

Variation to the contract with KPMG LLP to extend the implementation services due to a revised programme timeline.

Date: 6th February 2024

Report of: Head of Finance (Business Change)

Report to: Chief Officer, Financial Services

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief summary

Executive Board gave approval at its meeting on 19 October 2022 to proceed with the Core Business Transformation (CBT) Programme Phase 1 to include investment to deliver finance implementation using the preferred technology.

A procurement to appoint a supplier to deliver the technology was undertaken and KPMG was successfully awarded the contract (2 year contract with an option to extend for a further 1 year, starting approximately May 2023) to implement Microsoft Dynamics (Finance and Operations) using KPMG's Powered Local Government implementation approach. Powered LG has five phases - Vision, Validate, Construct, Deploy and Evolve. Contract cost of this activity was estimated to be in the region of £4.5m.

The original ambition was to roll out the new finance system (MS Dynamics F&O) in April 2024 but as a result of a number of issues not envisaged including size, scale, complexity of build and deployment, lack of resources, testing, training and the scope of technical integrations, there is significant risk associated with the proposed roll out date of April 2024 so a review of the CBT Programme timelines was carried out by the CBT Programme Team and KPMG, and presented to CBT Programme Board in November 2023. As a result, the CBT Programme Board agreed to a revised timeline for go live of Dynamics of October 2024. The revised timescales remain within the timescales outlined in the Executive Board Report of October 2022 and within the approved budget.

The extended implementation timeline results in requiring implementation services for longer, at a cost of £1M.

Recommendations

- a) The Chief Officer Financial Services is recommended to approve the variation of the contract to KPMG LLP to increase the value by £1m and to extend the implementation services due to the revised programme timeline.

- b) The Chief Officer Financial Services is recommended to approve the variation of the contract to increase the day rates as set out in paragraph 16.

What is this report about?

- 1 Executive Board gave approval at its meeting on 19 October 2022 to proceed with the Core Business Transformation [\(D55730\)](#)
- 2 Following a Delegated Decision Notice signed 22 December 2022 giving approval to use Crown Commercial Services Framework RM6193 to carry out a competition and award a contract to a finance implementation partner. KPMG LLP were awarded a 2 year contract with an option to extend for a further 1 year to Implement Business Process and Technology Transformation for Finance, as per decision notice [\(D55918\)](#).
- 3 A review of the overall CBT programme timelines in November 2023 concluded in a revision to the implementation date for Microsoft Dynamics and to de-couple HR/ Payroll implementation from Dynamics implementation.
- 4 A revised go live date of October 2024 for MS Dynamics means that implementation services from KPMG will be retained for longer at an additional cost of £1M which is still within the current budget.
- 5 Modification of the contracts would be carried out on the permitted grounds of Regulation 72(1)(b) of the Public Contracts Regulations 2015, in order to extend the implementation services due to the revised programme timeline. A change of provider for this period would not be practicable and would be a significant inconvenience to the Council and involve substantial duplication of costs.

What impact will this proposal have?

- 6 The variation of the contract will allow the Council to meet the objectives approved in the original Key Decision.
- 7 The CBT team has been working with our implementation partner KPMG to understand the detail, scale and complexity of the designs, build, system integrations, testing and training required to successfully deliver new system. The CBT Team have also been talking with and learning lessons from other Councils who have delivered similar solutions – key points being not compromising on testing and training timescales. This comprehensive work has revealed that:
 - our needs are complex and the new solutions will take longer to build and test
 - some work can be done to reduce the complexity that will have long term benefits
 - we have a very high number of other systems that need integrating and will take longer
- 8 The conclusions drawn from the review were although we had ambitions to deliver sooner, to do so would bring a level of risk that outweighs the benefits given that the revised timescales remain within the timescales outlined in the Executive Board report dated 19th October 2022 and additional costs are still within the approved budget envelope. Below is the revised timeline agreed by the CBT Board on 16 November 2023. The extended implementation timeline results in requiring implementation services for longer, at a cost of £1M.

