
REPORT FOR: CABINET

Date of Meeting: 19 March 2020

Subject: Authority to procure and implement through a direct award a cloud based Enterprise Resources Planning System

Key Decision: Yes

The proposed project involves revenue and capital expenditure in excess of £500k.

Responsible Officer: Charlie Stewart
Corporate Director of Resources

Portfolio Holder: Councillor Adam Swersky, Portfolio Holder for Finance and Resources

Exempt: No, except for Appendix 1 which is exempt on the grounds that it contains “exempt information” under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information).

Decision subject to Call-in: No

Wards affected: All

Enclosures: Appendix 1 – Commercial and Business details (exempt)

Section 1 – Summary and Recommendations

The purpose of this report is to seek Cabinet approval to procure a replacement Enterprise Resource Planning (ERP) System which supports the Council's HR, Finance, Payroll and Procurement & Supplier Management functions.

Recommendations:

Cabinet is requested to grant approval to :

1. Procure MS Dynamics as our cloud based ERP system via a compliant direct contract award to Microsoft under the Kent Commercial Services 4 Professional Services Framework
2. Procure the associated HR system required for the MS Dynamics ERP system from Loki Systems via a compliant direct award under the Kent Commercial Services 4 Professional Services Framework
3. Procure PWC, an experienced and expert ERP implementation partner, to support the implementation and successful transition from our current SAP system to the new ERP system via a compliant direct contract award under the Management Consultancy Framework 2 or Crown Commercial Services G-Cloud Digital Marketplace Framework.
4. Delegate Authority to the Corporate Director of Resources following consultation with the Portfolio Holder for Finance and Resources to award the above contracts.
5. Add a capital budget of £1.65m into the 2020/21 Capital Programme for the ERP Replacement project as set out in the financial implications section and detailed in Appendix 1.

Reason: (For recommendations)

SAP, the current supplier of our ERP system, is withdrawing commercial and technical support for the version in use by the Council. A major functional update is required for HMRC compliance in March 2021 which would require a costly upgrade to the current system. The benefits of doing this upgrade were not seen as adding value for money so last year Cabinet agreed to procure a new system and a market analysis of possible solutions was carried out. This included reviewing a proposal by Microsoft and PwC that the Council becomes the first local authority to introduce Microsoft (MS) Dynamics.

The market analysis showed that there were at least two software suppliers who could meet most of our high level requirements. However only MS Dynamics would meet our longer term strategic needs.

Its introduction would allow us to develop a single IT platform, based in the cloud that forms the core of all our operations. This would deliver significant benefits including allowing us to join up our IT systems and greatly improve our data, and how we can use it to plan and continuously improve. We will also be able to consolidate and extend the use of all our Microsoft products (including Windows 10/365) to reduce costs, improve technical support and develop better business resilience.

There are therefore major benefits in procuring MS Dynamics as our SAP replacement system which will provide much greater economic and organisational value than introducing other systems.

To reduce risk and deliver value for money, based on current Gartner research, the Council wishes to implement a Microsoft ERP replacement using PwC – the only global gold partner with relevant solution experience.

Section 2 – Report

Background

Most of our HR, Finance and procurement functions are run on our SAP system. It is the core of how we run the backbone of our internal processes and is therefore critical to the day-to-day functioning of the Council. Additionally, the information and insights that should be able to be drawn from such a system are key to financial and HR strategic planning.

Our current SAP system is 15 years old and this age causes two key issues:

1. **System Viability.** From January 2025, SAP is withdrawing commercial and technical support for the version in use by the Council. Elements of the Council's SAP system are already in extended support with some modules being unsupported by the vendor since January 2020. Sopra Steria/Edenhouse manages the current SAP environment, but their contract expires at the end of October 2020 and new arrangements will need to be put in place. A major functional update is required for HMRC compliance in March 2021, which will necessitate a costly upgrade to implement the required changes and bring other modules back into support. If by March 2021 the Council has not moved off the system, the risks become extremely high and mitigation extremely difficult.
2. **Modern Ways of Working.** Systems such as SAP have seen significant technical advancement since our current system was purchased. We therefore are not benefiting from these technologies which both improve speed, efficiency and quality while also providing much advanced information and insights. It should be noted that by also moving to the cloud (SaaS) our future system will be updated on a regular basis with future technology advancements, rather than being locked into those available at the time of purchase.

