AUDIT COMMITTEE AX PAYROLL PROJECT UPDATE

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1.0 **SUMMARY**

1.1 The Council is in the process of implementing a replacement to the current platform for Payroll and human resource information (HR MIS). Our current platform is SAP which is intended to run until March 2013.

1.2 The initial business case identified the need for £2million of capital allocation for the replacement system and services. This was approved by the City Council.

1.3 A procurement exercise was undertaken to acquire licences for a replacement system, requiring suppliers to provide licences under the Microsoft Enterprise Agreement for the replacement system (Microsoft AX) or like systems. A secondary procurement exercise was undertaken for services to support to implementation of the replacement system and associate payroll software.

1.4 Following the contract award, the project began in November 2011 with the first 'go live' of key modules by July 2012. This was following the standard implementation methodology of Analysis, Design, Develop, Deploy and Operate. (See section 5.0 Delivery Methodology)

1.5 In undertaking the analysis and design phase, it was identified that, despite the initial assessment against detailed specification criteria, there were a few fundamental developments required to support the implementation of the Microsoft AX that are essential for complex local government terms and conditions. (See section 6.0 Product Issues and Gaps)

1.6 This requirement for more technical and functional specifications has delayed the full implementation of the integrated architecture to deliver the business benefits as set out in the initial business case. The development time has added a further 9 months of design, development and testing to the overall programme.

1.7 The contract for services was awarded to KPMG LLP, with 2e2 being the technical partner of their contract and MidlandHR providing payroll technical support and products.

1.8 Following this delay, the Project Board agreed to implement the contingency plan in December 2012 to protect the payroll elements of the project delivery plan and divert resource and testing to this delivery, returning to a second phase of delivery for the product enhancements following payroll 'go live' in April 2013. This would mean, realistically, parallel testing for the enhanced products would not start until May 2013 at the earliest.

1.9 Additionally, the main technical supplier to the project (2e2) entered administration in January 2013, close to the completion of key technical milestone delivery for the developed product. A new technical supplier is currently being sourced, although this development in the project has not added any further risk to the project as the contingency plan had already accounted for supplier difficulties.

1.10 At the request of the project sponsor, a full Project Quality Review is being undertaken between Microsoft Corporation, KPMG and Plymouth City Council. Additionally, a second commercial partner (for technical resource) is undertaking due diligence before submitting their proposal.

1.11 At 3 March 2013, this report is due within the next week (a verbal report will be provided to the Audit Committee). Following this report, the Council will consider whether to continue with the Microsoft element of the proposal and contractual status with KPMG LLP. (Commercial elements are set out in Part Two of this report).

1.12   The current project plan, incorporating the reprioritisation of the contingency resource, is focussed on the 'go-live' with payroll and key human resource elements within the MidlandHR product in April 2013, to coincide with the financial year-end being run on SAP and the new payroll system to go live from April 2013. The roll-out and integration with the Microsoft AX elements of the project, if it is concluded to proceed, will start in June 2013 for go-live in September 2013 (following a minimum of 3-months parallel running).

DETAIL

2.0   Outline Business Case (Summary)

2.1   Plymouth City Council's current e-HR and payroll platform was introduced in 2005 with the intention of transforming the delivery of services provided through Human Resources & Organisational Development.

2.2   The transfer from the Mainframe to the current platform was a major step forward for the Council. The project delivered a stable platform for the delivery of payroll services and the service has continually developed incremental improvements in the quality, accuracy, control and cost reductions that formed the basis of the initial business case.

2.3   The current platform, SAP, is part of an enterprise suite of products. In Plymouth City Council, SAP functionality has been developed primarily for payroll functionality. Developments for HR and wider self-service have been incremental and fragmented, resulting in data quality management issues and poor management information.

2.4   Following a review of the system functionality, the platform and system configuration was found to be in good order and well maintained. Support for the application is provided through a small in-house systems team, ICT for server maintenance and back-up with external consultancy support for development programming and incident fixes.