	Apr-23	Jun-23	Sep-23	Dec-23	Mar-24	Apr-24	Jun-24	Sep-24	Oct-24	Dec-24	Mar-25	Apr-25	Jun-25	Sep-25	Dec-25
Previous Timeline															
Finance	[Orange bar]														
HR/Payroll	[Green bar]														
Recruitment	[Yellow bar]														
L&D	[Blue bar]														
Re-aligned Timeline															
Finance	[Orange bar]														
HR/Payroll (2 waves)	[Green bar]														
Recruitment	[Yellow bar]														
Learning & Development	[Blue bar]														
												Wave 1	Wave 2		
															Review

How does this proposal impact the three pillars of the Best City Ambition?

- Health and Wellbeing
 Inclusive Growth
 Zero Carbon

- 9 At its broadest level, the CBT programme will enable the council to make the maximum contribution to the Best City Ambition, by making it easier to do business within the council, improving efficiency, delivering savings and enable colleagues to work well with partners. The CBT programme supports Inclusive Growth by helping to ensure the Council’s staff are equipped with the skills to do their jobs. Staff not currently digitally enabled in the workplace will be included and well supported to use new digital ways of working and standard processes – including providing them with easier, direct, access to learning and job opportunities. Intuitive (minimal training needed for the user to easily operate the process), inclusive (available to all employees) and accessible (for a wide range of users with differing accessibility requirements/access technologies) user interfaces will be provided for system users and end users with office, remote and mobile access.
- 10 Health and Wellbeing will be enabled by making core processes and systems easier to access and use, releasing time and capacity for people to focus on more value-adding and rewarding activities. It will also alleviate pressure on the project and those staff involved from the Finance Teams to achieve what was becoming an unrealistic timeline.
- 11 Access from any device will support remote working and therefore contribute to reducing travel and a more efficient use of the Council’s office space, supporting the Council’s Zero Carbon pillar.

What consultation and engagement has taken place?

Wards affected: No specific wards are affected.
Have ward members been consulted? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

- 12 Executive Board received and approved a report on phase 1 (Finance) of the CBT programme on the 19th October 2022. This was a key decision ([D55730](#)).
- 13 The proposal to re-set overall programme timelines was discussed at the CBT board on 16th November and this included information on the additional costs that would be incurred. Agreement was given to proceed.

What are the resource implications?

- 14 All programme costs, whether revenue or capital, are included under the banner of transformational change, and as such can be capitalised under the Government’s Flexible Use of Capital Receipts guidance. This funding source cannot be used to cover other, non - transformational revenue costs, including the day-to-day delivery of frontline services.

- 15 The extended implementation timeline results in requiring implementation services for longer, at a cost of £1M which is still within the current budget envelope as £3M contingency was built into the original CBT business case due to a high level of uncertainty.
- 16 The original timeline would have seen KPMG exit the programme after a period of hypercare at the end of May 2024 and day rates for the duration of the contract were agreed on this basis. However due to the extension of the implementation period, KPMG resources will not exit the programme until end of October 2024, this means the day rates for consultancy services will attract the annual uplift of just over 7% from April 2024 onwards. This uplift has been agreed by the Chair of the Board, with the caveat that KPMG will be committed to continue to look for opportunities for flexible use of resources to offset the impact of increased rates; as has been demonstrated throughout the life of the project.

What are the key risks and how are they being managed?

- 17 The Head of Finance/Business Change will work with KPMG LLP to ensure the timescales are adhered to and that appropriate planning is carried out. The overall programme has an active risk register and there is also a separate risk register for the Finance Workstream which is reviewed through regular meetings. Key risks are reported to the CBT board at monthly meetings.
- 18 Rigorous budget and contract management is in place. The CBT Programme Manager supported by the Head of Finance/Business Change ensures effective budgetary controls are in place and undertakes monthly contract management meetings to monitor progress and allocated resource profiling. Regular progress reports are provided to the Core Business Transformation Programme Board who monitor delivery.
- 19 Any other risks which are highlighted during the term of the contract will be managed and mitigated through regular account management/supplier review meetings.

What are the legal implications?