Last year (May 2019) Cabinet agreed to procure a new system and a market analysis of possible solutions was carried out. Two main organisations in this sector, Oracle and Unit4/Agylis, emerged from the market analysis; both are currently in use by other Councils. Additionally, Microsoft (and PwC) proposed that the Council becomes the first local authority to introduce Microsoft (MS) Dynamics as its ERP system. MS Dynamics is used in central government and in the private sector globally. Microsoft is investing heavily in its development and its market share (for finance and HR) is growing fast. However, they do not currently have a Local Authority offer and, with PwC as their implementation partner, have asked if we would develop the 'Council' MS Dynamics system with them.

The market analysis of all three software systems included checking that they could meet our high level requirements, discussing with the suppliers the functionality and wider benefits the systems could provide, and reviewing the technical 'fit' with our other systems and future needs.

Although all three systems were considered suitable to meet our basic needs, Microsoft also emerged as being able to meet the requirements of the Council's Modernisation transformation providing the benefits as outlined below.

If we purchase MS Dynamics, then our three core systems (MS Dynamics, MS 365/10 and MS Azure cloud platform) will all be built on the same technical architecture; thus providing the best possible chance of seamless integration and the ability to develop and use the same management reporting and technical tools across all.

Microsoft would look to extend their current stable of systems to bring in LA specific service needs (ie planning) either by developing a system themselves or by working in partnership with major provider(s).

As Gartner advise that Microsoft is the market leaders in integrating different systems, this approach gives us (and any LA) the best chance of joining up our data. Gartner also advise that Microsoft are the leader in providing reporting tools to extract, analyse and present data, and in innovation (ie AI, Bots, automation and assistive technology). Therefore, not only can we join up data, but we will have the best technology to use it.

Continuous Improvement

Becoming a Microsoft House would provide two key benefits to our transformation journey and, as important, drive continuous improvement:

Joining up our systems and their data will allow us to develop a single version of the truth for key data types (such as customer) and allow us to link data much more easily. Microsoft's market leading power tools will then allow easy manipulation and visualisation of that data so that better decisions can be made that allow us to balance factors across services. Through this 'balancing' we can optimise outputs and understand better their effect on outcomes, thus helping us to produce more effective service models. For example, we could more easily link housing data with social care data to get a richer picture of people, families and communities.

Currently we have little ability to develop our systems ourselves leading to long, costly and limited change and technology advancement. Microsoft systems are leaders in allowing organisations to self-develop their systems while retaining the benefits of cloud technology.

- Power Apps would allow our developers to, in hours, produce 'apps' linked to the MS suite of systems.
- Power BI would allow us to unify data easily across all systems, manipulate it and create simple to use visual and interactive dashboards.
- Power Automate would allow us to automate workflow connected to apps and AI.
- Power Virtual apps would allow us to develop Artificial Intelligence such as Bots.

Microsoft is investing continuously in this innovation. It is what drives their market share and what makes them Gartner's innovation leader. Specifically, they are working on assisted technology in Social Care, housing and homelessness challenges which they would like to explore with us.

Many other new systems will also provide some of these abilities. However, being the market leader in innovation tools, Microsoft are the only systems' provider to deliver the full suite of AI built into its system. As a Microsoft House we could use these tools across all our systems (as we would have a unifying MS platform), and it would provide a single developer tool-set (so we don't have to employ different types of developers and can more easily grow our own skilled staff).

To make use of this major benefit, we will have to build 'developer' capacity into our ICT team. This is something the new Director of ICT is working on as we re-structure the team within the new ICT model post Sopra.

Standard Look and Feel

Using Microsoft across our core systems will allow us to develop standard user interfaces which people will get to know. This will reduce the frustration of having to work with different interfaces and allow future developments to be easier to embed and deploy. Single log on will also be possible in time.

