

Birmingham City Council

Report to Cabinet

18th January 2021



Subject: **INCREASING CONTRACT VALUE - FINANCIAL REPORTING – DELIVERY SUPPORT, TECHNICAL AND STRATEGIC ADVICE CONTRACT**

Report of: **Rebecca Hellard
Director of Council Management**

Relevant Cabinet Member: **Councillor Tristan Chatfield – Finance & Resources**

Relevant O &S Chair(s): **Councillor Mohammed Aikhlaq – Resources**

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Are specific wards affected?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No – All wards affected
If yes, name(s) of ward(s):		
Is this a key decision?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
If relevant, add Forward Plan Reference: 009648/2022		
Is the decision eligible for call-in?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
If relevant, state which appendix is exempt, and provide exempt information paragraph number or reason if confidential:		

1 Executive Summary

1.1 The Financial Reporting – Delivery Support, Technical and Strategic Advice contract was awarded in January 2021 following a competitive process for a delivery partner to provide support to the Council's financial reporting function for two years. Since then the breadth of work required, mainly as a result of increased regulatory

requirements around Value for Money assessments, has resulted in the need for increased Delivery Support, Technical and Strategic Advice.

2 Recommendations

- 2.1 That Cabinet approves the increase in value of the Financial Reporting – Delivery Support, Technical and Strategic Advice contract with KPMG LLP by £234,000.

3 Background

- 3.1 The initial award report was costed for the direct costs mainly supporting the production of the statutory final accounts for two years, specifically:
- Co-ordinate and manage the closedown of financial accounts
 - Advice on accounting treatments of complex transactions
 - Knowledge transfer and building internal capability
 - Training and development
 - Provide resilience and ‘safe landing’ in a period of change
 - Develop Financial Accounting to achieve 3* and beyond
- 3.2 The contract was awarded following a competition exercise using the Crown Commercial Services (CCS) Corporate Finance Services Two Framework Agreement (RM6169) - Lot 1 Corporate Financial.
- 3.3 Cabinet was advised of the requirement for this contract in the Planned Procurement Activities Report on 19 January 2021. A 2-year contract was awarded for the provision of Financial Reporting – Delivery Support, Technical and Strategic Advice, which commenced 1st February 2021.
- 3.4 The services provided have so far successfully produced a Statement of Accounts one month earlier than the statutory deadline and supported the audit of the Accounts, which has been commended by the external auditors in their public Audit Findings Report. An unqualified audit opinion is expected with no material changes to the draft accounts.
- 3.5 However, additional requirements from the external auditor have required that we respond to an increased volume of external audit queries, greater sample sizes and request for more evidence as the external audit requirements increased from previous years. The external auditor has also required greater testing around property valuations and income and expenditure recognition this year.
- 3.6 Also, since the award of the contract in February it has also become necessary to add further additional activity, mainly as a result of the unexpected statutory and regulatory requirements related to the Value for Money assessment:
- Additional support for the statutory Value for Money external assessment. The National Audit Office introduced a new Code of Audit Practice this year which introduced a revised approach to the VFM audit. A subsequent Auditor

Guidance Note was issued to all auditors. The increased guidance and requirements were not known at the time of the tender for this contract. The requirement has changed from the auditors completing a risk assessment to auditors needing to gain an understanding of the Council's general arrangements and issuing a narrative report on them and any risk-based work. This approach has increased the evidence required to support this assessment. The external auditors presented their Audit Plan detailing the additional VFM assessment work at the end of March 2021.

This new assessment requires the council to provide evidence on three key criteria covering, financial sustainability, governance and improvements in economy, efficiency and effectiveness. These three key criteria are requirements for all Councils. The code also requires the external auditor to consider if council's have specific risks of significant weakness in their arrangements. For 2020/21 the external auditors identified, six areas to date that require the council to provide further evidence. Four were identified during April 2021. These are:

- The financial impact of the Commonwealth Games
- The contractual arrangements relating to the highways PFI scheme
- Waste service continuity and industrial relations
- Potential impact of lack of stable leadership due to significant level of turnover of key staff.

During the Summer of 2021 two additional risks were added by the external auditors:

- Governance arrangements in relation to required improvements in SEND services
- IT Audit findings and planned changes to the Council's general ledger

3.7 All of the above work involves elements of knowledge transfer and capacity building within the Council's workforce.

3.8 The additional work required falls under the following parts of the scope mentioned in the original invitation to tender, specifically:

- Manage and lead the Council's relationship with external audit. Attendance at relevant Committees i.e. Audit Committee.
- Respond and contribute to internal audit reviews.
- Set framework for production of service and corporate working papers.

