

SURREY COUNTY COUNCIL**CABINET****DATE: 21 DECEMBER 2021****REPORT OF CABINET MEMBER: BECKY RUSH, DEPUTY LEADER AND CABINET MEMBER FOR FINANCE AND RESOURCES****LEAD OFFICER: LEIGH WHITEHOUSE, EXECUTIVE DIRECTOR FOR RESOURCES****SUBJECT: DIGITAL BUSINESS & INSIGHTS PROGRAMME RE-PLANNING****ORGANISATION STRATEGY PRIORITY AREA: GROWING A SUSTAINABLE ECONOMY SO EVERYONE CAN BENEFIT/TACKLING HEALTH INEQUALITY/ENABLING A GREENER FUTURE/EMPOWERING COMMUNITIES****Purpose of the Report:**

This report presents a funding request to complete the remaining stages of the implementation programme to replace the council's existing corporate (enterprise resource planning or ERP) system and go-live in April 2022. This is the system used to manage the organisation's business critical Finance, HR, Payroll and Procurement processes.

Full detailed financial implications are included in Part 2 of this report.

Recommendations:

It is recommended that Cabinet:

1. Approve the £1.25m revenue and £1.91m capital funding required for the project extension to complete go-live of the new Unit4 ERP system in April 2022.

Reason for Recommendations:

The recommendation to approve the funding request will enable the programme to complete the implementation of the Unit4 ERP system and deliver its benefits. This includes addressing urgent technical drivers for change, while also enabling the council to achieve its ambitions to transform services, drive efficiencies, improve management decision making and to fully enable a flexible and mobile workforce.

Executive Summary:**Background**

1. The Digital Business & Insights programme to implement a new Enterprise Resource Planning (ERP) system commenced in September 2020 following approval of the full business case at Cabinet in July 2020. The new ERP system will manage the councils' back-office finance, procurement and HR and payroll processes, replacing the current system that manages these processes, which is provided by SAP. The contract to implement the new ERP system was awarded to Unit4 Ltd and aimed for an ambitious fifteen month implementation programme which would have led to the new system going live in full in December 2021.

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2. The implementation programme is currently underway and has been managed in two phases. Phase One comprised the implementation of a standalone strategic procurement solution, Proactis, which successfully went live in July 2021 and includes supplier relationship management, sourcing and contract management. Phase Two comprises the implementation of the Unit4 ERP solution, including the full scope of finance, procurement, human resources and payroll processes, together with Proactis, as a fully integrated solution. The scope of Phase Two also includes the integration of the new ERP solution with the council's line of business systems.
 3. In addition to the successful Proactis implementation in Phase One, the programme has made considerable progress with delivery in Phase Two. The solution design for Phase Two was successfully approved by the council on schedule in December 2020 and by mid-September 2021 the project had completed the core build for finance and procurement processes. Testing activity was underway at this time, including both testing of the system to ensure it has been built in line with the agreed design and also User Acceptance Testing (UAT) by representatives from the business. In parallel to these activities, Payroll Parallel Running (PPR), which tests whether the new system will pay people correctly, was progressing and has subsequently successfully completed the first of three PPR cycles.
 4. Regular progress updates have been provided to the DB&I Strategic Programme Board, the programme's senior officer-level governing body, throughout the implementation and as of mid-September, the Finance and Procurement work streams remained on track for December go-live. However, at this time the following two key issues emerged and meant that the December go-live was no longer considered achievable:
 - a. Data migration – the quality of the migrated data received in September for UAT was of insufficient quality and completeness to enable effective testing, severely impacting the coverage and pace of activity. An analysis of the cause of the problems found issues in identifying the correct data in the existing system (SAP) for submission for transformation into the new system, issues with determining how the council's data needs to be transformed for use in Unit4 and also some gaps in the council's data. Organisation and resourcing constraints within the data migration team also impacted how quickly these issues were being addressed.
 - b. HR requirements scope – The volume of new or clarified requirements, which emerged during the Build stage when business stakeholders were able to physically see the solution for the first time, extended the Build timescales and caused a backlog of work for the supplier. In some HR areas this problem was exacerbated by changes in council personnel involved with the programme. In addition, a key assumption agreed during the high-level design stage regarding re-use of the same forms across both council and external customer payroll users was invalidated. By September it became clear that the combined impact of these issues was increasing the build workload for the supplier and causing delays to the start of UAT for HR & Payroll, rendering the December go-live unfeasible.

