Slough Borough Council

Report To:	Cabinet
Date:	16th September 2024
Subject:	Unit 4 Agresso Cloud Migration
Lead Member:	Councillor Shaik – Lead Member for I.T., Customer Services, Revenue & Benefits, Procurement and Performance
Chief Officer:	Annabel Scholes Executive Director, Finance and Commercial
Contact Officer:	Stephen Menzies Interim Director of Digital, Data and Technology
Ward(s):	N/A
Key Decision:	YES
Exempt:	NO, except Appendix 1 which is exempt under paragraph 5, Schedule 12A Local Government Act 1972 due to legal professional privilege.
Decision Subject to Call In:	YES
Appendices:	Appendix 1 – Legal Advice

1. Summary and Recommendations

1.1. Agresso is the council's enterprise resource planning (ERP) tool. The functionality available through the application is business critical to the functioning of HR, payroll and finance. Without it, suppliers and staff would not be paid, and the council would be unable to receive income.

1.2. In November 2023, Unit4, the application's supplier, changed its business model. To retain access to a system that is secure - one that undergoes regular/scheduled security patches and software updates - Unit4 is requiring all users to contract with them directly and migrate to their cloud platform.

1.3. The impact of this change by the supplier is that the council will need to enter a new contract by December 2024 and migrate to the new hosting platform shortly afterwards. As a result, the change of licencing model means the council will incur additional revenue costs to retain the application. With insufficient time available to undertake a competitive procurement a waiver of the council's rules is required and reliance on an exemption under relevant regulations is required.

1.4. The council will enter a new contract for a five-year period with the supplier before the December 2024 deadline, migrating to the new platform by June 2025. This approach will incur some dual running costs but avoids disruption to users during the critical financial year end period of February to May.

1.5. It is also recognised that the application, in its current configuration, is being underutilised and in parallel to procurement and migration activities it is proposed to deliver an improvement programme which will address long standing issues with incorrect workflows and poor user adoption. This will include completing deployment of modules and a comprehensive training programme for staff. Additional funding is

being sought to cover the projects costs for both the migration and process improvements.

Recommendations:

1.6. It is recommended that Cabinet:

a) Approve the direct award of a contract to Unit 4 for a period of five years at an approximate cost of £2m. The total contract value may vary due to the number of concurrent users as the pricing model is a per user subscription business model;

b) Delegate authority to negotiate and approve the contract award to the Executive Director of Finance & Commercial, in consultation with the Lead Member for I.T., Customer Services, Revenue & Benefits, Procurement and Performance;

c) Note the increase 2024/25 budget allocation for the revenue costs of the application of £47,000, which will be funded from the contingency, and the increase costs to Slough Children First and the Housing Revenue Account.

d) Note that a growth bid of approximately £0.225m will be submitted as part of the MTFS cycle for members' consideration; to be reduced in future years as dual running of platforms ends. This will be partially offset by an increased recharge to the Housing Revenue Account of £0.035m.

e) Note a delivery of a project intended to develop improvements in the application's customisation that support better use; and, a comprehensive training programme will need to be established to rebuild staff confidence and experience in using the application. Funding in the region of £258,000. It is expected that this project will be funded from the transformation reserve and will form part of the finance improvement plan.

Commissioner Review

"Commissioners raised two issues in connection with this report and received the following responses:

1.This represents a significant increase in revenue cost has S151 factored this into the MTFP or is it an additional pressure

The increase in growth had not been included in the latest public iteration of the MTFS but has been identified as a growth item and will be reflected in the next public iteration. Whilst this is essentially an additional pressure of £75k, all elements of the MTFS proposals will need to be reviewed and validated as we go through the 2025/26 Budget Setting cycle.

2. It says that the Unit 4 advised in November 23 of their change of business model which necessitates this change and that now there is not enough time to test the market. So, it seems that no action was taken to address the issue until now, forcing the Council to recommend a direct award. This doesn't feel like a best value approach. What was the reason for the delay?

The report is a reflection of a number of months challenging the proposal from Unit 4 with a number of neighbouring authorities, compounded by delays in getting the contract figures out from Unit 4. In reality however, even when they served notice in November 23, the specification, procurement and successful implementation of an ERP would probably take a minimum of two years.

Whilst the report acknowledges challenges in using Agresso, experience of the application elsewhere gives us confidence that we can improve our use of the functionality of the application. In short, it's a decent system when implemented properly and the project will be a key contributing factor to the Finance Improvement Programme."

2. Report

2.1. This report outlines the steps and funding required to ensure that the council retains access to its ERP system.

2.2. The change in business model by the supplier requires SBC to enter a new contract for hosting and licencing. This allows SBC to retain access to an application that has regular scheduled security patches and software updates. Failure to comply with this requirement would mean the council is unable to pay suppliers, staff and collect revenue.