- 3.9 To ensure appropriate support was provided to the VFM and financial statements audit, contract resources were redirected (from later activities) to supporting the 2020/21 audit. This has now left fewer resources available for delivery support that will be required towards the latter part of the contract to ensure robust financial reporting can be delivered under the Council's new Oracle financial system. It is thus necessary for the contract value to be increased to recognise the additional resources required to meet the increased audit requirements.
- 3.10 A detailed resource requirement for the next 13 months has been conducted and it is recommended that the contract value be extended, based on an additional amount of days. The exact cost will depend on the amount and cost of the level of staff support required. It is anticipated that the additional work will require senior level staff support. This will allow all the additional work listed above to be completed and for the statutory audit requirements to be met. The contract will continue to be managed closely to ensure services are only used when and where required.
- 3.11 The contract will be managed by the Interim Head of Financial Strategy (Capital & Treasury) who will work closely with the supplier on the delivery of these additional services.

4 Options considered and Recommended Proposal

- 4.1 Do nothing: Financial reporting and the Value for Money assessment are key indicators of the Council's financial management and well-being. An adverse external audit assessment of these will result in reputational damage to the Council and may hinder the Council's voice and leveraging in external funding and commercial opportunities.
- 4.2 As stated in 3.9 there are now less resources available in the existing approved value to support the important task of implementing the new financial system and ensuring robust financial reporting is achievable within the new financial system. This would be a significant risk to the Council.
- 4.3 Tender for these services: As described in 3.2 this contract was only recently tendered via a framework and competitive process and included provision for services in addition to the core scope at the time if and when required. A retender will add a time delay to work that is required immediately and in train. The new VFM assessment activities are intertwined with Financial Reporting and a separate contract for this will lead to potential overlaps and confusion with two suppliers working on closely related issues. A new delivery partner would also require a period of steep learning to become acquainted with the Council's financial reporting and new financial system that would not be cost effective or efficient.
- 4.4 Increase the value of the current contract – this is the preferred option as it is based on rates from a recent competitive tender process and the delivery partner has built up knowledge of the Council to be able to deliver these services immediately. The delivery partner now understands the council's requirements

and knowledge of its systems and processes and continuing with the existing contract will bring greater efficiencies

5 Consultation

5.1 None.

6 Risk Management

6.1 This contract increase will help manage the risk of not achieving a Value for Money assessment that is accurate and timely. It also mitigates the risk of accurate financial reporting under the Council's new Financial System. It will also ensure that the Council becomes best placed to support its annual VFM assessments going forward.

7 Compliance Issues:

7.1 How are the recommended decisions consistent with the City Council's priorities, plans and strategies?

7.1.1 This proposal is also consistent with the Council's Vision and Forward Plan 2018 – 2022 (updated in 2019) and themes within subsequent 2022 Delivery Plan October 2020. This service will deliver robust financial accounting and reporting which will, alongside fulfilling the Council's statutory responsibility of producing its accounts in line with proper practices, provide greater transparency, timely and accurate financial information for the Council as a whole and aid continuous improvement.

7.1.2 Birmingham Business Charter for Social Responsibility (BBC4SR)

The supplier is a certified signatory to the BBC4SR and produced an action plan with commitments proportionate to the value of this contract. The action plan will be reviewed considering this increase and actions will be monitored and managed during the period of the contract.

7.2 Legal Implications

7.2.1 Under S.111 Local Government Act 1972, the Council has power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions

7.2.2 The arrangements set out in this report are in compliance with the powers of general competence as set out in Section 1 of the Localism Act 2011.

7.3 Financial Implications

7.3.1 The award report for this contract was for £476,800. Funding for the additional costs of this contract increase is available within existing resources. The additional costs will be funded from the funding available for the Finance

improvement Programme, managing the cost across the current and next financial year, through the planned use of available programme reserve and Policy Contingency funding.

7.4 Procurement Implications (if required)

7.4.1 This report details the increase in value of a contract and the procurement implications are detailed throughout.

7.4.2 Regulation 72(1)(c), Modification of Contracts During their Term, of the Public Procurement Regulations (PCR) 2015, allows provision for contracts to be modified without the need for a new procurement procedure where all of the following conditions are fulfilled:

- i. the need for modification has been brought about by circumstances which a diligent contracting authority could not have foreseen;
- ii. the modification does not alter the overall nature of the contract;
- iii. any increase in price does not exceed 50% of the value of the original contract.

This contract modification is compliant with PCR 2015, Regulation 72(1)(c) on the basis that the outcome of the consultation exercise was unforeseen and resulted in additional work as detailed in paragraph 3. The modification is within the scope of the original direct award using the CCS Corporate Finance Framework Agreement and the increase in price does not exceed 50% of the value of the original contract.

7.4.3 Since the award of the KMPG LLP have provided a satisfactory service in accordance with contractual requirements despite the requirement for the increase in the estimated spend. On this basis, it is recommended that the value of the contract is modified.

7.5 Human Resources Implications (if required)

The contract will be managed by Council staff in Finance.

7.6 Public Sector Equality Duty

7.6.1 The requirements of the Constitution Part D, Section 2.9 in respect of the Council's Equal Opportunities Policy will be incorporated into the Contract.

7.6.2 The requirements of the Equality Act 2010 will be specifically included in the Contract to comply with, the Act.

8 Appendices

8.1 None.

9 Background Documents

Planned Procurement Activities Report approved by Cabinet 19 January 2021