



Cabinet
20 January 2016

**Report from the
Chief Finance Officer**

For Action

Wards Affected:
[ALL]

Extension of contract for hosting and support for Oracle Ebusiness Suite (oneOracle)

1.0 Summary

- 1.1 This report seeks authority to extend the contract for hosting and support for the Oracle eBusiness Suite (oneOracle).

2.0 Recommendations

- 2.1 That Cabinet approves awarding an extension of the contract for hosting and support for the Oracle eBusiness Suite (oneOracle) to Cap Gemini for 2 years from August 2016.

3.0 Detail

- 3.1 During 2012, the boroughs of Brent, Croydon, Barking and Dagenham, Havering, Lambeth and Lewisham procured jointly a solution to provide an ERP solution based on Oracle technology.
- 3.2 This solution was made up of three elements; the software itself, the external hosting and on-going support for the solution and the implementation of the solution. These contracts were provided by Oracle in the first case and Capgemini in the latter cases. The elements with Capgemini were procured as framework agreements, with call off contracts taken by each of the boroughs.
- 3.3 The external hosting and support call-off contracts are due to expire in July 2016 and replacement is required to enable the on-going provision of the solution.
- 3.4 Officers have considered the options going forward, these being

- Host the system in-house;
 - Go to market to procure a new supplier for hosting and support; and
 - Extend the current contract with Capgemini.
- 3.5 The option to host the system in-house was considered, to either host for just Brent and Lewisham as part of the new ICT Shared Service being established, or on behalf of the group as a whole. This option has the potential to achieve substantial savings. However it was considered that with the work currently taking place to establish the shared service there would be no capacity to undertake a project of this scale on time for the end of the current contract.
- 3.6 There is substantial technical risk in transferring technical platforms of the complexity of this system with a resultant loss of performance of the solution and the councils' ability to conduct business. Furthermore, there is a substantial cost in the implementation of a system with a new provider and the transfer of existing configurations and data from the current provider. It is likely that in the future the Council will seek to host the solution itself, but the best way to achieve these long-term savings will be once the shared service is fully established.
- 3.7 The Joint Management Board established by the boroughs to manage the solution taking into account the above risks commissioned a soft market test exercise. Following negotiations with Capgemini for the cost of the contract extension performed a value for money test on their proposals to:
- Assess the market rates of the service where appropriate;
 - Assess the costs of provision to the provider and allow for reasonable profit margin; and
 - Assess whether the proposed service levels would give rise to a practical level of performance.
- 3.8 The assessment concluded that going to market had the potential to achieve some reductions in cost. However the saving potential was not significant enough to justify the level of risk involved in transferring the service. This is a feature of IT contracts of this nature. The costs of changing from an established provider are relatively high, which in the worst cases can lead to inaction and acceptance of the status quo. This is not the case here. The council has a clear plan to establish itself as a market leader in local government IT services, and is only concerned now with when to take over the hosting services. For the reasons set out above, transferring in 2018 makes much more sense strategically.
- 3.9 This does not mean that the immediate opportunity to deliver savings has not been taken: quite the reverse. The strength of the Oracle Partnership has generated significant opportunities of leverage at some savings despite rising costs in the industry.

- 3.10 One area that was examined, but is not recommended, would be to reduce the level of IT security for the solution. This is theoretically feasible whilst remaining compliant with revised CESG regulations. However, not only would this increase, slightly, the risks of a data breach, but the costs of re-engineering the system architecture would not be recovered over the proposed two years' contract extension. Had the new CESG security requirements been in place when the contracts were let then this might have been a viable option.
- 3.11 There are areas where improved value has been secured.
- 3.12 Firstly, Newham Council plans to join the partnership in April 2016. It has agreed to do this on the basis that the risk of this sits principally with Newham. Therefore, the existing partnership will only permit Newham to join once sufficient assurances have been demonstrated that this will not result in degradation of system performance. In addition, Newham will bear the cost of risk of delay to its own programme. This means that the total quoted price from Cap Gemini is for seven councils and Newham will pay their share of it even if they are delayed in their go-live date.
- 3.13 Secondly, when Brent agreed to join the Oracle Partnership in 2012 it agreed to pay a disproportionately high share of the total cost. Under the extended contract, costs will be shared equally resulting in savings for the authority.
- 3.14 Thirdly, the current model provides officers with 24/7 access to all version of the system (i.e. the live database and the various versions of the test system). In practice this is over-specified. Access to the live system 24/7 is a sensible business requirement but the test databases are rarely used outside of the core 8.00 am to 6.00 pm timeslot. Restricting this will generate significant cost savings, and when major testing on new releases is required access can be restored for limited periods at 24 hours notice at minimal cost.
- 3.15 Fourthly, the extension generates an opportunity to address weaknesses in the payment mechanism for the contract. By withdrawing the protective claim brought against Cap Gemini which would have been difficult to press under the existing contract, the councils secure cost reductions of £0.25m and revised contract terms which will enable stronger contract management in the future.
- 3.16 Finally through the soft market testing sufficient competition has been generated to deliver a sharper commercial deal.
- 3.17 The consequence of this is that the whole life cost of the extension will be £447k pa, compared to £534k pa or a savings of 16%.