2.3. To date, the application has not been successfully adopted within the council and a parallel piece of work is being proposed to customise the application to meet council requirements and undertake comprehensive retraining of all users.

2.4. Additional revenue and capital funding is required to:

a) fund the increase in licencing costs for the duration of the contract; and,

b) establish a project team to undertake the work to migrate to the new platform, deliver the planned improvements and support a comprehensive retraining of staff in the use of the application.

Options considered

2.5. The council has considered three options

i. **Contract with the supplier and migrate to the cloud hosting platform– recommended**

Directly award a contract to Unit 4 for a five-year period. This would allow the council to retain access to its ERP application and migrate to the new service in May/June 2025 minimising disruption to service and customers.

As part of the migration work, undertake a process improvement programme and a comprehensive staff retraining exercise to maximise the value of the application to the council.

The improvement programme would run from October 2024 until the new service is launched in May/June 2025.

ii. **Buy a new application and migrate to the platform by December 2024– not recommended**

There is insufficient time and funding available to the council at this point to undertake a competitive procurement exercise, design and implement a new application and train all users by December 2024.

Typically this type of programme takes 2-3 years and is fraught with risk. The cost of undertaking a programme like this could run at over £1.5m for project resources alone.

A sub-option of entering a consortium with other impacted local authorities was considered, but the cost and timeframes to complete remain as blockers, even with the obvious economies of scales that could be delivered.

iii. **Do nothing, continue as we are – not recommended**

This is not a viable option. From the point that the supplier withdraws access to security patches and software upgrades the council is at risk of data breach and not being able to carry out essential financial activities.

3.   Background

3.1.   An ERP system is a comprehensive IT platform that automates and manages various business processes. Within Slough, we are using an ERP platform called Agresso, developed by Unit 4 for HR, payroll, and finance business processes.

3.2.   The application has a chequered history within Slough with many complaints around ease of use and incomplete business workflows, processes and purchased modules not deployed.

3.3.   The council's access, use and development of the application is through:

- A perpetual licence, valid for 25 years if the application is maintained and supported by Unit 4;

- Quick Think Cloud's (QTC) cloud hosting environment – this includes testing and deployment of Unit 4 updates;

- A support and maintenance contract with Unit 4 - bug fixes, security patches, and general updates; and,

- A development contract with Agylix, for ongoing customisation of the product to meet the council's needs.

3.4.   In November 2023 Unit 4 advised all users that from December 2024 it would only provide security and software patching to applications hosted on their cloud platform. To continue to receive software patches users would need to commit to a five-year contract by December 2024, that moved the council's application to the Unit 4 platform and changed the licencing arrangement from a 25-year perpetual licence to an annual per user subscription.

3.5.   If the application is not upgraded then any changes in taxation, end of year tax returns and statutory reporting for DWP and HMRC would be incorrect.

3.6.   Once in contract the council would continue to receive the software patching allowing it to maintain the QTC hosted solution until the council migrates to the Unit 4 platform, most likely late June 2025.

Transformation initiatives

3.7.   The current configuration and customisation of Agresso has not been widely adopted. Across all three services (HR, payroll and finance) there are ongoing issues with incomplete workflows, lack of ease of use and incomplete deployment of integral modules for example in finance – treasury management.

3.8.   Staff feel unsupported in developing their experience in using the application and as a council we are not using the product to anywhere near its full functionality/potential. Addressing these issues would support the council's transformation journey by ensuring better HR information is available, suppliers and staff would be paid on time and the council would have much better control on budget monitoring leading to better financial oversight.

3.9.   Initial work has been undertaken to start bringing together a backlog of improvements across all three business areas to address these issues. Progress has been slow due to lack of resource.

3.10. It is recommended that in parallel to the work to migrate to the new service that the council undertake a programme of work to plan and develop improvements in the application's customisation that support better use; and, that a comprehensive

training programme be established to rebuild staff confidence and experience in using the application.

3.11. This work will need to be funded for an eight-month period (October to June) – a project manager and business analyst should be brought in to develop and deliver the backlog of improvements, a business change/adoption lead will also be required to develop appropriate training materials and deliver training to staff. At the end of the business change period a library of training resources should be available, and a community of practice established within the council to support ongoing staff development and training.

Implications of the Recommendation

Financial implications

3.12. The table below outlines the likely cost of service, based on data provided by the supplier on SBC's current staff usage. The new contract is consumption based and the pricing will vary dependent on the final requirements from the council, based on number of users, number of users accessing the application on their desktop (against web-based access), any additional services required and length of time dual running costs are required.