2.5   However, the review identified that the business rationale for the SAP had not fully utilitised the system capability and, to implement this at this stage would require significant investment including hardware replacement and a significant version upgrade. Additionally, the existing corporate architecture to maximise the use of the enterprise agreement with Microsoft and associated products was found to be in breach of licensing agreement and notice was served on the Council to cease the Microsoft-SAP interfaces that were being used for bulk-uploads. On-costs for the system and maintenance continue to increase.

2.6   It is clear that, unless the council adopts the SAP suite, the introduction of the new licensing arrangements for compliance would be cost prohibitive and prevent the maximisation of the functionality and system and cultural transformation that the Council requires.

2.7   This business rationale set out the consideration in the decommissioning of SAP and migration to a platform that is both cost-effective and consistent with the Council's corporate ICT architecture (Microsoft Enterprise) plan designed to reduce overheads, simplify support arrangements and maximise self-service capabilities and single-sign on for multiple systems.

2.8   The position of the current need for a costly upgrade, hardware replacement and on-going investment in the development of SAP to full functionality by the end of the current financial year provides an opportunity to ensure a clear rationale is established for the future of people management and the supporting system.

2.9   There is also no back-up to the Council's existing payroll systems which, in effect, provides one of the most significant system-associated risks for the Council with no business continuity ability or off-site recovery. Even without this current business need, the business continuity remains a priority for resolution.

2.10   The recommendation is that a hybrid option is considered with people-management related activities undertaken within the Microsoft Enterprise Agreement and a residual 'best of breed' payroll platform purchased that can easily interface with the Microsoft suite of products.

2.11   Other options have been considered although either due to time or resources constraints are unlikely to progress within the timeframe required.

2.12   Finally, HR & OD services use around 4 different systems – not integrated – to manage their operations. Recent developments around establishment control and reporting have provided basic static workforce intelligence. Modern, large organisations are complex and require workforce intelligence and human capital modelling to demonstrate value versus investment in the workforce and predict future capacity and skills to ensure the correct allocation of resources to improve performance, succession and talent planning and reduce transactional unit costs that are measureable.

2.13   The original business case for the implementation of SAP did not fully deliver the benefits due to a number of factors, including problems within the strategic partnership (initially Picasso and latterly Accenture). A clear roadmap to deliver single process, automated transactions and consistent management reporting was not concluded and therefore not delivered.

2.14   Further development of SAP would likely be more costly than replacement and integration with the Council's common infrastructure due to the high-cost technical expertise and reliance on external programmers.

2.15   This business rationale presents the Council with the opportunity to complete the desired transformation of people management and demonstrate value for our communities through our people, performance and costs.

3.0   Project Governance

3.1   A standard project governance structure was put in place. Key roles include (current individuals):

Project Sponsor:	Mark Grimley, Assistant Director (PCC)
Senior Supplier:	Anthony Curmi, Project Director (KPMG)
	Malcolm Coe (PCC – ICT Delivery)
Senior User:	Alison Mills, Head of Human Resources (PCC)
Project Managers:	Karen Porte (PCC)
	Matt Cole (KPMG)
Quality Assurance:	Brenda Davis (Devon Audit Partnership)

3.2 The Board is also attended by Neville Cannon (Programme Director, Shared Services – advising chair); Matt Payne, Partner KPMG; Project managers (technical, functional, payroll, ICT delivery, security and system design).

3.3 The Board meet monthly, and hold a progress telephone conference each Wednesday.

4.0 Procurement

4.1 Two procurement exercises were undertaken. The first was to secure the licences for the system(s) required against the specification; the second was to secure services (management, technical and functional) to support the implementation of the system.

4.2 Plymouth City Council secured the licences for the Microsoft AX (HR) through procurement, awarded to 2e2. Licences could only be secured through partners of Microsoft.

4.3 The contract for the implementation (management, technical and functional) was awarded to KPMG LLP who sub-contracted to 2e2 (technical and functional) and MidlandHR (payroll services). The contract is solely with KPMG. The commercial arrangements of this contract are set out in Part Two.

