

Cabinet Member for Corporate Relations

SAP Optimisation Programme

September 2015

Report by Executive Director Corporate Resources and Services and Director of Workforce, Organisational Development and Delivery Support

Ref No: CR04(15/16)
Key Decision: Yes
Part I
Electoral Division(s): (or N/A)

Executive Summary

The SAP Optimisation Programme will deliver changes to the main system supporting the Council's Finance, Human Resources and Procurement functions (SAP) and improvements to processes associated with those functions. The objective of the programme is to improve efficiency and compliance, reduce errors and rework and simplify the user experience by applying industry best practice to the SAP system.

The programme will use a mixture of in-house resources and external specialists to make changes to the configuration of the SAP system, including the addition of a Business Planning and Consolidation (BPC) module and improvements to the user interface. It will consist of two phases; Phase 1 will focus on delivering the Business Planning & Consolidation capability (budgeting) and some key HR elements, Phase 2 will complete the delivery of the outcomes for Procurement, Finance and HR, by April and December 2016 respectively.

Recommendations

- (1) That the SAP Optimisation Programme proposal to deliver the intended outcomes, with Phases One and Two scheduled to be delivered by April 1 2016 and 31 December 2016 respectively is approved.
- (2) That the £2.5m investment required to deliver the SAP Optimisation Programme is approved.

1. Background and Context

- 1.1 Over the last 12 months a number of issues have arisen through various channels which are symptomatic of low levels of compliance throughout the organisation. Deficiencies have been brought to our attention through Internal Audit Reports, Great Place to Work consultations, the Customer Experience Programme, and staff feedback amongst others.
- 1.2 A root cause analysis has been undertaken to diagnose the problem which shows the main causes to be behavioural, partly driven by complex

manual processes and weaknesses in how our supporting systems (particularly SAP) have been configured to drive automated processes, including manager and employee self-service.

1.3 Analysis has revealed that the main system (SAP) used to drive Finance, Human Resources and Procurement activities has been set up and used in a way which is highly customised for the County Council and does not conform to recognised industry standards for configuration and usage. As a result many of the processes that are supported by this system are less effective than they should be, and this has a detrimental impact on key processes that support the County Council. These include:

- Budgeting and Forecasting activities are very labour-intensive and require the use of many manually-updated spreadsheets. This has the effect of reducing the accuracy of the data on which these key processes depend and increasing costs to the Council.
- The HR component is based on a people-centred, rather than position-centred structure, which complicates approval structures and reduces the ability of the Council to maintain acceptable compliance levels.
- Procurement and payment activities are similarly labour-intensive and result in reduced compliance with optimal purchasing decisions and approvals, increasing the risk of financial penalties.
- Individual modules within SAP are not integrated with each other which means that re-keying of data is necessary to complete tasks that cross functions, such as workforce cost, headcount planning and procure to pay.
- Manual entries and considerable re-work is required to ensure that linked systems contain reliable data.

1.4 Whilst past initiatives have sought to address some of these issues, and have brought some improvements, an opportunity has now arisen to address the fundamental deficiencies in the way that SAP is configured and used in order to drive compliant behaviours, create efficiencies and be used more effectively. This will bring significant benefits to the Council by streamlining processes, reducing manual intervention and enforcing compliance with County Council rules.

1.5 Previous enhancements to SAP and associated processes include:

Date	Enhancements
2006	SAP Employee Contract Management (e.g. contract of employment, change of hours)
2008	Business Warehouse (Data and Reporting Repository)
2009	Capital and Funding Management
2010	Hire to Retire supported by SAP HR Module
2010/12	Employee and Manager Self- Service, Appraisals, Recruitment and Finance (including Treasury Management, Improvement to Project Systems and Assets)

2011/12	OWTB supported by SAP Supplier Relationship Management (SRM)
2013/14	HR Renewals

The total investment for these changes was approximately £6m, in addition to the initial outlay for SAP of approximately £2.5m.

- 1.6 The programme is seeking to secure the following outcomes:
- Integration of financial, budgeting, and people data
 - Greater control of approval hierarchies and integration of approval process with financial and people data
 - Enhanced and accurate management information across finance, procurement and people
 - Reduced time taken to instigate self-service transactions
 - Processes designed to deliver compliance with organisational rules such as financial standing orders and legislative requirements such as information security
 - Improved staff morale through simpler and easier to use processes and clarity on the correct/appropriate process
 - Increased productivity through greater automation of processes and reduced time spent on re-keying data
 - Greater assurance through an improved control environment within our key Financial and Human Resource system.