Single Cloud Platform

Moving systems to the cloud does provide greater flexibility and mobility. However, it does mean that data is held on different platforms; whereas previously it would all be held in an organisation's own servers. If we purchase MS Dynamics, it is placed in their Azure cloud platform alongside MS 365/10. The related critical data, so central to our operations, will therefore be immediately seamlessly linked. As we develop ourselves into a Microsoft House, more systems can be hosted through Azure ensuing we can use its inbuilt integration functionality. Azure is the preferred cloud platform for many providers, however, not for all at the moment so this benefit would only grow over time.

Strategy development

Both Microsoft and PwC have offered free strategic advice as part of the partnership; we would learn from each other. It is to their benefit to ensure we continue to innovate and bring that innovation to the market. This advice would be on our IT architecture, use and development of innovative technology and strategic direction for change. They will also support leadership understanding of future technologies (the art of the possible).

Social Impact Benefits

Microsoft (and PwC) is fully committed to providing Harrow with social benefits. As a starter, Microsoft wish to discuss supporting Harrow's future generations, through programs such as our Enterprise Skills Initiative, DigiGirlz, SteamKidz, EduConnect. Both Microsoft and PwC have made a commitment that, as this would be a longer-term partnership than that developed through a one-off contract, these benefits would be bigger than normally provided.

Microsoft is also a firm believer in corporate responsibility with a CEO who takes personal interest in socially orientated projects. They are working for a sustainable future and have recently announcing their 'carbon negative' goals. Similarly, PwC have a commitment to social values.

Licencing

Managing systems licences is an often forgotten activity which can have major financial and legal risks. Harrow, like most LAs, has experienced these issues over many years.

Firstly, understanding usage against the various types and contract conditions is usually complex. Wrong estimations lead to unplanned financial liabilities and often legal challenges when suppliers audit an organisation.

Secondly, organisations purchase licences which they then don't exploit. They don't use much of the functionality that they have purchased (SharePoint is but one example for us).

Having all our core (and potentially other) systems under one supplier will greatly reduce our workload and risk in licence management.

Business Resilience

The Microsoft platforms are market leaders in security and resilience. This will provide us with much better business continuity and reduced risk of data breaches.

Timescale and next steps for benefits

It should be noted that although some of the benefits outlined in this section will be available immediately, many will take time to introduce. We will need, for example, to build our own IT developer capacity to take full advantage of Microsoft's innovative platforms.

Benefits from using Microsoft and PwC

Details of other benefits being delivered by an ongoing relationship with Microsoft and PwC are outlined in Appendix 1.

Commitment to Working Together

Commitment to developing MS Dynamics together has been very visible. We have had significant involvement of PwC partners and from Microsoft's senior team including their Dynamics Global Corporate Vice President, Hayden Stafford, and Microsoft UK CEO Cindy Rose.

There is an obvious desire from both Microsoft and PwC that the introduction of MS Dynamics succeeds in order that they can develop their presence in the local authority market place and to show their 'social' value. They need Harrow as their reference site.

Options Considered

Two other options have been considered: remaining on the current system and going back out to the market for procurement.

The option to remain on the legacy system until vendor support runs out in 2025 was considered and rejected in the previous Cabinet paper (which agreed to procure a new system) because remaining on the legacy system after December 2020 has the following disadvantages:

- The Council will have to proceed with maintaining the legacy system at costs of £2m with no perceived benefits to the Council other than keeping the system in support;
- Future needs to enable agile, mobile working and improved analytics will not be met until 2025;
- Continued inconvenience for users of the system who find it dated, clunky and unintuitive;
- The Council will incur further costs associated with moving the system into a new data centre when a move from the current Civic Centre takes place (costs are unknown).

The option to go back out to the market for procurement is also not recommended as the Council would not benefit from the wider transformation benefits that MS Dynamics would bring to organisation. Additionally our implementation risks would be much higher (as outlined above). It would also take several months to complete a procurement exercise and bring in another supplier. This would increase the risks of not implementing by the critical March 2021 date, with potential additional significant cost to the Council.