- 20 The value of this decision is up to £1m and is a Significant Operational Decision resulting as a consequence of the previous Key Decision taken by Executive Board on the 19 October 2022, and is therefore not subject to call in. There are no grounds for keeping the contents of this report confidential under the Access to Information Rules.
- 21 Due to a revised go live date of October 2024 for MS Dynamics, a modification of the terms of the current contract is required. The modification of above threshold contracts is governed under the Public Contracts Regulations 2015 at regulation 72. This considers the extent to which a contract may be modified before it should be considered so substantially changed as to necessitate a new contract. The variation is requested under the provision of Regulation 72 (1)(b) of the Public Contracts Regulations 2015, which states that modifications can be made where all of the following conditions are fulfilled:

“72(1) Contracts and framework agreements may be modified without a new procurement procedure in accordance with this Part in any of the following cases:—

(b) for additional works, services or supplies by the original contractor that have become necessary and were not included in the initial procurement, where a change of contractor –

(i) cannot be made for economic or technical reasons such as requirements of interchangeability or interoperability with existing equipment, services or installations procured under the initial procurement; or
(ii) would cause significant inconvenience or substantial duplication of costs for the contracting authority,
provided that any increase in price does not exceed 50% of the value of the original contract”.

22 It is considered that all the above conditions are met because:

- The additional implementation services required for the revised go live date of October 2024 “have become necessary” to ensure a continuation of existing services.
- A change of provider would not be practicable for economic reasons.
- To re-procure with a new provider for only 12 months will result in substantial duplication of costs for the Council.
- The additional 6-month period, if fully utilised, would represent approximately 25% increase in contract value.

23 However, if Regulation 72(1)(b) is used incorrectly, and it is subsequently determined that the above conditions are not met, the council will be open to a procurement challenge that it has breached the Public Contracts Regulations 2015. Further, an aggrieved contractor could potentially argue that it has missed out on a competitive opportunity and thereby seek damages for that loss of opportunity. The risk of a procurement challenge can be mitigated as further detailed in the following paragraphs.

24 When contracts are varied on reliance on Regulation 72(1)(b), it is a requirement to submit a modification notice to Find a Tender (FTS) to alert the market that a modification to the contract has taken place (or is to take place). Once the notice is published on FTS it will start time running for bringing a claim for a breach of the Public Contracts Regulations 2015, which must be brought within 30 days of the date that an aggrieved party knew, or ought to have known, that a breach had occurred. The service will ensure a modification notice to that effect will be published.

25 There is no overriding legal obstacle preventing the variation of this contract under Regulation 72 of the Public Contracts Regulations 2015. In making their final decision, the Director of Resources should be satisfied that the course of action chosen represents best value for the Council.

Options, timescales and measuring success

What other options were considered?

26 The following options were considered by Programme Board on 16 November 2023 and they agreed to the October 2024 go live date due to factors mentioned in point 7 above.

- Allocate more resources - not a viable option - internal backfill options exhausted / specialist technical knowledge required
- July Go live – not a viable option – considered unachievable given the work to be completed
- Deferred scope with two phases – not a viable option, would create duplicate work in some areas resulting in the highest cost

How will success be measured?

27 KPMG will be given key milestones and deliverables as part of the Contract that will be built into an agreed plan. Exact scope, resource requirements and outputs will be defined and agreed on commencement of delivery of each product, service and advice requirement through use of work packages that require LCC sign off.

28 KPMG will be required to report on progress at monthly CBT Board meetings.

What is the timetable and who will be responsible for implementation?

29 The overall CBT Programme roadmap is a 3 – 4-year transformation given the level of change required, and to manage the other priority demands on the Council's Support Services, managers and staff. Also see revised timeline in point 8 above.

30 The Chief Officer Financial Services, Chief Officer Human Resources and Deputy Chief Officer HR and Shared Services are responsible for the delivery of the Core Business Transformation Programme. The Chief Financial Officer is the programme sponsor and the Director of Strategy and Resources is the director accountable. Decisions will be taken in accordance with the Director of Strategy and Resources' sub-delegation scheme, in liaison with Chief Digital and Information Officer in relation to all matters relating to the Council's use of digital technology.

31 Oversight and challenge in respect of all aspects of the CBT will continue to be provided by the cross-Council Programme Board, and subject to independent review by Internal Audit.

Appendices

None

Background papers

None