Revised Plan

5. DB&I Strategic Programme Board met in late September to consider the following two alternative options for go-live:
 - a. Option 1 – Go-live with Finance, Procurement and Corporate HR & Payroll and Local Authority Schools Payroll in February 2022. Delay Bureaus (external customers) Payroll and other deferred HR features to April 2022.
 - b. Option 2 – Go-live for Finance, Procurement, HR & all Payrolls in April 2022.
6. A further third option was considered by the programme team but discounted as unfeasible prior to the Strategic Board meeting due to the delays in data migration. This option was to go-live with Finance and Procurement in December 2021 and go-live with Corporate HR & Payroll in February 2022 followed by Local Authority Schools and Bureaus Payroll in April 2022.
7. DB&I Strategic Programme Board approved option 2 to go-live with the full scope in April 2022, which was consistent with the recommendation of the programme team, who considered option 1 as unfeasible or at best as being at too high risk of further slippage based on the status of delivery at the time of the meeting. In addition, option 2 has the following benefits:
 - a. Avoids the significant complexities and costs associated with a staggered go-live, which would result from the required parallel running and maintenance of existing (ie. SAP) and new systems (ie. Unit4 ERP) and their integration with 3rd party systems. Costs would relate to additional resources, training and additional use of 3rd party systems to enable dual SAP and Unit4 running during February and March 2022.
 - b. Provides further time to address data migration issues and complete testing to a high standard, building confidence in the system across business stakeholders.
 - c. Simpler data migration as with a clean Year End go-live there is no longer a need to migrate year-to-date payroll data.
 - d. Ensures sufficient time available for preparing for the change both within the council and for local authority schools and other external customers, reducing delivery risk.
 - e. Lower hidden costs than other options. Option 2 will have higher core DB&I programme costs compared to option 1 but the latter option would incur higher hidden costs (e.g. additional resources, training and licencing of 3rd party systems required for dual running).
8. Following approval of option 2, the council's programme team worked with Unit4 to develop a detailed revised plan based on delivering go-live in April 2022. In addition, the joint team identified and analysed the key delivery challenges and developed mitigations to reduce the risk of further delays to the programme. A summary of key delivery challenges and agreed mitigations is provided in Annex 1.
9. A revised and fully resourced plan has been agreed with Unit4, with the following key milestones to complete the final stages of the programme. A variation to the implementation services contract with Unit4 will also be completed to ensure appropriate obligation and risk ownership on the supplier to ensure the successful delivery in line with these revised delivery milestones.

No.	Milestone	Date
1	<u>Remaining Build & Authorised Change Controls Complete</u> – All build rectifications from testing and authorised change controls have been completed.	24 th December 2021
2	<u>Integrated System Testing Complete</u> – All supplier testing of the system has been completed to the council's satisfaction, including all required witnessing, and a Test Certificate has been issued.	7 th January 2022
3	<u>User Acceptance Testing Complete</u> – all user acceptance testing activities and resolution of test issues have been completed. A Test Certificate has been issued.	3 rd February 2022
4	<u>Payroll Parallel Running Complete</u> – all payroll parallel running has been completed for corporate, local authority schools and external customers, meeting the council's agreed acceptance criteria.	28 th January 2022
5	<u>Cutover Readiness Checkpoint Complete</u> – agreed business and technical criteria, which are required to be in place by this date to progress cutover, have been met.	28 th January 2022
6	<u>Go-live Readiness Checkpoint Complete</u> – agreed business and technical criteria, which are required to be in place by this date to progress go-live, have been met.	25 th March 2022
7	<u>Go-live Complete</u> - the final Phase Two implementation go-live has been completed.	4 th April 2022
8	<u>Post Go-live Support Complete</u> - all post go-live support activities and resolution of all post go-live support issues have been completed. Support for the new solution has moved into BAU.	4 th July 2022

Consultation:

10. Senior stakeholder representatives from the DB&I programme team, business and IT & Digital were consulted in the review of the pros and cons of each go-live option from a business and technical perspective. In addition, senior and Director-level stakeholder representatives from across the organisation were also engaged in assessing the options and selecting the preferred April 2022 go-live date at DB&I Strategic Programme Board in September. The Corporate Leadership Team were engaged and updated on the revised go-live date and status of the re-planning activities being conducted with Unit4.
11. The Cabinet Member for Resources, the Council Leader, Chair and Vice Chairs of the Resources & Performance Select Committee were engaged and updated on the approach and status of the re-planning exercise. The Resources & Performance Select Committee has provided ongoing oversight of the programme and a further update report will be brought to the committee meeting in January 2022.

Risk Management and Implications:

12. The following risks have been identified in relation to the revised go-live date including planned mitigating activities. Programme management will ensure that risks are owned and managed effectively on an ongoing basis by the DB&I Strategic Programme Board and other senior stakeholders as appropriate to ensure continued focus on their status and their effective mitigation.

Category	Risk Description	Mitigation Activity
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Operational	<p>There is a risk that the programme's final payroll go-live slips beyond April 2022 meaning that SAP payroll would be required for the 2022/23 tax year.</p>	<ul style="list-style-type: none"> • The possible continued use of SAP during 2022/23 requires the completion of required patches to the SAP system by the IT & Digital team in advance of April 2022. • Cost of contractor resources (£72k) in the council's team to complete the required patches. • Continuation of the SAP Support & Maintenance contract into 2022. (£579k additional cost to the council)
	<p>There is a risk that there will be a drop in the level of service from Business Operations for SCC and other customers during the cutover in March and April (Year End) and early life of the new system.</p>	<ul style="list-style-type: none"> • Cutover Lead to lead detailed planning of delivery of initial pay runs in Unit4, working closely with Business Operations management team, as part of cutover planning process. • Clear roles, responsibilities and resourcing for business readiness and communication and engagement both for internal users and with external customer organisations.
Financial	<p>There is a risk of further delay to the programme's go-live date beyond April 2022.</p>	<ul style="list-style-type: none"> • Detailed planning for April go-live across the programme and ongoing focus on managing delivery progress against the plan across workstreams. • Mitigations to address issues as summarised in Annex 1. • A contract variation will be agreed with the supplier, which reflects the revised milestones and new go-live date and enables the council to fully exercise its rights according to the contract in the event of any further delay.
Strategic	<p>There is a risk that there is a resource availability & capacity issue in the corporate business, IT&D and directorates to be able to meet their required time commitment to deliver the programme.</p>	<ul style="list-style-type: none"> • Resource requirements by programme phase have been shared with business stakeholders and there is ongoing communication at the workstream level to share detailed plans and agree resource allocations. • Backfill requirements for UAT and Deployment stages provided and business roles to be in place from start of UAT.
	<p>There is a risk that the programme will be unable to complete all critical reporting requirements within the available implementation timeline and budget.</p>	<ul style="list-style-type: none"> • A prioritised plan for report development has been developed and agreed, which focuses on critical reporting needs required for go-live. • Recruitment of specialist Report Developer resources and additional support from Unit4 is being provided to deliver report requirements. All associated costs are included in the funding request.

	There is a risk of a high volume of ongoing requested changes to the solution within HR, impacting delivery and the achievement of the April go-live date	<ul style="list-style-type: none"> Strong governance including triaging of any changes requested during UAT to progress only those where they are critical for go-live.
	There is a risk that there is resistance to change from staff in adopting the new system and processes, impacting benefits realisation.	<ul style="list-style-type: none"> Focused communication and engagement to drive the change, maximise adoption of the new solution and realise its benefits.

Financial and Value for Money Implications:

13. The total increased revenue and capital costs of delivering the programme to the revised April 2022 go-live date are summarised in the table below. The total cost increase of £3.2m comprises £1.25m in revenue costs and £1.91m in capital costs. The total cost increase of £3.2m represents a 14% increase on the original planned total implementation budget of £22.4m between 2020/21 and 2023/24.
14. The revenue cost increase includes £718k to meet the required full year SAP support and maintenance costs for the 2022 calendar year. A full breakdown of the costs is included in Part 2 of this report, having been excluded here due to commercial sensitivity.
15. The July 2020 Cabinet Report provided an estimated cost of delay of £1.6m if go-live was delayed by two months beyond December 2020. Based on the same assumptions, the estimated cost of a delay of four months to April 2022 would have equalled £3.2m. Including the £718k annual SAP support and maintenance cost the equivalent estimate for a delay of four months would have totalled £3.9m.