Staffing/workforce

Where possible the plan is to resource the project with existing staff and backfill their posts. It was felt this is the best strategy as it provides development opportunities to staff and ensures knowledge is retained in-house. The current system is supported by 3rd party ICT partners whose resources work off site on multiple accounts and current advice is that TUPE would not apply to any staff.

Data Protection Implications

There is no change to how the Council uses personal data however the data will be moved from on-premise to a cloud application. The business requirements for the new system will include compliance with GDPR and this will be thoroughly assessed and tested during the tender and user acceptance process.

The Council's Data Protection Officer is involved in the project and the data protection impact assessment has been completed.

Ward Councillors' comments

Not applicable

Risk Management Implications

Risk included on Directorate risk register? Yes
Separate risk register in place? Yes

Risks

There are several key risks inherent in any IT system implementation. These are magnified several times by the size and complexity of a SAP replacement:

- Change involved both in fitting a system to the organisation's needs and in changing people's ways of working through training and gaining buy-in.
- Keeping the project on track which is often de-railed by scope-creep, changes in an organisation's priorities (such as moving staff off the project to other tasks) and procrastination in decision making.
- Discovery during the project of key interfaces or technical issues that require significant work to resolve.
- MS Dynamics new to LA market - the gap.

Risk: MS Dynamics, Microsoft's solution for us, is used globally by different organisations, but is not used in LAs. We would be its first adopter and therefore there is a risk it cannot fulfil our/councils' requirements.

Mitigation: PwC/MS have undertaken a deep review of our detailed requirements and their own review of our technical requirements. They ascertain (and we agree) that MS Dynamics can fulfil our critical and essential requirements; commercial terms will ensure that any issues found during the project, that are to do with our listed requirements, will be at their risk to correct.

Our assessment is that the risk mitigations provide considerable assurance that the 'gap' risk is very low and, further, that the risk of additional cost through unforeseen requirement issues arising is also low.

Change management, especially from an old system.

Risk: Change management, to ensure we stay on track and to ensure we train and embed the new ways of working, is always a significant risk for a large

system introduction. Implementations mostly fail as organisation see the project as just swapping one IT system for another rather than view it holistically as a fundamental change in the way the organisation works. This risk is especially high for us as our current ways-of-working are set on a very old SAP system. The gap between the way we currently work and any new technology is therefore significantly greater than for those organisations who have to continually update their software. For a MS Dynamics introduction, Gartner have advised that the use of small systems integrators has caused organisations to face greater change management problems than for the introduction of other systems. They therefore advise using a large integrator (such as PwC). PwC need the Council to adopt their best practice product where possible rather than re-configuring to the Council's specification. There is a risk this may make the product less flexible and not meet the Council's requirements.

Mitigation: For any system we will purchase we will have to enforce rigorously 'adopt not adapt. We will need to adopt the best practice processes embedded in the software rather than try and adapt it to our current ways-of-working. This is a standard need for any cloud technology. It does help the adoption of best practice and help challenge the way we currently work. This sounds easy, but in practice, as the system rolls-out, there will be major objections to this practice. To ensure we stay on track we will need excellent project management and direct technical support. It should be noted that our very limited change management and technical capacity makes us especially vulnerable to this risk. Whichever system we introduce, we will need to significantly bolster our currently planned change-management support to the project.

Our assessment is that the mitigations offered by both PwC and Microsoft reduce the change risk well below the level would face if we went elsewhere. It should be noted that this risk reduction does not mean it will be all plain-sailing. There will be major ups and downs, but we will have the tools to early identify and handle the problems.

Commitment.

Risk: There is a risk that if the introduction of MS Dynamics is not providing the returns wished by Microsoft or PwC, they will withdraw leaving us with either a partly introduced MS Dynamics of, afterwards, no way to gain the wider benefits of being a Microsoft House.

Mitigations: The commercial terms mitigate against the risk of either Microsoft or PwC withdrawing from the introduction of MS Dynamics or its support up to the time that we have a guaranteed, stable system we can look after by ourselves with normal supplier support.

Both Microsoft and PwC have also committed to the longer term relationship at the highest level. The PwC and Microsoft partners have been deeply involved in the development of the working relationship from the start.

