

CONFIDENTIAL MEMORANDUM

TO: Council

MEETING DATE: 3 August 2022

TITLE: Ozone Replacement Contract Extension and Additional Project Budget Request

PRESENTED BY: Cameron McKay, Chief Financial Officer

APPROVED BY: Cameron McKay, Chief Financial Officer
Sheryl Bryant, Assistant Chief Executive

It is recommended that this report be considered with the public excluded, as permitted by the Local Government Official Information and Meetings Act 1987 under clause:

s7(2)(h) Commercial Activities - The withholding of the information is necessary to enable the local authority to carry out, without prejudice or disadvantage, commercial activities

RECOMMENDATION FOR PUBLIC RELEASE

Once the contract is signed.

RECOMMENDATION(S) TO COUNCIL

1. That the Chief Executive be given delegation to approve the contract variation with Civica for an extension of the term of the existing licensing contract **s7(2)(h) Com**
[REDACTED]
[REDACTED].
 2. That Council approve an additional \$2.5M for the implementation of Civica's Authority Altitude.
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1. ISSUE

Council has a programme 1572 to replace Ozone (Finance and Regulatory system) with Civica's Authority Altitude. To enable the project to be implemented successfully an additional project budget of \$2.5 million is required. Civica in turn has agreed to **s7(2)(h) Commercial Activities**
[REDACTED] on the same favourable terms as the original agreement to acknowledge the delay^{s7(2)(h)} in implementation.

2. BACKGROUND

A Financial Systems Review was completed in February 2019 with the primary recommendation being:

“To replace Council’s current Finance & Regulatory solution (Ozone) to enable better business outcomes by replacing our outdated and poorly performing current system”.

Furthermore, Audit NZ noted in its Management Report to Council its concerns on the integrity of the financial system which is unable to be resolved with the Ozone product.

A robust procurement process was completed in 2019 where Civica’s cloud based Authority was selected as the preferred solution to replace Ozone.

The project began in early 2020, but a series of challenges mean that the implementation was unable to proceed as planned. The Covid-19 pandemic resulted in a nationwide lockdown, along with the closing of international borders. This meant that Civica were unable to conduct the implementation onsite.

After a period of significant delay and following concerns about whether implementing Altitude was still the best way forward, Council engaged Deloitte to undertake an independent review. During this period, officers process mapped over 300 existing business processes related to Ozone to identify any process gaps between the 2 systems. The result of Deloitte’s review recommended that Council continues with its implementation of Altitude. Other findings the report highlighted was that Council had not fully appreciated the wider implications of some of the decisions were made, for instance having to replace regulatory and finance as part of the scope made it more complicated and moving to the cloud added additional risk to the project. Both these findings required some upfront planning to ensure the project ran smoothly.

Subsequently, in early 2022 a mobilisation project commenced. The main objective of this was to understand the full scope of the project, along with developing a plan that addressed the findings from the Deloitte report and also any other learnings that had been captured. The outcome of this project was a delivery plan that would enable us to go live with implementing the system in August 2022.

The mobilisation project is successfully nearing its end and next steps are being finalised. As part of which, governance direction is being sought. Further details can be found in the following sections. This includes an overview of the options available, our preferred option, financial analysis and a summary of the outcomes from the mobilisation project.

3. SUMMARY OF OPTIONS ANALYSIS

Problem or Opportunity	Increase of Ozone Replacement Project & contract extension
OPTION 1:	Do not continue with implementing Civica and keep using Ozone
Community Views	Not sought due to commercial sensitivity
Benefits	There would be a short term benefit that the cost to implement a new system would not be required. However, in the medium term replacing Ozone will become a necessity when Datacom stops supporting the product.
Risks	Audit NZ have raised concerns on the integrity of the financial data in Ozone, the longstanding comment from Audit NZ in the Audit Management Report will not be able to be resolved. Datacom have indicated that Ozone will likely become unsupported as it finishes its new Datascape product. This could result in the system not being updated and/or an unfixable system failure occurring.
Financial	Nil – However Council will be legally obligated to pay the remainder of the Civica license contract ^{s7(2)(h) Commercial} , and the costs incurred to date will be lost.
OPTION 2:	Stop the Civica Implementation project and go back to market to procure
Community Views	Not sought due to commercial sensitivity
Benefits	The time that has elapsed since signing up to Civica could mean that other vendor products could have improved functionality that better meets PNCC's needs.
Risks	This would add significant time to replacing Ozone. The licensing and implementation costs to date would be lost and additional costs incurred. The opportunity to extend the current contract by ^{s7(2)(h) Commercial Activities} that Civica have agreed in principal would be lost. There is a risk that licensing and product implementation costs could increase significantly
Financial	N/A
OPTION 3:	Continue to implement Civica's Authority Altitude.
Community Views	Not sought due to commercial sensitivity
Benefits	Independent advice has been sought from Deloitte exploring all available options and they have concluded that it is best to continue to implement Civica. This option capitalises on the investment already made to date in gaining confidence in the system and creating a programme