Baseline Total DB&I Programme Implementation Budget – Approved at Cabinet in July 2020

£000's	2020/21	2021/22	2022/23	2023/24	Total
Revenue Costs	1,942	2,724	1,593	1,358	7,616
Capital Costs	6,008	8,763	-	-	14,770

16. The budget set out above includes the implementation stage budgets for 2020/21 – 2021/22 and the projected operational expenditure to manage and maintain the new systems on an ongoing basis from 2022/23 onwards. This is contained within the IT&D revenue budget envelope.

Revised DB&I Programme Implementation Revenue Costs (April 2022 Go-live)

£000's	2020/21	2021/22	2022/23	2023/24	Total
Revenue costs of items not impacted by delay	1,942	2,724	1,593	1,358	7,616
Additional revenue costs due to delay	-38	456	831	-	1,249
Total Revised Revenue Costs	1,903	3,180	2,424	1,358	8,865

Revised DB&I Programme Implementation Capital Costs (April 2022 Go-live)

£000's	2020/21	2021/22	2022/23	2023/24	Total
Capital costs of items not impacted by delay	6,008	8,763	-	-	14,770
Additional capital costs due to delay	-249	1,938	220	-	1,909
Total Revised Capital Costs	5,758	10,701	220	-	16,679

DB&I Programme Implementation Cost Increase Resulting from Delay (April 2022 Go-live)

£000's	2020/21	2021/22	2022/23	2023/24	Total
Total Revenue cost increase	-38	456	831	-	1,249
Total Capital cost increase	-249	1,938	220	-	1,909

17. The additional capital investment requirement of £1.91m will result in additional revenue borrowing costs of £143k per annum over the next 15 years. In the short term, these costs are containable within the existing Corporate Income & Expenditure budget envelope. However, the expectation is that as the efficiencies set out in paragraph 19 below are realised, these ongoing revenue borrowing costs will be offset, prior to the recognition of efficiencies against other service budgets.
18. The additional revenue requirement of £1.25m is proposed to be funded from the corporate contingency budget. This budget is held to offset unexpected expenditure and mitigate inherent risks within the budget. The DBI implementation is a corporate programme bringing improvements across the Council. It is felt appropriate to utilise this corporate budget to cover these one-off corporate additional costs and enable the completion of the implementation of the new Unit 4 ERP system. The £1.25m is containable within the existing Corporate Income and Expenditure budget envelope but the utilisation of the contingency element reduces the amount available to off-set any projected Council overspends and enhances the need for Council services to be delivered within budget envelopes.
19. The programme has made good progress in identifying, measuring and baselining the potential efficiency benefits of the new system and this work is ongoing and will be developed further following completion of UAT. At the time of writing, potential total annual benefits so far have been identified at £6.5m, with £2m of this figure being related to potential efficiencies that subject to validation may enable budget savings. This benefits information will be used to inform potential aggregate efficiencies across wider corporate programmes (e.g. Agile Organisation and Digital transformation) and are expected to generate significant cashable savings across the council.
20. The Digital Business & Insights Programme is a highly complex implementation programme, which has made excellent progress since its start in September 2020. The causes of the delay are well understood by the programme team and associated mitigations have been planned and are in place. It is recommended that the additional required funding is approved in order to complete remaining activities and go-live in April 2022 for the following reasons:
- a. To deliver the benefits of the new system as early as possible. Work to identify and quantify the potential efficiency benefits of the programme has progressed well and will inform the process to realise cashable savings

across the organisation alongside other corporate programmes (e.g. Agile and Digital Programmes).

- b. To avoid the uncertainty and disruption for the organisation resulting from a further delay to the implementation of this system and organisational change.
- c. To avoid further high ongoing monthly running costs of the programme for each additional month of delay.
- d. To enable any other council IT projects and plans to progress, which are relying on the completion of the Unit4 implementation as a dependency (e.g. for going live with integrations with the new ERP system).