4.4 For both tenders, a detailed specification was provided of our requirements. All tendering parties provided similar responses as to the nature of the fit of our requirement specification against the Microsoft product. This included the

4.5 Plymouth City Council's stated aim was to implement an 'out of the box' solution with as little customisation or development as possible to aid the speed of implementation and minimise costs of the implementation and on-going support costs.

5.0 Delivery Methodology

5.1 The standard methodology for the deployment of Microsoft products has been used. This methodology is facilitated by the technical lead (2e2) who are accredited Gold Certified Partners and development partners of Microsoft Corporation, ITIL (IT implementation standards) compliant and numerous ISO standards including ISO9001, ISO20000 and ISO27001.

5.2 The methodology requires customers to undertake the following stages:

	STAGE	MILESTONES
5.2a	Analysis	Solution design document
		Gaps identified
		Scope confirmed
		Go forward Project Plan
5.2b	Design	AX environment established
		Design sessions
		Configuration and testing
		Data migration
		Functional Requirement Documentation (FRD)
		Functional Specification Documentation (FSD)
		Estimates
5.2c	Develop	Custom Development
		Integration Development
		Data migration simulation
		Solution testing
		Security
		Outstanding Change Requests
		Absence and Attendance*
		Outstanding issues
5.2d	Deploy	AX Production Environment ready
		User Acceptance Testing (UAT)
		End user training
		Data migration (cut over)
		Parallel run
		Final cut over
		Go Live
5.2e	Operate	Stabilisation
		Future development roadmap*

(*) items with an asterisk are specific to Plymouth's requirements

5.3   The Council, with our partners, conducts the gap analysis against specification. A principle of the project is to take the product 'out of the box' functionality wherever possible with the product requiring the majority of the implementation to focus on the configuration aspects of the implementation.

5.4   As the design stage proceeded, the gaps identified in the analysis identified a significantly greater requirement for customisation of the product than the product specification suggested. Furthermore, the design stage between the Microsoft AX (HR) and payroll solution (MidlandHR) was more complex given the interface requirements for a significant amount of data flow. Whilst not a show-stopper, it is significantly complex given the multiple legal entities and the order in which data flows and calculations are undertaken.

5.5 Following further design specification a number of areas of essential functionality identified work for development, above and beyond customisations that would require significant resource. 5.6 The suppliers undertook to complete this work without additional cost to Plymouth City Council. Had this not happened the project would not have proceeded beyond this stage. (See section X.X Product Issues and Gaps)

5.7 The development time and resource required further time to spend on specification documentation and delayed the overall architecture design of the system. It would not be possible to complete the interface design between the core Microsoft AX system without the full design as data flow would need to be re-designed requiring double effort.

5.8 As a result of this, the project rephrased into two parts: firstly to deliver core HR functionality and payroll (by July 2012) and secondly to deliver the remaining functionality (by September 2012).

5.9 Following further development and testing it was clear that two key elements from the core product (absence and attendance, and date effective functions) impacted on the ability to take payroll live without significant manual interventions for the operational running of the overall solution. This was not acceptable and the suppliers were required to rephrase the project to deliver this functionality.

5.10 Following this, the Project Board instigated the full development of the contingency plan to protect payroll services against the final available date for go-live (April 2013). The full plan was approved in December 2013 and parallel running of the payroll and core-HR system contingency has begun to meet the go-live date. Indications are that the contingency will deliver these elements on time. The total cost of the cut-over to contingency is £85,000 additional pressure to the project.

6.0   Product Issues and Gaps

6.1 The implementation of the system, simply put, requires three types of approach:

Configuration	Setting the parameters of the system according to the needs of Plymouth City Council's ways of working (e.g. background calculations, tables and how the system should hold and process data). This is essentially 'out of the box' implementation and our preferred method.
Customisation	Making minor changes to the product to handle Plymouth-specific requirements, this might mean minor development and changes to the configurable aspects of the product. This might mean changing how data is viewed on the screen in line with our way of processing. It is not a change to the product, but an adaptation.
Development	Creating entirely new 'code' to operate in a way that the product does not currently support. This can be minor development (code additions) or significant (where full pieces of functionality are required to be created to add-on to the product).