PwC commitment at Partner level has also been visible through the considerable investment they have done to understand robustly our requirements and our IT architecture.

Interfaces and IT architecture complexity

Risk: Recent investigations into our IT architecture, undertaken as part of our move to the new ICT model, have highlighted the complexities of our ICT architecture. This complexity drives cost risks for interfaces and requires us to make key decisions for the future that may cost more now, but deliver better service later.

Mitigation: Through reviews of our technical architecture we now better understand the risk areas and can map a way forward. One key first step would be to replace our JBOSS middleware which ideally would be done by the use of tools embedded in MS Dynamics. We will also look to simplify our complex web of systems and databases which again would be ideally done through consolidating our core systems under Microsoft software.

Historic Data

Risk: The team wished that all historic data was placed in the 'live' system in order that direct and swift access was available. This is an unusual requirement as there are significant challenges to bringing in old (bad) data to a new live environment; it hugely increases costs, has data protection implications and is likely to will slow down the system. The first London Borough that went live on Oracle Cloud found these issues, which created a lot of delays and extra costs.

Mitigation: The usual approach is to bring in one or two years of cleaned data and older data which are regularly accessed. All other data is stored, after cleaning, in a data-lake where retrieval is through reports extracting it as required. This is a key adopt not adapt issue which we will need to manage as we will with all cloud implications. We will also need to design our data-lake which would be made easier as part of general transition to a Microsoft cloud environment.

Corporate Estates

Risk: Some SAP functionality is currently used to support Corporate Estates work. The suppliers who replied to the market test indicated that they could configure their systems to cover this work. MS Dynamics does not have a separate Corporate Estate package, but indications are that it too can cover the functionality required. However, this is will not be confirmed until detailed work is done during the programme which risks that not all the functionality can be covered. This risk will be similar for other systems.

Mitigation: PwC and Microsoft will do immediately a high-level review of requirements to investigate what functionality is critical and if there are any gaps that MS Dynamics cannot meet. We will also undertake a wider review of the requirements of Corporate Estates to see if a longer term, more strategic technical solution would add more value. This will be the subject of a separate business case.

Implementation

This paper outlines the high risks involved in implementing a SAP replacement especially in our circumstances. The MS Dynamics/PwC solution will greatly reduce that risk beyond that we could obtain elsewhere through fixing of price, focus on change management, buy-in at the highest levels and need for joint working to succeed. MS Dynamics can provide us with significant technological benefits over the coming Modernisation transformation.

Loki

Risk: MS Dynamics embeds a system developed by a company called Loki Systems to provide its HR functionality. PwC can not, for USA legal reasons, directly contract with Loki so we would need to raise a separate implementation contract with them (also through government frameworks).

Further delay

Any further project delays mean that the Council will remain on an unsupported system for a longer period of time. Plans are in place if we do not decide to implement MS Dynamics, but the risk will be greater. However, if the decision on which system to implement is delayed it is highly likely that the council will not have moved off SAP by March 2021 when risks become extremely high and mitigation extremely difficult. The only real mitigation would then be to pay SAP to upgrade our current system to the minimal needed. This will cost £2m for the upgrade and likely several more million for the change

Contracting

Further to the decision granted by Cabinet at the meeting on 30th May 2019, the key risk to the Council is ensuring the chosen Microsoft SaaS solution is procured and implemented in the most cost effective and risk mitigated way.

The mitigation to this is to complete separate direct award procurements to Microsoft, PwC and Loki Systems. This assures the Council of a continued commitment from Microsoft, while acquiring the professional services of their only global partner for the implementation of the replacement system.

Legacy System Support

There is a risk that the end of the ICT Partnership at the end of October 2020 will impact the migration and support of the legacy system.

The mitigation of this risk is to arrange commercial terms with the existing partner for the support of migration activity and ensure continued support for the legacy system and migration activity with the new supplier(s) from November 2020 (these to be procured as part of the ICT re-commissioning project).

Procurement Implications

The direct awards recommended in this report will be made in compliance with the Public Contracts Regulations 2015 and comply with the Contract Procedure Rules of the Council which enable the Council to use lawfully accessible Framework Agreements under paragraphs 4.4 and 7.7.