Section 151 Officer Commentary:

21. Although significant progress has been made over the last twelve months to improve the Council's financial position, the medium-term financial outlook beyond 2021/22 remains uncertain. The public health crisis has resulted in increased costs which may not be fully funded. With uncertainty about the ongoing impact of this and no clarity on the extent to which both central and local funding sources might be affected in the medium term, our working assumption is that financial resources will continue to be constrained, as they have been for the majority of the past decade. This places an onus on the Council to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium term.
22. The Section 151 Officer acknowledges the delay on the implementation of the new ERP solution and supports the request for additional funding required to ensure the revised go-live date can be achieved. The additional one off revenue funding of £1.25m is containable within the contingency budget held in the Corporate Income & Expenditure budget envelope.
23. The additional capital budget will be built into the capital programme. The resultant additional borrowing costs will be funded from within the Central Income and Expenditure budget initially, on the basis that once ongoing efficiencies are realised as a result of the new system, these costs are off-set before the recognition of efficiencies against other service budgets.

Legal Implications – Monitoring Officer:

24. See Part 2 of this report.

Equalities and Diversity:

25. The council was mindful of its equalities duties under the Equality Act 2010 in carrying out the tender process and in letting the contract to Unit4 Ltd with due regard to the need to eliminate discrimination in age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.
26. Surrey County Council is committed to providing its services in a way that promotes equality of opportunity at every possibility. The requirements specification developed for the procurement and the contract document stipulate that Unit4 will comply with the relevant Equality and Diversity legislation. It is expected that Unit4 are fully committed to equality and diversity in their service provision and will ensure compliance with all anti-discrimination legislation.

27. This programme includes the replacement of the existing ERP system at the council. The Equalities Impact Assessment included in Annex 2 has identified potential impacts from implementing a new system for staff with disabilities. The procurement specification included specific business requirements to ensure the new system complies with the council's minimum standards for accessibility, as stipulated by the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018. An effective change management approach that includes communication and training provision for staff with disabilities is being followed for implementation.

Other Implications:

28. The potential implications for the following council priorities and policy areas have been considered. Where the impact is potentially significant a summary of the issues is set out in detail below.

Area assessed:	Direct Implications:
Corporate Parenting/Looked After Children	No significant implications arising from this report
Safeguarding responsibilities for vulnerable children and adults	No significant implications arising from this report
Environmental sustainability	No significant implications arising from this report
Compliance against net-zero emissions target and future climate compatibility/resilience	No significant implications arising from this report
Public Health	No significant implications arising from this report

What Happens Next:

29. Following Cabinet approval the programme team will continue to focus on completing User Acceptance Testing and Payroll Parallel Running activities to complete by the end of January 2022. The team will then progress the plan to prepare for and deliver the cutover to the new Unit4 ERP system for go-live in April 2022.

Report Author: Andrew Richards, Digital Business & Insights Programme Director, Tel: 07918 168968

Consulted:

Corporate Leadership Team.

Digital Business & Insights Programme Board:

- Director of Corporate Finance
- Director of Procurement
- HR Insight, Intelligence & Governance Manager
- Assistant Director of Business Operations
- Chief Information Officer
- Assistant Director Systems & Transformation (Children, Families & Learning)
- Assistant Director Quality Relationships (Children, Families & Learning)

Head of Resources & Caldicott Guardian (Health, Wellbeing & Adult Social Care)

Business Improvement & Consultancy Team Manager (Highways, Environment, Transport & Infrastructure)

Enterprise Applications & Portfolio Manager (Transformation, Partnerships & Prosperity)

Capital Programme Panel

IT Governance Board

Team Managers from Business Operations (transactional Finance & Procurement, HR & Payroll).

DB&I Programme Solution Architect

Annexes:

- Annex 1 – Key Delivery Challenges & Agreed Mitigations.
- Annex 2 – Digital Business & Insights Programme Equalities Impact Assessment.
- Part 2 Annex

Sources/background papers:

- Digital Business & Insights Full Business Case Cabinet Report (July 2020)
- Digital Business & Insights Outline Business Case Cabinet Report