6.2 The key (major or significant) issues and product gaps, from the point of view of Plymouth City Council are as follows (please note, the suppliers or Microsoft Corporation may not agree that these are 'product' gaps or deficiencies):

GAP / ISSUE	REQUIREMENT AND IMPACT	CURRENT STATUS
Payroll module	Ideally, any ERP solution for organisations should contain an integrated payroll solution. As there is no payroll module, a third party solution was specified. This has complicated the implementation given	A third party 'stand-alone' payroll solution was sourced and integration design proceeding – complexities between how the two systems operate require complex interface design. As

	the need for interface design.	contingency a separate payroll module was preferable to untested integrated payroll module at this stage. We have no specific concerns about the operation of the third party payroll solution.
Organisational hierarchies and structures	This relates to how the Council's establishment and post /people relationships occur. The Council requires multiple-employments and contract types to be assigned to individuals based on the work that they undertake. The complexity of local government terms and conditions (multiple contract types, national bodies etc.) as well as the large number of variable hours and part-time roles makes this an essential aspect of the design.	A design is in place on how to treat these. The impact is a more complex interface design between the core HR product (Microsoft AX) and the payroll module where calculations against employment contract rules take place. This requires a more complex data transfer to take place between systems increasing the short-term risks (requiring more control resource until the final solution is fully tested).
Organisational charts	The Council had access to organisational charting previously. This is not available in Microsoft AX.	Microsoft has sourced a third-party organisational charting solution for Plymouth City Council.
Effective date (and retrospection)	The requirement to set changes to organisational structures, pay and grading etc. to be effective either in the future, or to apply retrospective changes (for example, cost-of-living pay awards, often nationally agreed and back dated) requires significant development of the product to allow retrospective calculations (re-calculation of pay and entitlements) and application to multiple-employments of employees, or complex organisational unit structures.	Microsoft has advised on how this works within the product, however, this is resource intensive for an organisation with the high volume of organisational changes, flexible workforce and regular requirement to retrospectively apply pay awards. This would be cost-prohibitive to the delivery of the business benefits expected. Microsoft is currently evaluating a design change request to address this. This is essential for integration in to payroll and contractual calculations.
Absence and Attendance (including work patterns)	Terms and conditions require complex calculation and capture of absence and attendance. This is the back bone of the organisations' ability to effectively manage capacity and productivity, as well as the compensation and benefits elements for absence (e.g. holiday, sickness, maternity) and attendance (e.g. training, secondments, benefit accruals, holidays etc). The lack of an integrated calendar also compounds this deficiency.	The Council's contractors (KPMG-led) undertook to develop a separate module. This development is about to enter testing-phase. This is the most significant deficiency within the system for local government (and most public sector) users. Plymouth City Council has the development to compensate for this. This has been the majoritative reason for the delay in the system implementation.

Interface and data handling	Requiring a third-party payroll solution means more complex interface design. With the delay to the implementation from the development work required (particularly the absence and attendance / organisational hierarchy) the final interface solution cannot be signed off until these developments are concluded.	The final solution can only be completed when absence and attendance is completed from development. The payroll system will stand-alone until this (and other fixes and final architecture design is completed). This will require dual-input into systems.
Reporting requirements	The standard reporting functions are not developed sufficiently for human capital management, payroll control or workforce planning. Further complicated by pay calculations being held in third party system.	PCC are establishing a 'data cube' solution and defining reporting requirements.
Case management	The case management system with in the Microsoft AX product is purely for recording case stages and does not provide the full case management functionality expected from an ERP solution.	The council has developed case management within an existing corporate system (Customer Relationship Management) Microsoft CRM.
Pre-employment checks (including safer recruitment handling)	Whilst the core product allows simple recording of compliance about pre-employment checks, it does not handle the end-to-end management of the pre-employment checks. As a significant employer with around 10 per cent turnover annually, this is a key efficiency.	The council has developed pre-employment handling within an existing corporate system (Customer Relationship Management) Microsoft CRM.
Recruitment	The recruitment (on-boarding) aspect is purely a requisition to recruit function; there is no front-end recruitment or back-end recruitment handling.	A third party system, currently in use, has been extended pending further investigation of the Microsoft solution. It is likely to be integrated in to the overall Microsoft CRM solution.