Separate direct awards will enable the Council to maintain a long term and ongoing relationship with Microsoft – necessary to fulfil our strategy to become a ‘Microsoft house’ – while employing the services of their only gold partner PwC for the duration of the ERP implementation project.

The direct award to Microsoft and Loki Systems is through the Kent Commercial Services 4 Professional Services Framework. This will be through a reseller (which is normal for these services). This framework is fully compliant with the Public Contracts Regulations 2015 and gives direct award capability.

The direct award to PwC is through the Digital Market Place G-Cloud Framework OR the Crown Commercial Services Management Consultancy Framework 2 (MCF2). Both these procurement vehicles permit direct awards.

Legal Implications

The new Enterprise Resource Planning System must be procured in accordance with the Public Contracts Regulations 2015 (PCR) as its overall value exceeds the financial threshold above which a competitive tendering exercise is required under the PCR.

The relevant Framework Agreements have been lawfully procured, the Council is designated as a potential contracting body under the Agreements so can lawfully access them, the services that the Council requires are in scope under the Agreements in terms of specification requirements and value, and the Council can lawfully make direct contract awards under the Agreements.

Paragraphs 4.4 and 7.7 of the Council’s Contract Procedure Rules permit the Council to call off services from lawfully established external Framework Agreements with the approval of the Head of Procurement.

The services contracts and the significant commercial benefits offered by PwC, Microsoft and Loki should be set out in a binding legal framework approved by Legal Services.

Financial Implications

The Capital costs of implementation of the new ERP system (which covers PWC, LOKI and Harrow costs) is £6.150m. The £6.150m implementation cost is to be funded as follows:

£4m existing Capital budget ERP replacement.

£0.5m existing IT Capital budget to cover middleware build costs.

This leaves a balance of £1.65m which is the additional sum that needs to be added to the Capital programme in 2020/21.

Of the £1.65m, £0.2m is to be funding by a revenue contribution from the Transformation reserve.

This leaves a balance of £1.45m which needs to be funded from the revenue savings in relation to Microsoft licencing costs which have come in under the current budget of £803k. The increase in Capital Financing costs required to fund the £1.45m addition will therefore be offset by savings in IT licencing costs. The addition to the Capital Programme is therefore cost neutral to the Council's revenue budget. Further detail is set out in confidential Appendix 1.

Equalities implications / Public Sector Equality Duty

There are no Equality implications to this decision as follows.

- You are developing a new policy, strategy, or service - No
- You are making changes that will affect front-line services - No
- You are reducing budgets, which may affect front-line services - No
- You are changing the way services are funded and this may impact the quality of the service and who can access it - No
- You are making a decision that could have a different impact on different groups of people - No
- You are making staff redundant or changing their roles - No

Council Priorities

The Council's vision:

Working Together to Make a Difference for Harrow

The proposal meets the Council priorities and the Harrow ambition plan in terms of 'Be More Business Like and Business Friendly' by implementing a new and improved cloud bases system which meets all our statutory, legislative requirements and business needs.

Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the * Chief Financial Officer
Date: 02/03/2020		

Name: Stephen Dorrian	<input checked="" type="checkbox"/>	on behalf of the * Monitoring Officer
Date: 24/2/2020		

Name: Nimesh Mehta	<input checked="" type="checkbox"/>	Head of Procurement
Date: 24/2/2020		

Name: Charlie Stewart	<input checked="" type="checkbox"/>	Corporate Director
Date: 27/2/2020		

MANDATORY	
Ward Councillors notified:	No
EqIA carried out:	No
EqIA cleared by:	There are no equality implications identified as per the EQIA section of the report.

Section 4 - Contact Details and Background Papers

Contact:

Chris Martin, ERP Project Manager,
Direct Telephone No. 020 8424 8544
Email: Chris.Martin@harrow.gov.uk.

Background Papers:

[ERP Replacement report to Cabinet 30 May 2019](#)

**Call-In Waived by the
Chair of Overview and
Scrutiny Committee**

YES

A waiver to the Call-In is
required for this procurement in
the best interest of the council