

**Report for: Cabinet**

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<b>Date of Meeting:</b>	29 April 2021
<b>Subject:</b>	Delay to Implementation of the IT System Dynamics
<b>Key Decision:</b>	Yes -the delay involves revenue and capital expenditure in excess of £500k.
<b>Responsible Officer:</b>	Charlie Stewart - Corporate Director of Resources
<b>Portfolio Holder:</b>	Councillor Adam Swersky - Portfolio Holder for Finance and Resources
<b>Exempt:</b>	No, except for Appendices 1 and 2 which are exempt on the grounds that they contain “exempt information” under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that they contain information relating to the financial and business affairs of the Council and PwC.
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendices 1 & 2 – Commercial and Business details

## **Section 1 – Summary and Recommendations**

This report requests Cabinet to note the requirement to delay the introduction of the Dynamics IT system due to Covid-19 constraints and seeks approval for the associated additional spend of £850k, and the appointment of PwC as the Council's Dynamics post implementation support and development provider for a period of 2 years. The award of the support contract will be funded from the existing IT revenue budget and Capital Programme in 2021/22.

### **Recommendations:**

Cabinet is requested to approve:

1. The additional capital spend of £850,000 on the Dynamics programme in 2021/22.
2. The addition of £850k to the Dynamics Capital Budget in 2021/22 to be funded by a virement from the Resources ICT Capital Programme of £85k, plus virements totalling £765k from schemes which have underspent in the 2020/21 Capital Programme.
3. The appointment of PwC as the Council's Dynamics post implementation support and development provider for a period of 2 years. The cost as set out in Appendix 2 will be funded from the existing ICT revenue budget and phase 2 of the Dynamics Capital Programme in 2021/22.

The two-year extension, variation and increase in contract value of the existing contract with PwC is the maximum period permissible under the terms of the existing contract. This will allow work to continue that is required to 'Go Live' and agree the maximum period of post implementation support as per this recommendation.

### **Reason: (For recommendations)**

The Council has had to divert significant resource and focus onto its response to the Covid-19 pandemic. It was hoped that even with these constraints the Council could complete the introduction of the Dynamics system on time. Up until the end of last year the programme was on track for completion by April 2021.

However, the most recent lockdown and its associated additional workload has diverted too much resource and focus to an already stretched programme and a delay to the implementation date is inevitable. The programme has been re-planned to complete in July 2021 and there are costs associated with this delay. Although these have been minimised, several essential resources are required to continue the programme and so reduce risks, and to undertake additional tasks that are necessary because of the delay. The additional cost of these resources is £850,000.

Post implementation application support is needed for the Dynamics system. The Council has conducted a soft market testing exercise and

determined that PwC offer the best value for money at lowest operational risk over a 2 year term. After 2 years the Council intends to be self-sufficient and will not require a support contract of this type.

## **Section 2 – Report**

### **Background**

In March 2020 Cabinet agreed to replace our 15 year old SAP system with Microsoft Dynamics so giving the Council a modern system to run most of our HR/pay, Finance and Procurement functions. The Dynamics HR/pay functions are run through an integrated solution developed by its partner Loki. There will be significant benefits from the introduction of Dynamics including continuous development of the system by a global software developer, easier rapid development by ourselves and integration with our other MS products.

However, although Dynamics is used globally by many large organisations including central government, Harrow will be the first UK Local Authority to introduce the solution, so the partnership with the highly respected system implementer PwC was also key. It was accepted by all partners (Microsoft, PwC and Harrow) that the implementation was of great importance for all as Microsoft and PwC wished to 'break into' the UK Council market with the Dynamics product.

There was therefore a firm commitment by all to work together to make this a successful implementation by April 2021 and up until Christmas the system's development was on track. Keeping the implementation on track was down to the hard work and tenacity of the combined team who had to grapple with the lockdowns and remote working. It was the first time PwC had ever done a development totally remotely.

However, the lockdown after Christmas took further resources and focus away from the programme and especially effected the programme's ability to ensure data was accessible, engagement was possible and capacity was available for testing and to work through the last, most difficult, development requirements. This last lockdown has therefore proved too much for the programme to continue on course and a delay has become inevitable.

