

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

Date: 24th June 2024

Report of: CBT Programme Manager

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 LLP (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 costs of this activity was estimated to be in the region of £4.5m. Although the timeline outlined in the business case estimated a go-live date of 1st April 2025, contractual arrangements with the implementation partner were agreed on the basis of attempting to achieve an earlier (albeit very ambitious) go-live date of 1st April 2024 if possible (12 months ahead of schedule) to minimise costs and maximise benefits.

A review of progress was undertaken in November 2023, which concluded that due to the size, scale and complexity of the build, an April 2024 go-live date was unachievable and a revised go live date of 1st October 2024 was mutually agreed. This resulted in the need to modify the contract with KPMG in February 2024 to increase the value of the contract from £4.5m to £5.5m to accommodate the cost of the additional services required to achieve the revised go-live date.

A subsequent review of the project timelines has been undertaken in April 2024, and indicated that due the volume and complexity of technical integrations that need developing and testing, the re-design of integrations involving 3rd party solutions, and the limited number of specialist Leeds City Council (LCC) technical resources available – the revised go-live date of 1st October is no longer achievable and a revised go-live date of 1st December 2024 is now proposed. Also, as part of the design phase, it has been identified that the use of MS Power Apps for certain business-user functions will negate the need to procure additional licences which would result in additional costs to the authority in the region of £300k per year. Therefore 8 functions will be developed in Power Apps with estimated one-off cost of £200k-£350k.

This results in the need to modify the value of the contract with KPMG to from £5.5m to £6.5m. This revised date is still within the timescales originally outlined to Executive Board as is still within the overall approved budget envelope.

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 to £6.5m and to extend the implementation services due to the revised programme timeline and Power App development.

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 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 revised implementation date for Microsoft Dynamics was needed, and new go live date of 1st October 2024 was mutually agreed, meaning implementation services from KPMG would need to be retained for longer at an additional cost of £1M, which is still within the approved budget envelope.
- 4 A further review of the overall CBT programme timeline was undertaken in April 2024, which concluded that a further extension to the go-live date would be required. This is due to slippage in timescales scheduled for the integration development phase. Slippage is occurring as a result of the volume and complexity of technical system integrations which need developing and testing, the need to involve some 3rd party suppliers, and the limited number of specialist LCC technical resources available to support testing. As a result, a revised go-live date of 1st December 2024 has now been mutually agreed.
- 5 During the design phase, it was identified that MS Dynamics would need to be made available to over 400 business-users at an additional annual subscription cost in the region of £320k per year to use its functionality for limited purposes. An options appraisal recommending the use of Power Apps to create the required functionality for a one-off cost in the region of £200-£350k which would avoid the need for additional subscription costs was discussed and agreed by CBT Board on 23rd May 2024.
- 6 A further modification to the value of the contract with KPMG from £5.5m to £6.5m is required in order to retain the additional services for the extended period to go-live and to develop the identified MS Power Apps.
- 7 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?

- 8 The variation of the contract will allow the Council to meet the objectives approved in the original Key Decision.

- 9 The CBT team has been working with the implementation partner KPMG to understand the detail, scale and complexity of the designs, build, system integrations, testing and training required to successfully implement the new system. The CBT Team have also recently established a “Local Government User Group” with other Councils who have successfully implemented MS Dynamics. This group are meeting regularly and sharing knowledge, experience and lessons learnt – key points being not compromising on testing and training timescales. This comprehensive work has revealed that:
- LCC’s needs are complex and new solutions will take longer to build and test than some smaller Councils
 - some business change work can be done to reduce the complexity that will have long term benefits (e.g. re-design chart of accounts)
 - LCC has a very high number of other systems that need integrating and this will take longer to achieve
 - LCC has a high number of users compared to other Local Authorities given the size and scale of the Council and the devolved nature of financial administrative activities.
- 10 The conclusions drawn from the reviews were although LCC 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 timescales and budget envelope.

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

Health and Wellbeing

Inclusive Growth

Zero Carbon

- 11 At its broadest level, the CBT programme will enable LCC 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.
- 12 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.
- 13 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? Yes No

- 14 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](#)).
- 15 The proposal to extend the go-live date to 1st December 2024 was discussed at the CBT board on 25th April 2024 and this included information on the additional costs that would be incurred. Agreement was given to proceed.

What are the resource implications?

- 16 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.
- 17 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 the high level of complexity.
- 18 KPMG have committed to continue to look for opportunities for flexible use of resources to minimise increased costs; as this has been continually demonstrated throughout the life of the project.

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

- 19 The Head of Finance/Business Change will work with KPMG 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.
- 20 Rigorous budget and contract management is in place. The CBT Programme Manager along with 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. Real time programme assurance is also being provided by Internal Audit.
- 21 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?

- 22 The value of this decision is up to £1m and is a Publishable Administrative 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.

23 Due to an increase in contract value as a result of additional development work and a revised go live date of December 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; and
(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”.

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

- The additional implementation services required for the revised go live date of December 2024 “have become necessary” to ensure a continuation of existing services.
- The project is part way through implementation, it is not feasible to interchange services with an alternative partner at the current stage as this would create a substantial risk to the project timeline and budget
- To re-procure with a new provider for only 12 months will result in substantial duplication of costs for the Council.
- The additional 2 months, if fully utilised, would represent approximately 22% increase in contract value. For the avoidance of doubt, the value of the proposed modification is up to £1 million, whereas the original contract value was £4.5 million.

25 In relying on Regulation 72(1)(b), regard must also be given to Regulation 72(2) which states:

“(2) Where several successive modifications are made:—

(a) the limitations imposed by the proviso at the end of paragraph (1)(b) and by paragraph (c)(iii) shall apply to the value of each modification; and
(b) such successive modifications shall not be aimed at circumventing this Part.”

It is acknowledged that a previous modification to the go-live date and contract price has been processed under the same provision. The value of the current proposed variation is to be looked at in isolation and ought not to be added to the value of any previous modifications. LCC confirms that the successive modifications in this case are not aimed at circumventing the provisions of Regulation 72. As prescribed in the report, it has materialised that the proposed modification has become necessary due to the complexity of the project.

26 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.

- 27 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.
- 28 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?

- 29 In relation to the go-live date, the following options were considered by Programme Board on 25 April 2024 and they agreed to the December 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
 - Overlap subsequent test phases to reduce timescales of later stages – not a viable option due to the risk and complexity created by overlapping test phases – this would cloud clarity on test results increasing the risk of defects being missed, and increase the timescales required for multiple rounds of regression tests
- 30 In relation to the MS Power App development proposal the options were also considered and discounted:
- Do nothing – highest overall cost
 - Centralise the user base – significant and disruptive business change not achievable within the timescales, misaligns with recommended Target Operating Model (provision of self-service to business users)
 - In-house build – lack of capacity and expertise
 - Augmentation partner build – delay to mobilisation, adverse impact on timescales

How will success be measured?

- 31 KPMG are 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.
- 32 KPMG are required to report on progress at monthly CBT Board meetings.

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

- 33 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.
- 34 The Director of Resources & Strategy, Chief Officer Human Resources and Deputy Chief Officer HR and Shared Services will be responsible for the delivery of the Core Business Transformation Programme. The Chief Financial Officer is the programme sponsor. Decisions will be taken in accordance with the Director of 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.

35 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 'real-time' assurance by Internal Audit.

Appendices

EIA

Background papers

[Council and democracy \(leeds.gov.uk\)](https://leeds.gov.uk/council-and-democracy)