- 3.19 The proposed extension includes a stricter measuring regime so that councils are better able to manage the service more effectively. It also provides mitigation for the technical risks associated with the infrastructure of the solution and increased demands associated with the onboarding of Newham. Any pressure to increase infrastructure remains with the service provider within the costs quoted. This is particularly important to the councils, who suffered considerable service degradation during the original implementation.
- 3.20 Officers are therefore recommending the award of the two-year extension, following which Brent officers will be working to establish our long-term strategy. The key options for moving forward include:
- Working with the other councils to identify alternative and better value contracts. This was not considered an option at this point in time due to the timescales needed for moving the service to a new provider, the levels of risk associated with attempting such a move in these timescales and the potential cost of change; the two year extension allows us to procure, plan and implement with a new provider with reduced risk, at the same time ensuring we maximise the investment already made with the current supplier. It also allows for the onboarding of Newham on the shared platform, something that could not be done with acceptable level of risk at the same time as moving to a new supplier.
 - Explore further the feasibility of bringing the service in-house to host it either for Brent and Lewisham or offer it to the rest of the partnership. Officers tried to get adequate information from Capgemini to evaluate the feasibility of doing this prior to the end of the current contract; it was decided that the level of complexity of the current system, combined with the fact that Brent are currently engaged in a major project setting up the infrastructure for the shared service between the two boroughs posed significant risks to the project. However, with the extension in place this is definitely an option worth exploring further as it has the potential for substantial savings.
 - Explore cloud offerings for the service, for example from Oracle directly. This approach offers certain advantages, mainly around speed of implementation and the fact that the platform is kept up-to-date as part of the service with no need for significant upgrades every few years; it does however require the move to the standard Oracle product without customisations; this means a change in business processes that may not be practical but in any case an attempt to impose such a change in the timescales available to us before the end of the current contract would cause significant disruption to the business.

4.0 Financial Implications

- 4.1 The proposed cost of the 2 year extension with Capgemini is £6.3m across the partnership which now includes Newham Council. The cost will be shared equally between the seven boroughs with £895k representing Brent share over the two years, £447k per annum. This will be contained within current

resources.

- 4.2 Brent's contribution to the old contract was not initially equitable as Brent contributed a higher proportion of the costs. This was partly due to Brent entering into the programme at a later stage. This new contract rebalances the contributions across the partnership, which leads to a savings of approximately £87k or 16% per annum.
- 4.3 The Joint Management Board for One Oracle carried out a series of soft market testing, which supported the negotiations with Capgemini. This ensured that the contract extension offers value for money.

5.0 Legal Implications

- 5.1 An extension of an existing contract is only permitted by the Public Contracts Regulations 2015 ("PCR 2015") where the contract specifically permits an extension in the terms proposed or one of the grounds in Regulation 72 of the CCR 2015 is satisfied. Paragraph 3.6 above sets out a number of reasons as to why Officers do not consider it is appropriate to go to market to procure a new supplier for hosting and support and instead extend the existing contract with CapGemini. Such reasons would appear to satisfy Regulation 72(1)(b) which covers the situation where additional services are necessary and a change in contractor cannot be made for economic or technical reasons e.g. to change suppliers would cause significant inconvenience or duplication of costs.
- 5.2 To satisfy the requirements of Regulation 72(1)(b), it is also necessary to ensure that the price increase of the extension does not exceed 50% of the value of the original contract. As detailed in paragraph [insert] the value of the extension is less than 50% of the value of the original contract.
- 5.3 Subject to Cabinet agreeing the extension of the contract, it will be necessary for Officers to publish a notice in the Official Journal of the European Union about the modification once it has taken place.

6.0 Diversity Implications

- 6.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

7.0 Staffing/Accommodation Implications

- 7.1 This service is currently provided by an external contractor and there are no implications for Council staff arising from retendering the contract.

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