The option to force through the development to try and complete on time was considered. However, this would have significantly increased the risk of system failure at go-live effecting staff pay, finance operations and procurements. Additionally, engagement and training of staff would have been at best minimal as staff were focused on Covid-19 duties.

The programme has been re-planned to now finish in July. This three-month extension provides enough time for resource to be made available and, as lockdown is eased, engagement with staff to become more viable.

### Options for covering costs of three-month project extension.

The costs fall under three areas:

1. PwC and MS costs to manage the re-arrangement of staff's time and availability to fit the new timeline, including keeping staff available which means that they will not be able to move to other work. The cost estimate for this is £65,000, but PwC have said that they will cover this fee.
2. Additional work that occurs because of the delay to cover two further data migrations from SAP into Dynamics and two scheduled software upgrades which would have become due after go-live but are now required during the delay period.

3. Maintaining a cadre of staff who will continue to work on the programme. This will be additional resource to that required under the original plan as the work is spread over a longer time.

Three cost options have been considered, as set out below with more detail in Appendix 1.

1. Option one (total cost £1.5m) maintains the entire team for the three-month period of the delay. This option reduces the implementation risks to a minimum, but the high cost is not considered to add sufficient relative value and sufficient risk reduction is achieved through option 2.
2. Option two, (total cost £850k) which is recommended, provides a balance of cost, and risk mitigation by ensuring key staff are retained and we have the essential continuity. PwC and Microsoft have both agreed to pay for some of the costs in this option as outlined below.
3. Option three (total cost £723k) provides the minimal resource needs to only take the essential extra work. However, we will then lose key staff and continuity. This will place the programme at high risk and is therefore not recommended.

#### Options for ongoing support and development

Harrow is in the early stages of establishing an in-house Dynamics support and development function as part of the new IT service, but it will take time to retrain and recruit staff with sufficient technical and functional skills.

In the meantime, a third-party support and development partner is needed to undertake the following:

- Fix incidents (faults) or problems raised with the Dynamics Application, as part of the Council's wider IT support service.
- Apply regular updates to the software so it is maintained at a recent, supported version.
- Deal with requests raised for changes/enhancements to the system.
- Undertake major projects and programmes involving Dynamics, subject to capacity and leveraging capital funding where appropriate.
- Undertake a transfer of skills to the Harrow Finance, HR and IT teams

Three potential providers have been considered as set out in detail in Appendix 2. The most cost-effective option is offered by PwC who can leverage their off-shore capability to offer a support and development service to Harrow for a period of 2 years. PwC, as our Dynamics implementation partner also have an advantage that they know the system and its Harrow configuration. PwC have also agreed to reduce this fee by £100k as part of the deferred go-live commercial agreement.

#### **Data Protection Implications**

There are no new data protection implications arising because of this delay.

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**

Risks included on corporate or directorate risk register? **Yes - Directorate Risk Register.**

Separate risk register in place? **Yes** - there is a risk register for the Project.

The relevant risks contained in the register are attached/summarised below: N/A as this report relates to the delay and the risks in the Register relate to the whole project.

The following key risks should be considered when agreeing the recommendations in this report:

<b>Risk Description</b>	<b>Mitigations</b>	<b>RAG Status</b>
Resurgence of Covid-19 taking resource and focus away from the programme.	Given the current progress in tackling Covid-19 and the successful vaccination programme this is felt unlikely. However, this is not within the control of the Council.	G
Data migration and testing uncovering issues with the development which could cause further delay.	Work actively with all partners to validate and reconcile data. Review test progress daily and escalate as necessary.	A
Programme staff leaving reducing continuity and losing knowledge from the team.	Partners have committed to retaining existing subject matter experts and development resources through to go-live. Council team also committed.	G
The main risk resulting from choosing option 2 over option 3 is the reduced Project Management and governance support from PWC.	All other partners such as LOKI (payroll implementer) and Edenhouse are providing the same level of support in all options. Also, the Council's internal resources are maintained at a consistent level, and it is therefore felt that this mitigates the risk from the reduced management and governance support from PWC. Also, all governance boards and meetings have been maintained with internal governance increased as we approach the end of the project.	A

## **Procurement Implications**

The contract with PWC for the ERP implementation was compliantly awarded through the G-Cloud Framework and commenced in February 2020 and comes to an end at the end of May 2021.

