



Councillor Meirion Jenkins

**Conservative
Sutton Mere Green Ward**

COUNCIL HOUSE
BIRMINGHAM
B1 1BB
Tel: 0121-303 2130

Email: m.jenkins@rapidcomputing.co.uk

Please quote our reference in any reply
Our ref: 2020.03.04 Cllr Bore

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Councillor Sir Albert Bore
Chairman, Finance and Resources O&S Committee

Dear Councillor Bore

Re: Review of IT implementations

On 5th November 2019, Councillor Trickett and I met with a number of officers who are involved with the implementation of the new Oracle ERP system and Microsoft office products at the council. Our objective was to consider some of the financial risks to which the council may be exposed in connection with these implementations, in particular time and cost overrun on the ERP implementation and inability to control licence costs. Our scope did not include whether the correct products and suppliers had been selected.

Oracle ERP implementation

ERP implementations have a tendency to overrun both in terms of time and cost. Few are delivered strictly to time and budget but some have disastrous overruns. This link demonstrates some of the more notorious examples [ERP failures](#). Given the scale of Birmingham's ERP implementation and the council's track record on project delivery and financial control, we must consider the ERP implementation to be a budget risk.

The Council has commissioned an Oracle partner company, Evosys to assist with the Oracle implementation at a fixed cost of £3.4m, to be paid in five tranches of 20% upon the attainment of five key milestones, the final one being May 2021. There is some debate in the industry as to the best model for contracting with systems integrators such as Evosys. Time and materials can be cheaper if an organisation is very good at implementing systems but fixed price is safer if in doubt, albeit generally more expensive because it may include a premium to cover the supplier's risk shift. During the course of the project, the supplier will often seek to escape the fixed price limitation and justify reasons for adjusting the fixed price.

At the time of writing, the first two milestones (contract signature and design phase, 9th Dec) have been met and 40% of the £3.4m has been paid to Evosys. That said, management has indicated that the timescale for the later stages may be too ambitious and, of course, an extension of time will inevitably involve an increase in cost – the question is, for whom? The whole point of a fixed price contract is that the risk of overrun sits with the supplier, so the mere fact that we move the end date should not in itself imply a cost increase. Scrutiny should receive a report of any variation that is proposed to the fixed price contract.

Quite correctly, management took up two references for the work of Evosys in local government and received good reports from Croydon and Lambeth, albeit that these are somewhat smaller authorities. Again, correctly, management have determined that every conceivable effort will be made to avoid any bespoke development, changing business process to fit the standard system as opposed to changing the system to suit BCC process.

Overall, in the context of the current market and options available, I believe the officers have taken the correct negotiating steps (fixed price/references). That said, and based on 30 years' experience of the industry, I do not expect the Oracle ERP project to be delivered on time and to the original contract price. As a council, we must pay very close attention to progress with the implementation and apply very strict project management, identifying any dangers of overrun at the earliest possible stage.

Licences

Most modern systems are now implemented on a cloud based model. That is to say, the application software and client data reside on a supplier's server and the client accesses the system via the internet. This brings with it a number of important technical and user advantages and, in any event, the industry is now so committed to this model, that it would be very difficult and ill advised to attempt a traditional on-premise approach. However, one disadvantage of cloud based systems is that they involve a significant shift of negotiating power from the client to the supplier. As a consequence, a client is exposed to the risk of a supplier increasing its licensing costs and, in the short and medium term, a client would have no option but to accept the cost increases. Licences are now calculated and paid on a monthly basis, as opposed to a traditional one-off payment for a licence in perpetuity as was the case with on premise systems. As a rough guide, the financial cross over between cloud and on premise occurs after three years, although the cloud payment does include the cost of infrastructure (i.e. you don't need to buy and maintain a server) and certain housekeeping duties (e.g. no need to carry out backups etc).

As part of our enquiry, I sought reassurance from the officers that we had taken steps to mitigate this licence cost risk.

The two main licences we focused on were the Oracle ERP licence and the Microsoft Office 365 (Outlook/email/calendar etc) licence.

The Microsoft office licence is based on a Microsoft Enterprise Agreement and is at a fixed cost for three years renewable in April 2020. BCC will re-procure through a reseller by March 2020. There are options for contract length available via a nationally negotiated framework, and the price is fixed for the duration of the contract.

Turning to Oracle, the licence contract is 5 years + 2 optional years, therefore up to 7 years in total. The renewal decision will probably therefore take place around year 5 with re-procurement at the end of year 7. In negotiating ERP licences past these time points (yr. 5 or 7), negotiators will be aware that a decision not to re-procure Oracle would involve another change of ERP system (£3.4m?). Oracle has given verbal, but not contractual, reassurance that they would not disproportionately uplift licensing costs.

Another important licence is with Eclipse. This has been negotiated to be five years from Oct 2017 and after 2022, the contract will automatically rollover every 12 months, subject to BCC giving notice in writing a minimum of 60 days before the renewal date. Price increases are allowed after April 19 but limited to RPI.

Once the fixed term agreements come to an end, our negotiating position with all cloud suppliers relies to an extent on brand and reputation, with suppliers perceiving us to be an important reference and well placed to influence their sales prospects. (This was part of the argument used in persuading Capita to treat us gently when we sought to unpick the Service Birmingham agreement.)

One advantage of cloud is that we can regularly adjust the licensing based on usage.

On balance, given the current market for such systems and the pressing need for BCC to modernise its systems (i.e. the high costs of running the SAP system and very outdated office systems), I believe the officers have taken reasonable steps to limit licence exposure.

I hope the Committee will find these comments helpful.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Meirion Jenkins', written in a cursive style.

Councillor Meirion Jenkins