Activity	Yr 1 (£)	Yr 2 (£)	Yr 3 (£)	Yr 4 (£)	Yr 5 (£)	Total (£)
Application licencing (1700 users)	216,000	283,500	297,675	312,559	328,187	1,437,920
R/O database	17,300	18,165	19,073	20,027	21,028	95,593
VPN connection for R/O database	2,157	2,265	2,378	2,497	2,622	11,919
Extra document storage each year		566	594	624	655	2,439
Extra desktop users (85@£648 p.a.)	55,080	57,834	60,726	63,762	66,950	304,352
Dual running costs (Jan to June 2025 – Annual costs/12*6)	145,300					145,300
Total	**435,837**	**362,330**	**380,446**	**399,469**	**419,442**	**1,997,524**

3.13. The table below shows the current cost, extended to five years to allow comparison with the new contract proposed by Unit 4.

	Yr 1 (£)	Yr 2 (£)	Yr 3 (£)	Yr 4 (£)	Yr 5 (£)	Total (£)
Likely new cost	435,837	362,330	380,446	399,469	419,442	**1,997,524**
Existing Budget	273,000	286,650	300,983	316,032	331,833	**1,508,497**
Annual increase	**162,837**	**75,680**	**79,464**	**83,437**	**87,609**	**489,027**

3.14. Agresso is a corporate application, and costs are allocated to Slough Children First and the Housing Revenue Account. The following table sets out how the additional costs in 2024/25 and 2025/26 onwards are to be allocated across the General Fund, HRA, and SCF.

		% Share	24/25 Increase	MTFS
SCF		22.10%	£16,575	£49,725
SBC	General Fund	62.32%	£46,740	£140,220
	HRA	15.58%	£11,685	£35,055
Totals			**£75,000**	**£225,000**

3.15. Noted below is the likely resource requirements for the project management of the migration to the new service, process improvements and user adoption and business change:

Resource	Duration	Cost
Project manager (Internal ICT resource)	6 months	Nil
Test manager (Internal ICT resource)	6 months	Nil
Project manager (business improvements and training)	6 months	66,000
Change and adoption lead	6 months	66,000
Business analyst	6 months	54,000
Agresso application developer	6 months	72,000
Total cost		**£258,000**

Legal implications

3.16. External auditors have raised concerns about implementation of ERP systems in other councils, the most publicised one being s.24 recommendations to Birmingham City Council in relation to the procurement and implementation of its Oracle system. These recommendations include the need to consider the capacity of senior staff to deal with the necessary phases of implementation of an IT project alongside other competing pressures, the need for additional resources to ensure critical projects are completed both from within internal teams and use of external resources.

3.17. The Council has also received reports from Grant Thornton, its external auditors, which have been presented to its Audit and Corporate Governance Committee. This includes a report on learning from the issues arising from auditing the 2018/19 accounts, which was presented in November 2023. In relation to accounting processes and systems, the report stated that the extensive reporting facilities within the Agresso system appear not to have been well understood by officers preparing the accounts, leading to widespread use of spreadsheets and pivot tables for reporting, introducing more scope for error. There were also issues with the way hierarchies were built, and codes were mapped with Agresso was set up leading to increased need for manual adjustments between the ledger and the accounts and was a contributory factor in the difficulties with the "Big Red Button" software. Overcomplexity in the way debtors and creditors and bank/cash were set up on Agresso led to significant extra work and the need for very complex and time-consuming reconciliations to be produced throughout the year. Company transactions, with the exception of the Children's Trust, sat within the Council's main ledger, requiring additional work. Upon transfer to Agresso, a large number of balances from the old system were transferred without any understanding of their validity. There was also a decision not to implement the Agresso asset management module, with the existing system then not being properly maintained. On implementation of the "Big Red Button" software, the report stated the Council did not have the necessary resources to do the up front work of mapping of codes and data cleansing. This led to the system adding to the difficulties around audit trails. The one individual who implemented the system was an interim and left without a proper handover or knowledge transfer with the finance team not having the knowledge or ownership of the system.

3.18. The above shows the importance of having adequate resources to properly implement a system and to invest in training and development of staff to ensure the system is used to its optimum.

3.19. The council has an urgent requirement to enter a new contract with Unit 4 for the provision of Agresso. To meet this requirement, the council needs to procure a contract in accordance with its internal rules and procurement law.

3.20. Legal advice was sought which outlines the urgency of the requirement, placed on the council by the supplier, with no opportunity for the council to delay the contracting process, and the nature of the service provided – business critical activities.

3.21. Two options were considered: a) direct award using an existing framework agreement; and, b) a waiver of the council's contract regulations and reliance on an exemption with the procurement legislation.

