

SURREY COUNTY COUNCIL**CABINET****DATE: 28 NOVEMBER 2017****REPORT OF: MR TIM OLIVER, CABINET MEMBER FOR
PROPERTY AND BUSINESS SERVICES****LEAD OFFICER: MATT SCOTT – CHIEF INFORMATION OFFICER****SUBJECT: SAP ERP MAINTENANCE & SUPPORT 2018 - 2020****SUMMARY OF ISSUE:**

SAP Enterprise Resource Platform (ERP) is a critical software application that enables a number of essential management, payment and resource related tasks for Surrey County Council.

Two years ago, Surrey County Council (SCC) authorised a change to the Support and Maintenance services on its ERP that resulted in Surrey County Council buying from an independent supplier who provided a cost-effective delivery model that did not require access to SAP released product enhancements; this has meant that the software version in use has not been updated since that time.

The consequence of working on older software has resulted in an increasing burden and growing risk on the Service teams who use the system, the Operational teams who manage it and on some other systems with which the ERP interacts.

RECOMMENDATION:

It is recommended that:

The Cabinet approve modifications to the original Supply and Maintenance contract with SAP for 3 years of Support and Maintenance from 1 January 2018 to 31 December 2020 and an immediate SAP refresh / re-instatement to update the software version in use.

REASONS FOR RECOMMENDATION:

It is now in the best interests of efficiency for Surrey County Council to update the software. The Council is targeting higher levels of automation, productivity and wants to take greater advantage of its investment in ERP through its Orbis partnership by offering more services to other public bodies to generate revenue. There are many benefits available to Surrey Council from moving on to the latest software level as set out in section 5.

DETAILS:

Background and Brief History

1. SAP has been Surrey's ERP technology pillar since 2005, when it was implemented to introduce efficiencies across Surrey that included:
 - a) the creation of a Shared Service Centre,
 - b) better integration between different functions, e.g. Finance and Payroll.
 - c) organisational efficiency and cost savings.
2. During the period 2012-2014 Surrey pursued several savings options, including:
 - a) migrating the system to the Surrey County Council Data Centre and bringing it under in-house operational control,
 - d) Creating a new procurement framework in conjunction with East Sussex County Council that was used by both Councils and resulted in annual cost saving of circa 40% for support and maintenance services.
3. In 2015 Surrey County Council contracted with an independent support provider.
4. During this last 2 years, the product continues to be well managed but development, due to the nature of the support contract, has been very limited.

Benefits of re-procuring Support and Maintenance services from SAP

5. Re-procuring services directly from SAP will bring a number of benefits, including:
 - a) Being afforded a greater freedom to use ERP licenses to resell services, e.g. payroll, for the potential benefit of other local public sector bodies. This will improve productivity and reduce unit costs within the Council for the benefit of Surrey Residents.
 - b) The re-implementation of a feature known as "Solution Manager" will help streamline certain Councils processes and operations. This will drive efficiencies in both the business and in support of the application.
 - c) Upgrading the Budget Planning & Consolidation (BPC) part of the ERP system will bring resolution to fundamental interoperability issues the Council has been facing during the last year.
 - d) Opening the possibility of merging the data held within a similar SAP ERP system used by East Sussex County Council with the potential to merge the two Council's systems into one to reduce unit operating costs for both Council's, e.g. less hardware, less support and maintenance, less systems administration.
 - e) Better support to preparations for the introduction of the new General Data Protection Regulations due to come into force in May 2018 (GDPR) through more efficient cleansing of stored data that must be erased.

- f) The move to further process automation and mobility, which brings with it productivity improvements and therefore cost reduction, underpinning the Council's emerging Application Rationalisation Strategy.
- g) The loading of the latest product patches and enhancements reduces the risk of system failure and increases the protection against cyber threats.
- h) The re-assurance that the product owner is best placed to offer support services that provide protection against any potential threat to the system or to reduce any recovery time in the event of failure.

