to the increase in annual cost against the original cabinet sign off and the strategic nature of the system, it was decided to bring the decision to cabinet to review future direction, regardless of the original 10-year cabinet approval.

Havering's Oracle Fusion is separate to Newham and there are no technical impacts of the oneSource separation.

## **REASONS AND OPTIONS**

### **Reasons for the decision:**

The original implementation of Oracle Fusion in 2019/20 took 2 years and a budget of £6m to complete from conception to go live. The existing contract expires in March 2024 and therefore, there is not the time to move to an alternative solution.

The existing contract was the first operating period of Oracle Fusion and reviewing and changing the Council ERP strategy during that term was not appropriate, given the bedding in of such a large system and having a 10-year cabinet approval in place.

Whilst the implementation took 2 years, some projects of this size can take longer and 2 years should be considered a minimum. A review of the market, 1 year into a new 5-year agreement will allow Officers time to assess all options and make a best value proposal on the Council's ERP solution. If a decision is made to move away from the existing solution, there will be sufficient time to sign contracts, align resources and implement a new solution in a timely and low risk manner and align with the end of the new contract.

### **Other options considered:**

The options open to the Council relate to the length of the contractual term for Oracle Fusion. The alternative option is to award a shorter contract and commence a market review immediately.

Oracle Fusion is a market leading ERP system that currently meets the needs of the Council and has a continual cycle of development in place to meet changing requirements in the future.

Officers have recently implemented an improved approach to system development and a 1-year period prior to a wider review, will allow system improvements to be continually deployed and embedded, for a more effective review of the use of Fusion against possible alternatives in the future.

The current re-organisation and disaggregation of oneSource, including IT will have completed when the review of the market is undertaken, allowing focus on a new ERP system project to be completed, if a decision is made to move to an alternative solution.

For reasons of existing stability, having a system that we are able to continually develop as well as a better negotiating position with Oracle, Officers cannot identify any tangible benefit to agree a shorter term contract now, than was agreed under the original cabinet decision in March 2019.

For the reasons outlined above, the option of a shorter term has been rejected.

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

The existing budget for Oracle Fusion and service support is £0.691m. This covers both the cost of licencing and hosting with Oracle and support with Mastek.

The service support provided by Mastek under an existing agreement costs approx. £0.15m per year.

The anticipated cost payable to Oracle for licencing and hosting will be £0.603m per annum with a start date of 8<sup>th</sup> of March 2024 and therefore, there is a need to build in an additional £62k per year as part of 2024/25 budget setting processes.

Budget	£0.691m
Mastek support	£0.15m
Oracle Licencing and Hosting	£0.603m
Difference	£0.062m

Over the duration of the five-year contract this equates to a total cost of £3.015m.

**Legal implications and risks:**

The timescales of moving to a new system is entirely prohibitive to the Council and as such has opted to direct award a contract to Oracle for the continued use of Oracle Fusion Cloud.

Under the Public Contracts Regulations 2015 Section 32.2.b.ii, the Council can undertake a direct award where the works, supplies or services can only be supplied by a particular operator. In this instance that supplier is Oracle due to their proprietary ownership of Fusion.

The Council has power to procure the contract under the general power of competence contained in section 1 of the Localism Act 2011 which allows the Council to do anything that an individual may do subject to any statutory constraints on the Council's powers. None of the constraints on the Council's s.1 power are engaged by this decision.

The Council has a fiduciary and best value duty. It must be satisfied that the extension represents best value to the Council. As set out in this report, officers have confirmed that they consider the proposed contract represents best value.

For the reasons set out above, the Council may enter into this contract.

**Human Resources implications and risks:**

There are no HR implications or risks as the contract award is for the continued use of externally provided and hosted software.

**Equalities implications and risks:**

There are no Equalities implications or risks as the contract award is for the continued use of externally provided and hosted software.

**Health and Wellbeing implications and Risks**

There are no Health and Wellbeing implications or risks as the contract award is for the continued use of externally provided and hosted software.

**BACKGROUND PAPERS**