2. **Consultation**

- 2.1 The Cabinet Member for Finance has been consulted on the proposal and supports it. He understands the reasons for, but is none-the-less disappointed that, a quantified set of benefits cannot currently be produced which outweigh the £2.5m cost of investment.
- 2.2 Feedback has been canvassed internally from staff in Finance, HR, Procurement, Learning & Development, Organisational Development, Communications, Insight, IT Policy, Commercial Services, Internal Audit, Performance and Operational Support and Capita.
- 2.3 A visit took place to a neighbouring local authority to observe their use of SAP and validate our proposed approach
- 2.4 Scrutiny of this proposal by the Performance and Finance Select Committee occurred on 3 September 2015, where this proposal was reviewed and the committee's support confirmed.
- 2.5 The feedback from these consultees shaped the programme's approach and scope to maximise the return on our investment and reduce the risks associated with the delivery of the programme.
- 2.6 Owing to the internal focus of the programme we have not consulted with residents or other levels of local government such as Borough, District or Town/Parish Councils.

3. **Proposal**

3.1 It is proposed that the Council will proceed to engage with Capita and other sources of specialist staff to engage resources to deliver the outcomes of the programme. The focus will be on obtaining the best value for the proposed spend, whilst ensuring that the resources have the necessary skills to deliver the required quality of output. Appendix 1 sets out the profile of the resources required to deliver the programme. The resources required by the programme will be a mix of in-house and external. Capita resources will mostly be in addition to our existing contractual arrangements with Capita (ITO Contract). Other transformation resource will be a mix of internal existing staff –being sensitive to BAU business utilisation – with the majority of the balance being engaged on a temporary basis via our temporary workforce provider ‘Manpower’

3.2 In order to achieve the desired outcomes the programme will proceed in two phases:

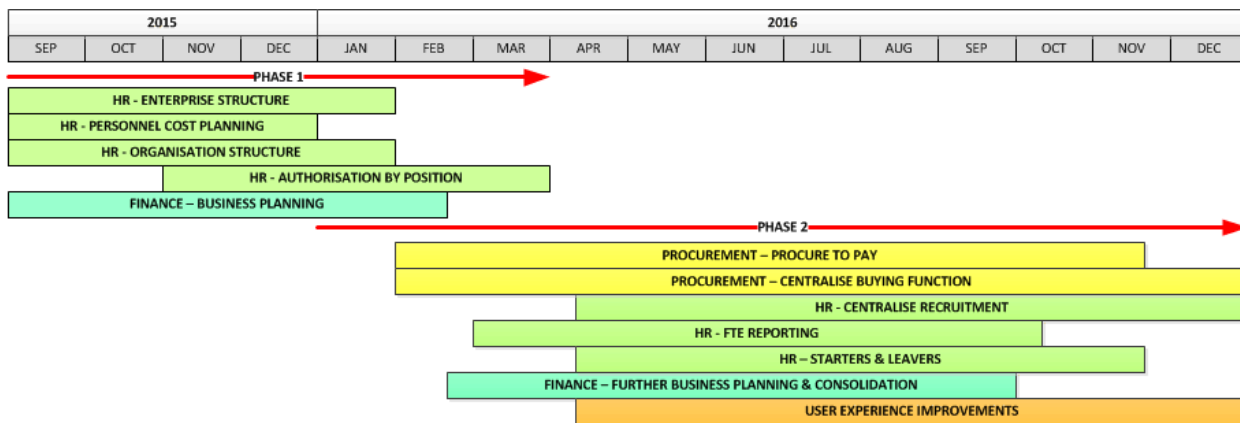
- Phase 1 will deliver Business Planning & Consolidation (BPC) capability (budgeting) and some key HR elements
- Phase 2 will deliver outcomes for Procurement, Finance and HR

The activities to deliver these phases will include:

1. Transfer HR structure from person to position led, assigning of all characteristics to position not person – e.g. cost centre, approvals, and system accesses
2. Alignment of hierarchy across the SAP enterprise structure – namely to use the same (new) position-led structure across finance/HR/procurement
3. Use of purchasing channel planning, master data management, catalogue procurement, and cart shopping concepts to optimise procurement user experience, improve compliance and reduce overall spend
4. Finance – deployment of BPC module to replace manual spreadsheet budget planning and forecasting processes with integrated, consistent reporting approach delivered by SAP

3.3 To maximise benefit to the council – deployment of the BPC module should logically occur prior to the beginning of a new financial year to benefit from construction of new budget, monitoring & forecasting tool.