Alternative ERP considerations and the future

6. Any change to an ERP platform and especially a move to an alternative solution would require very considerable investment in time, resources, user training, process change and up-front cost.
7. Future benefits would include:-
 - a) Re-introduces the Solution Manager capability within the first quarter of 2018.
 - b) Leverages the licensing to enable the resale of services that use ERP to other Public bodies, e.g. Academies.
 - c) Upgrades key parts of system, not least Business Planning & Consolidation (BPC), which is key to all financial reporting.
 - d) Implements regulatory legal changes.
 - e) Explores moving to a single platform across Surrey and East Sussex County Councils.
 - f) Explores other productivity improvements, e.g. mobility, automation etc.
 - g) Builds a longer terms strategy for the ERP needs of Surrey County Council that will consider:
 - i. Placing the SAP ERP back into a frozen mode of operation should the environment in which it operates make that possible and the productivity benefits of buying full SAP support falls short of expectations.
 - ii. Tendering for a replacement ERP.
 - iii. A move to place ERP in the cloud, either a hosted SAP solution or a solution from an alternative supplier.

CONSULTATION:

8. A number of internal departments have been consulted on different aspects of the proposal including Finance, IT and Procurement. Amongst many topics, Consultations have considered budgetary challenges, the Council's operational

needs and ambitions, Surrey's Digital aspirations, ERP application strategy, risk and commercial opportunity.

RISK MANAGEMENT AND IMPLICATIONS:

9. A number of risks have been identified including mitigation actions

RISK	NEGATIVE IMPLICATION	MITIGATION
Operational	SAP is unable to deliver the service or does not have sufficient resources and the ERP system continues to fail and delays occur to service restoration	SAP owns the intellectual property rights of the product and stakes its reputation on the quality of its products, so is least likely to allow it to fail of any supplier. A penalty regime forms part of SAPs standard Enterprise Support in the event of extended system problems
Operational	SCC does not have resources to work with SAP to fully exploit the service received	The SCC Applications team has SAP competent resources, is shared with ESCC and is co-ordinated and prioritised across both Councils. Moving to the latest release will ultimately result in a reduction in overhead for managing the ERP system.
Strategic Risk	SCC commitment to a longer term relationship with SAP.	Part of the roadmap is to review options for SCC's longer term requirements for ERP. There will be a rigorous options appraisal to establish the best solution for the Council, which will include a review of the benefits of moving to cloud. This will be undertaken in the first 2 years of the contract.

Financial and Value for Money Implications

10. The commercial terms offered by SAP to provide support and maintenance for the Council's ERP system are considerably more attractive than have previously been offered by SAP. Compared with buying services from an independent

server provider, there is still a cost increase, but the benefits of the additional service outweigh it.

11. For reasons of commercial confidentiality, the actual costs are contained within the Part 2 report, including a comparison with current costs.

Section 151 Officer Commentary

12. The increased costs are not provided for in the current MTFP and will lead to an ongoing budget pressure from 2019/20. However given the operational need to make changes to its SAP ERP the Section 151 officer supports the recommendation that SCC re-procures its SAP maintenance from SAP. The pressure will be addressed as part of budget planning.

Legal Implications – Monitoring Officer

13. Under Section 3(1) Local Government Act 1999 the Council is under a general duty to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”. As an essential part of its back office technology platform, SAP (or an equivalent) plays a significant role in enabling the Council to meet this “best value” duty.
14. The Council is able to modify existing contracts in certain circumstances set out in Regulation 72 of the Public Contracts Regulations 2015. The proposed modifications to the original SAP supply and maintenance contract are considered to be insubstantial within the meaning of Regulation 72 and as such are permissible without a new procurement procedure.
15. Cabinet will want to satisfy itself that the proposed contract will represent appropriate use of the Council’s financial resources and enable it to achieve its general duty to secure best value.

Equalities and Diversity

16. The services referred to in this report are generally provided remotely by the supplier. There is no impact on residents or staff with different protected characteristics from implementing the recommendation within this report, nor any need to perform an EIA.

Environmental sustainability implications

17. There is no environmental consideration directly as a result of the recommendation within this report.

WHAT HAPPENS NEXT:

18. The final form of contract modification will be agreed with a commencement date of 1 January 2018, although certain pre-works may commence prior to this date under the control of Surrey County Council staff in preparation for its commencement.

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Annexes:

Part 2 report

Sources/background papers:

- Confidential quotations
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