There is provision within the contract to extend for up to two years. To that end we have the ability to compliantly extend our relationship with PWC for the period set out in the recommendations of this report. This will enable us to extend for the additional few months required as a result of the delay to the 'go live' date as well as for the period of post implementation support required from PWC as set out in the recommendations and body of this report.

There will also be a requirement to extend our current contractual arrangements with Loki and Eden house because of the delay in the 'go live' date which will also be done in compliance with procurement regulations.

## **Legal Implications**

The contract with PwC for the ERP implementation was compliantly awarded through the G-Cloud Framework and commenced in February 2020 and comes to an end at the end of May 2021 or on the date on which the Deliverables under the Contract have been delivered in accordance with the terms and conditions of the Contract.

The Contract can be extended by the Council for up to 2 years on 4 weeks written notice to PwC before its expiry.

The Contract can therefore be extended under Regulation 72 (1) (a) of the Public Contracts Regulations 2015 (PCR) as the Contract contains a clear and express extension option.

The Contract can also be varied to include the post implementation support and development services under Regulation 72 (1) (b) (ii) of the PCR because the post implementation support and development services are additional services that have become necessary and were not included in the initial procurement, there are economic reasons to vary the Contract to include those services, a change of contractor would cause significant inconvenience and substantial duplication of costs for the Council, and the increase in the Contract price does not exceed 50% of the value of the original Contract.

Under Regulations 72(3) and (4) of the PCR the Council must submit a modification notice to Find a Tender Service.

The Contract extension and variation will need to be fully agreed and documented in a legal deed of variation to the Contract.

## **Financial Implications**

The original capital budget for the Dynamics project is £6.150m as agreed by cabinet in March 2020. The additional £850k required as a result of the delay will take the total cost to £7.0m. Capital schemes cannot be added to the Capital Programme in year unless they are funded by grant or other external funding, in other words they need to be self-funding and not require any additional borrowing and therefore should be at no additional cost to the Council.

The additional £850k for the project extension will be funded as follows:

- £85k from a virement from the ICT Capital Programme as a result of a known underspend in the IT Capital budget.
- The remaining £765k will be funded by virements from other capital schemes that have underspent in 2020/21.

The funding for support and development over 23 months (July 2021 to May 2023) will be funded by a £100k cost-reduction offered by PwC, and from the current IT revenue budget and the phase 2 Dynamics 365 Capital budget in 2021/22 which will fund the development element of the support contract set out in Appendix 2.

## **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 based system which meets all our statutory, legislative requirements and business needs.

## **Section 3 - Statutory Officer Clearance**

### **Statutory Officer: Sharon Daniels**

Signed on behalf of the Chief Financial Officer

**Date: 20/04/21**

### **Statutory Officer: Stephen Dorrian**

Signed on behalf of the Monitoring Officer

**Date: 21/04/21**

### **Chief Officer: Charlie Stewart**

Signed by the Corporate Director

**Date: 20/04/21**

### **Head of Procurement: Nimesh Mehta**

Signed by the Head of Procurement

**Date: 20/04/21**

### **Head of Internal Audit: Susan Dixon**

Signed by the Head of Internal Audit

**Date: 21/04/21**

## **Mandatory Checks**

*Ward Councillors notified: NO, as it impacts on all Wards*

*EqIA carried out: NO - there are no equality implications identified as per the EQIA section of the report.*

## **Section 4 - Contact Details and Background Papers**

**Contact:** Chris Martin, Dynamics Programme Manager,  
Email: [Chris.Martin@harrow.gov.uk](mailto:Chris.Martin@harrow.gov.uk)

**Background Papers:** None

**Call-in waived by the Chair of Overview and Scrutiny Committee -  
NO**