	<p>for successful implementation and change management.</p> <p>Eliminates the end of product life risk council has with Ozone and resolves Audit NZ concerns with the financial data in Ozone.</p> <p>Civica have agreed to extend the original s7(2)(h) Commercial agreement s7(2)(h) with favourable licensing costs, as well as providing a discount on s7(2)(h) Commercial Activities in recognition of the delay's to date.</p>
Risks	<p>Unforeseen Issues arise during implementation that either impact on the time, or resources required to successfully implement Civica.</p>
Financial	<p>An additional \$2.5 million project budget making the new total \$7.3 million is required to successfully implement Civica. An extension of a further 2 years licensing is sought which is at discounted rates.</p>

4. PREFERRED OPTION

The preferred option is Option 3: Continue to implement Civica's Authority Altitude.

Taking into consideration the challenges the project had highlighted, Deloitte were engaged to provide some independent advice on what the future pathways for this project looked like. Deloitte confirmed that our procurement processes were robust and that implementing Civica's Authority Altitude is still the best way forward for our organisation.

A mobilisation phase was initiated to progress the preferred option and to put together a delivery plan. All learnings from the past were captured and effective change and implementation strategies were put in place. The 2 year delay has also meant that the cloud version (Altitude) has now been successfully implemented in 3 Councils in Australia with officers visiting two sites as part of building confidence in the product.

This work was completed in partnership with Deloitte to take advantage of their expertise in this area and ensure the project was set up for success.

5. FINANCIAL ANALYSIS

Licensing Costs:

In 2020 council signed a s7(2)(h) Commercial Activities agreement with Civica for Authority and prepaid support. s7(2)(h) C s7(2)(h) Commercial Activities Acknowledging the challenges in the project and the organisations, a variation to the contract has so far been agreed conditional on obtaining Council approval:

- » An extension to contract s7(2)(h) Commercial Activities

» The license and support fees have been discounted s7(2)(h) Commercial Activities
 This discount represents a significant saving in an environment where technology costs continue to rise steeply.

» s7(2)(h) Commercial Activities

The following licensing schedule summarises the financial element:

Year:	2021	2022	2023	2024	2025	2026	2027
Amount:	s7(2)(h) Commercial A					-	-
Variation:	s7(2)(h) Commercial A						

Project Implementation Costs:

The below tables highlight the current financial spend to date and the budget required to complete the project. Given the challenges that have been experienced to date, significant effort was required through bridging and mobilisation, as well as business process mapping to ensure that Authority Altitude could be successfully implemented.

This, along with implementing the lessons learnt to enable the system to be successfully implemented has meant an additional \$2.5M budget is required. This additional budget requirement is to be funded over 7 years, resulting in an additional rating impact from 2023/24 of \$360K.

Rationale for increased costs:

- » CIVICA implementations costs were higher than anticipated, this is due to additional work that was required of them from original agreement (including bridging and mobilisation work).
- » Due to vacancies and difficulty recruiting there has been a greater reliance on externals, particularly around project management and external independent advisory e.g. Deloitte. Also, lessons learnt highlighted the need to increase resourcing as part of the change management process which is critical for the success of the implementation.
- » The level of effort required and complexity in the integration, architecture and data work had been underestimated.
- » Bridging and mobilisation costs were not in the original budget, but were essential costs to ensure the success of the project.