7.0 Resolution and Future Management

7.1 The Project Board implemented the contingency plan to de-risk the project, with the primary function of maintaining the ability to deliver payroll services from April 2013. This has been done by de-coupling the payroll solution from the Microsoft product, removing the need for the final interface design that is dependent on the delivery of the solutions to the gaps identified above.

7.2 Between September 2012 and December 2012 the Council escalated concerns about the product and project delivery through the key contractors (KPMG, Microsoft, 2e2). This has resulted in a final escalation to the global lead partner for the relationship for Microsoft within KPMG, the global product lead (Vice President) of the Microsoft Corporation for Microsoft AX, and directors of 2e2.

7.3 The Council's chief executive has also had conversations with very senior personnel from KPMG and Microsoft setting out key expectations of the Council in terms of time to resolve the outstanding issues. It has been made clear that if the product and final solution are not ready for testing by June 2013, the Council may withdraw from the implementation.

7.4 In order to get to the testing stage (and parallel running towards the final AX solution) Microsoft Corporate undertook a Project Quality Review. This is due to report by 8 March 2013. The first milestone will discuss the response from Microsoft including their

interpretation of the project issues and solutions (including potential future product development).

7.5 The Council continue to test and develop against the fixes identified within the core product and is expected to receive Absence and Attendance ready for testing in March 2013, in line with the revised plan.

7.6 KPMG are also in discussions with a new technical partner to replace 2e2, following 2e2 entering into administration and being unable to fulfil key milestones and provide on-going resource. This arrangement is set out further in Part Two.

7.7 In terms of overall project completion, a high level view of the project would suggest we are current 80 per cent complete on the full solution. However, the remaining 20 per cent includes the delivery of the absence and attendance and interface solution that are both business-critical to the overall delivery of the final business benefits.

8.0   Project Resources

8.1 The overall project was estimated at £2million. Following the initial 'analysis phase' it was identified that the delay to the delivery (resultant from additional supplier side expenses) would require a further £200k of capital contingency. Both amounts have been approved by the Council as part of the Council's capital programme.

8.2 The implementation of the contingency plan has added a further £85,000 of supplier costs, outside of the programme. This is being funded through revenue-underspend from the re-profiling of capital borrowing required from the project resources.

8.3 Further risks to the financial viability of the project will occur from the extended period of consultants on-site aligned to the time delays. To this end, most contractor resource is now delivering remotely to reduce costs and project management time has been reduced. We continue to monitor the allocation of contractor resource and will allocate internal resources initially to reduce costs.

8.4 The programme, whilst overtime, remains currently within the resources allocated. The reason is set out in Part Two for commercial reasons.

8.5 There are risks that a further capital contribution will be required to maintain development resource on-site following the administration of 2e2. This is to retain key developers for the implementation.

8.6 The Council's resources (ICT, HR and finance) are not costed against this project, as per the initial business case proposals, keeping the overall project cost down, however this does impact on operations.

8.7 The business revenue savings from the HR & OD department will still be achieved following the implementation of the payroll services (including self-service and re-engineered processes) ahead of schedule. There remains pressure on the service until the final solution is in place. For ICT the allocation of key resources for the implementation, testing and data migration is putting pressure on ICT services that are recharged against projects and affecting their income generating ability.

8.8 A risk to the internal resources of the project is the extended timescales on staff. We have a committed team working on the solution who should be commended for their dedication, and often long hours of work. However, long-term this is not sustainable and there are a number of key people and single points of failure that continue to add risk to the project.