3.22. Typically, in cases where the council is unable to run a competitive procurement due to urgency an existing framework agreement which allows direct award, and which names the supplier as a participant in the framework may be used to make the award.

3.23. The only framework agreement that Unit 4 are named on is Crown Commercial Service's RM1557.13 (G-cloud 13) framework agreement. However, no direct award is available through this framework due to the pricing negotiation undertaken with the supplier to reduce the cost to the council. Negotiation on price is specifically excluded from the framework terms and conditions, therefore this option would increase the costs even though the Council is already in a contract with the provider.

3.24. The remaining option available to the council is a waiver of the council's internal procurement regulations and an appropriate exemption, allowable within law. Within CPR, PCR2015 (current legislation) and the Procurement Act 2023 (legislation in force from October 2024) provision is made for a direct award where there are demonstrable factors which preclude a competitive procurement process:

Contract Procedure Rules

CPR – rule 14.10 (c) - Emergency: There is a clear need to provide a service or a product immediately in the instance of a sudden unforeseen crisis; the immediate risk is to health, life, property or environment (for example, Natural Disaster; Civil Unrest; Provider going into administration);

CPR – rule 14.10 (d) Service Imperative: Demonstrable circumstance that is exceptional:

Public Contracts Regulations 2015

Regulation 32

(2) General grounds

The negotiated procedure without prior publication may be used for public works contracts, public supply contracts and public service contracts in any of the following cases:-

(c)   insofar as is strictly necessary where, for reasons of extreme urgency brought about by events unforeseeable by the contracting authority, the time limits for the open or restricted procedures or competitive procedures with negotiation cannot be complied with.

(4)   For the purposes of paragraph (2)(c), the circumstances invoked to justify extreme urgency must not in any event be attributable to the contracting authority."

Procurement Act 2023

Schedule 5 Direct Award Justifications

(6)   The following conditions are met in relation to the public contract—

    (a)   due to an absence of competition for technical reasons, only a particular supplier can supply the goods, services or works required, and

    (b)   there are no reasonable alternatives to those goods, services or works.

(13) Where—

    (a)   the goods, services or works to be supplied under the public contract are strictly necessary for reasons of extreme and unavoidable urgency, and

    (b)   as a result the public contract cannot be awarded on the basis of a competitive tendering procedure.

3.25. Based on the legal advice provided, which is appended at Appendix 1, there are grounds on which the council can demonstrate that the position the Council finds itself in is not foreseeable and it is strictly necessary for urgency and/or technical reasons to make a direct award. Alternatives have been considered and none of these are deemed reasonable.

3.26. This approach does pose a potential risk in that the supplier would wish to use its standard contract with the council. Officers will take steps to negotiate a contract based on the supplier's standard contract and terms and conditions which does not place either the supplier or the council in an adverse position and which allows the council to meet its other statutory obligations, for example obligations contained within the GDPR or Freedom of Information Act.

Risk management implications

3.27. The table below details risks:

Status	Description	Mitigation
Amber	Contract T&Cs The council will need to negotiate with the supplier an appropriate contract.	Legal engagement in the wording of the contract T&Cs
Amber	Dual running during migration and testing There will be a period of time when the application is available, but unusable by the council until it is fully configured. During this time the council would need to keep using the existing application, incurring dual running costs.	Minimise likelihood of an overreach through effective planning
Red	Adequate testing plan and test group Without an adequate test plan there is a risk that the migration may fail, and staff will be unable to use the application effectively.	An appropriate test strategy is developed and managed by an experience ICT resource. Test group identified by HR, finance and payroll
Red	Adequate adoption and training support	An experienced business change resource is recruited

	Successful delivery of the project is dependent on an appropriate adoption and training plan being in place.	Clear communication approach adopted Clear delivery plans and collateral delivered

Environmental implications

3.28. None

Equality implications

3.29. None

Procurement implications

3.30. The Council's CPR contain a clause (14.10) on exemptions from competitive tendering. This provides several grounds for exemption with the caveat that the requirements of the PCR2015 are not breached. Rule 14.10 (b) permits an exemption where "it can be demonstrated that it is in the Council's best interest and this is clearly demonstrated." This procurement can proceed on this basis. The next steps from a procurement perspective would be:

    i.   to develop an outcome-based specification which the supplier agrees to;

    ii.   review the commercial offering and agree any provision to increase pricing during the lifetime of the contract;

    iii.   review and provide advice on the contract proposed by the supplier; and,

    iv.   have the contract sealed as per the council's CPRs for contracts valued over £100,000.

3.31. These activities can be delivered within the timeframes outlined in this report.

Workforce implications

3.32. None

Property implications

3.33. None

4.   Background Papers

None