3.4 The high level timeline for delivery is therefore as follows:



3.5 The positive impacts of the programme will primarily be on internal staff, e.g. better compliance/cost control, near time automated reporting, integrated access and asset control, but improvements to Purchasing and Payment activity will improve the speed and accuracy of payments to suppliers. Residents will benefit from the reduced costs to the County Council through greater internal efficiency and reduced risk of financial loss/penalties.

4. Other Options considered

4.1 Other alternatives considered:

1. Do Nothing. Not considered a viable option as existing costs and risks would persist
2. Attempt to address problems by modifying business processes without addressing underlying system configuration issues (“sticking plaster” approach). Discounted as many issues are caused by the underlying system configuration and usage. Many internal processes within the council today are manual processes around SAP. These processes contribute to rekeying of data and protracted fulfilment because of limited automation and the impact of bespoke/manual paper/web based forms
3. Replace SAP with an alternative enterprise system. Discounted owing to much higher costs and extended timelines associated with this approach.

5. Resource Implications and Value for Money

5.1 The details of the resources required to deliver the programme are set out in Appendix 1 but in summary the following groups will be involved:

- County Council subject matter experts in Finance, HR and Procurement
- SAP technical transformation Resources

5.2 Additional in-house resource will also be used to support the organisational development aspects of this programme such as values and behaviours, learning and development in areas such as financial standing orders and performance management, communication and staff engagement. The in-house resources for organisational development have not been included within this programme as these work-streams are already underway and work is in train to map and manage the

interdependencies of the two areas of work. Key programme resources including Business Systems Architects, Project Managers, Business Solutions Officers and Business Partners will be assigned fulltime. Key stakeholders/subject matter experts in business areas will be required for between 10-15% of their time. Majority of the balance will be engaged on a temporary basis via our temporary workforce provider 'Manpower'

- 5.3 In order to contribute to the National Government Apprenticeships initiative the programme will also provide opportunities for several apprentices to gain experience in a wide range of real-world activities.
- 5.4 One-off costs will include the purchase of additional licences for SAP users, specifically in the area of Business Planning and Consolidation (BPC).
- 5.5 The programme costs can be summarised as follows (further detail of the resource costs is provided in Appendix 1):

Item	Estimated Cost
<i>One-off costs:</i>	
SAP Business Planning & Consolidation (BPC) Licencing	£500,000
Self Service Infrastructure	£100,000
Software Install & Additional Hardware	£140,000
Programme Operational Costs	£10,000
Contingency	£250,000
Resource Costs (As per Appendix 1)	<u>£1,500,000</u>
Total	<u>£2,500,000</u>

- 5.6 These costs are in addition to existing budgets. Funding has been allocated from the Transformation Budget by the Executive Director, Corporate Resources and Services. By September 2015 approximately £300,000 will have been spent or committed on this programme in order to carry out analysis and to maximise the chances of delivering the aspiration of new modules being operational by 1 April 2016. This sum is within the £2.5m stated above.
- 5.7 The programme will support the Council's Priorities as set out in the Future West Sussex Vision by ensuring that the Council is efficient and effective across a wide range of functions which support front-line operations, and ensuring that risks of financial loss are minimised.
- 5.8 The expected benefits of the programme are summarised below:

Discipline	Benefits
Finance	<ul style="list-style-type: none"> • Fully integrated budget planning & forecasting tool, saving time & improving efficiency • Single, integrated approvals process • More timely & enhanced data in relation to

	<ul style="list-style-type: none"> organisation expenditure • Integrated, consistent Personnel Cost Management with HR establishment Control • Reduction in manual intervention & re-keying of data
Human Resources	<ul style="list-style-type: none"> • Position based Organisational Management & Control • Authorisation & Access Control in line with Position • Integrated, consistent Establishment Control with Finance Personnel Cost Management • Single End to End view of 'whole workforce' expenditure • Enhanced, automated HRMI reporting • Streamlined Recruitment & Onboarding Processes • Reduction in manual intervention & re-keying of data
Procurement	<ul style="list-style-type: none"> • Red, Amber, Green Procurement Channels, driving better value for money & improved compliance • Implementation of Shopping Cart from Catalogue capability • Ability to procure/approve procurement activity in line with Position based Organisational Management • Improved Management Information in respect to commodity spend
Cross Function	<ul style="list-style-type: none"> • Simple, flexible self-service experience across volume transactions facilitated by SAP systems • Reduction in time taken to instigate transactions (Employee or Manager) • Reduction in time taken to approve/fulfil transactions or requests (Approver/Back Office) • Improved audit reports through better compliance

