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City council faces £216.5M loss over Oracle system debacle

Europe's largest local authority canceled expected savings baked into financial plans

Lindsay Clark   Tue 20 Aug 2024 // 08:30 UTC

The total cost of Birmingham City Council's Oracle implementation disaster is set to reach £216.5 million ($280.4 million) by April 2026, according to a new audit report.

Europe's largest local authority went live with the Oracle Fusion single platform for finance, payroll, HR, procurement, supply chain management, and customer relationship management – replacing an SAP system first introduced in 1997 – in April 2022.

Since its introduction, the council has been unable to file auditable accounts. It is set to re-implement an "out of the box" version of the solution after customizations in the first effort disrupted its bank reconciliation system. The system also left the council unable to provide an audit trail or detect fraud for 18 months.

The cost of the Oracle project increased from an <u>initial estimate of £19 million to a projected cost of £131 million</u>, including the re-implementation.

However, <u>a fresh report from the Audit Reform Lab</u>, a collective of academics, consultants, and activists based at the University of Sheffield, estimate the true cost of the Oracle implementation disaster is set to be £216.5 million until April 2026 as the council's spending plans had relied on expected costs savings from the ERP system, which it had later canceled.

"None of the anticipated direct savings were delivered, and, furthermore, due to the inability to monitor budgets, a significant amount of wider savings had to be written off. In total, £69m of savings in 2023/24 were written-off, along with unspecified further savings in future years," the report said. "Many of the internal processes and tacit knowledges that had previously been used to produce financial outputs broke down, providing no simple workarounds that

would enable problems of this kind to be resolved."

The report – commissioned by the GMB, Unison, and Unite unions – also claims that problems with the implementation were not disclosed to elected members and the wider public for more than a year.

"It appears that the widespread failure of the Oracle IT system, and the associated costs running into hundreds of millions of pounds, were not adequately disclosed to the cross-party democratic structures of the Council for around thirteen months, between April 2022 and May 2023," it stated.

The report calls for a public inquiry into the financial disaster, which saw the council become effectively bankrupt after news of a £760 million equal pay claim was disclosed. The report claims that figure was "prematurely disclosed and potentially overstated" while the role of

Oracle was downplayed.

"Any subsequent inquiry should ask serious questions about why the failure of Oracle was downplayed by senior management at that time; and whether this was the result of intransigence and mismanagement, or was part of a deliberate strategy to deflect blame, or some other reason," it said.

In response, John Cotton, leader of Birmingham City Council, said: "We must take responsibility for the failings that have contributed to our current difficulties, but the mistakes made in Birmingham have not occurred in a vacuum. Report after report shows that there's a national crisis in local government caused by 14 years of neglect from the previous Tory government, combined with major rises in demand and cost-led pressures." ®