Description	Amount
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Total Budget	4.8M
Spend To Date	1.8M
Forecasted Total Spend	7.3M
Increase to Budget Required	2.5M
Breakdown of Spend to Date	Amount
Payments to CIVICA	[REDACTED]
Bridging and mobilisation	[REDACTED]
Business Process	[REDACTED]
Project Management	[REDACTED]
Other Spending	[REDACTED]
Spend to Date Total	1.8M

Breakdown of Remaining Budget to Complete (\$5.5M)	Amount	Increase from original budget?	Comment
CIVICA	[REDACTED]	Yes	Increase in work required including registers
Integration/architecture/data/testing	[REDACTED]	Yes	Increased complexity and resourcing costs (links to lessons learnt)
Business Process	[REDACTED]		
Programme/Project Management	[REDACTED]	Yes	PM is critical for project success (links to lessons learnt)
Backfill	[REDACTED]	Yes	(Links to lessons learnt)
Independence/Legal and Assurance	[REDACTED]		
Other	[REDACTED]		
Contingency	[REDACTED]		
Forecast Budget to Completion	5.5M		

6. CURRENT STATE UPDATE ON PROJECT

Following endorsement from Deloitte that continuing with the implementation of Civica's Authority Altitude was the best pathway forward for Council, a Mobilisation Project was initiated. The purpose of this was to capture all learnings from the past and to put in place effective change management and delivery plans. This was done to ensure that the project is set up for success when implementation restarts.

As part of the Mobilisation Project, three key streams were set up. The following summarises the purpose of each and work outcome.

- **Commercial Stream**

This stream was led out by the Chief Executive and Chief Financial officer with support from Simpson Grierson. The purpose of this stream was to review the commercial agreements with Civica and update its terms to be accommodating of the issues to date and renegotiate terms for the future.

Negotiations were successful and new commercial terms have been agreed with Civica subject to Council approving the recommendations of this report. s7(2)(h) Commercial Activities

[REDACTED]

- **Delivery Stream**

This stream was led out by our Head of Digital Solutions with support from Deloitte. The purpose of this stream was to put together an integrated project plan and all associated documents that are required to support the project kick-off.

Work this stream has produced are the integrated project plan, resource plan, solution blueprint, a readiness checklist and other associated documents. All of which contribute to being ready to re-start the implementation of Authority Altitude with the appropriate resourcing and delivery plan.

- **Change Management Stream**

This stream was led out by our Organisation Performance Manager with support from Deloitte. The purpose of this stream was to work alongside the delivery stream and put in place a change strategy for our Organisation.

This project has a significant change element to it and was one of the key learnings from the past. A change strategy has been developed that includes a change vision, principles, delivery approach, stakeholder analysis. A plan is in place to support leadership alignment and uplifting team capability to lead the change. A communications plan is in place

to ensure all key stakeholders are brought on the journey and made aware of key and relevant information.

o **Governance & Assurance Stream**

This stream was led out by our Business Assurance Manager. The purpose of this stream was to determine an appropriate governance structure, plan engagement with governance members and take responsibility for quality assurance.

A key learning captured from the past was to improve engagement with Elected Members. An assurance framework has been put together that will improve transparency and provide for better reporting to governance members. A project structure has been developed that will ensure that decisions are being made at the right level and an escalation process is being finalised that will ensure that risks and issues are being reported at the right level.

Recently, officers travelled to two Councils in Australia who had recently implemented Authority Altitude. The aim of the trip was to gain further trust and confidence in the product and to understand any key implementation learnings. The trip was successful and both Councils have successfully implemented Civica. Both Councils confirmed two key drivers for a successful implementation centred on strong change management and ensuring that the project is deemed a top priority for the organisation.

7. NEXT STEPS

The agreement to the extension on the contract and negotiated commercial terms has been signed, conditional of the Council approving the extension. If Council does not approve the recommendation, then the extension and negotiated terms and pricing will not come into force.

If approved, the increased project budget will be actioned and Officers will proceed with implementation of Authority Altitude as planned.

The assurance framework will be presented to the Finance & Audit Committee in September to set out what, how and when reporting will occur to governance in the future.

8. COMPLIANCE AND ADMINISTRATION

Does the Committee have delegated authority to decide? If Yes quote relevant clause(s) from Delegations Manual <Enter text>	Yes
Are the decisions significant?	No
If they are significant do they affect land or a body of water?	No

Can this decision only be made through a 10 Year Plan?		No
Does this decision require consultation through the Special Consultative procedure?		No
Is there funding in the current Annual Plan for these actions?		No
Are the recommendations inconsistent with any of Council's policies or plans?		No
The recommendations contribute to Goal 5: A Driven & Enabling Council		
The recommendations contribute to the achievement of action/actions in (Not Applicable)		
Contribution to strategic direction and to social, economic, environmental and cultural well-being	Good governance and management, through effective and efficient systems and processes.	

ATTACHMENTS

Nil