5.9 At this stage the benefits identified above have not been translated into cashable sums. This is because the implications range from small increments of individuals' time saved through to larger sums to be realised from avoiding inappropriate or off-contract spend. The benefit of improved compliance and management information is also difficult to assess financially. However, as the programme moves forward it is expected that the benefits above will be realised, will be translated into cash and hence the cost of operating the County Council will be reduced. Cashable savings will be realised – but the key benefits to doing this are improved compliance and increased staff productivity. Cashable savings will be spread thinly across the organisation, and across all working elements of existing processes today – these cross the County Council/Capita partnership – commercial dialogue will be required with Capita to apportion these savings. Key savings will be around avoidance of the risks of fines, enhanced compliance, realising economies of scale in a consistent procurement strategy and centralised recruitment.

6. Impact of the proposal

6.1 Groups impacted by the programme will include:

- Finance, HR and Procurement management and staff
- Managers in Business Units who use self-service applications supported by the SAP system for approvals such as purchasing, recruitment and financial functions
- All staff who use self-service transactions

6.2 Positive impacts will include less manual intervention to achieve outcomes across a wide range of functions and more streamlined, easy to use processes that will maximise compliance with County Council rules.

6.3 Negative impacts will primarily consist of the impacts normally associated with change, including familiarisation with new practices, adjustment to more rigorous enforcement of compliance and short term drop in productivity as these impacts are managed.

6.4 **Equality Duty.** An Equality Impact Report is not required for this decision for the following reason:

- It is a report dealing with internal or procedural matters only.

6.5 **Social Value and Human Rights.** There are no contributions in this proposal relevant to these considerations.

7. Risk Management Implications

7.1 The key risks to successful delivery of the programmes outcomes have been analysed and are highlighted below, together with the actions being taken to mitigate each of the risks:

Description	Mitigation
Protracted negotiations with Capita: Capita ITPS for resource and Capita ITES & SAP for BPC	Early negotiations with Capita
Poor quality system data (current data may be difficult to manipulate to support the updated system)	Data clean up - correction and removal of duplicates. Archival of historic records
Lack of commitment from services to support changes in current business processes	Continue to engage services and escalate to senior management as required
Staff engaged in fulfilling todays manual processes may become resistant to change and this may impact collaboration in automating and embedding these processes	Communication, engagement and clear project direction
Services may not be resourced / available to support the project when required	Project planning and clear resource requirement
Challenges on agreed to scope request for discussions in relation to scope impact the project through	Clearly articulate the root cause analysis undertaken and key selected foundational modifications required to support future

delays or distraction	enhancements
Outsourcing delays or deliverables not met & lack of vendor and supply availability (Lack of required technical skill set supplied by Manpower)	Early engagement with Manpower. Consider a secondary vendor (via framework agreement)

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Background Papers

None

Appendix 1 – Resources

The following table provides a summary of the resources required to deliver the programme's outcomes:

Discipline	Resources	Estimated Costs
Finance	<i>Delivery Transformation Resources</i> <ul style="list-style-type: none"> • Accounting & Finance expertise • Resource to undertake modification of SAP systems in line with guidance from SAP technical transformation specialists 	£180,000
	<i>SAP Technical Transformation Resources</i> <ul style="list-style-type: none"> • Design, build, test & deployment expertise for implementation of Business Planning Module • Design & configuration expertise for business rules & approvals processes 	£250,000
Human Resources	<i>Delivery Transformation Resources</i> <ul style="list-style-type: none"> • Human Resources, Organisational Management & Payroll expertise • Resource to undertake modification of SAP systems in line with guidance from SAP technical transformation specialists 	£310,000
	<i>SAP Technical Transformation Resources</i> <ul style="list-style-type: none"> • Design, build, test & deployment expertise relating to modification of SAP organisational management structure, personnel cost planner, enterprise structure and authorisation by position 	£300,000
Procurement	<i>Delivery Transformation Resources</i> <ul style="list-style-type: none"> • Procurement, buying, channel planning, commodity analysis, compliance & exception management expertise • Resource to undertake modification of SAP systems, data cleanse and enrichment in line with guidance from SAP technical transformation specialists 	£260,000
	<i>SAP Technical Transformation Resources</i> <ul style="list-style-type: none"> • Design, configuration & implementation of Supplier Relationship Management module including best practice implementation of master data management & R.A.G channel procurement with shopping cart logic 	£200,000
	Total	£1,500,000