



cutting through complexity

Independent Review of South Yorkshire Digital Region Project

Page 17

June 2014



Disclaimer

This Report has been prepared on the basis set out in our engagement letter dated 9 January 2014.

This Report is for the benefit of Barnsley Metropolitan Borough Council, Doncaster Metropolitan Borough Council, Rotherham Metropolitan Borough Council, and Sheffield City Council. and this Report is strictly confidential to these four Councils.

Nothing in this Report constitutes a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the engagement letter.

This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this Report or a copy (under the Freedom of Information Act 2000 or otherwise) and chooses to rely on this Report (or any part of it) does so entirely at their own risk.

There are some important limitations to the work that we have undertaken in respect of this engagement. In particular, we would draw attention to the following:

Our work has been based upon information and data provided by DRL and the Councils. We have not verified the accuracy or sources of this data, nor have we audited this data; We have worked jointly with DRL and Council officers in obtaining the data. We have therefore placed reliance upon their information, understanding and judgement.

Our work has not considered whether the initial decision to establish DRL was the correct decision, nor has it considered the contract award process to confirm whether Thales was the right contractor for the project.

The project was conceived in 2005 and the contract with Thales was signed in 2009. Through this period there has been a significant turnover of staff, both at Digital Region Limited and at the Local Authority shareholders, and it has not been practicable or possible to interview all involved and relevant parties.

Clearly in light of the decision to close the company the lessons learned from this are articulated in the context of the possible involvement in future projects and schemes that involve complex and technical aspects.

Independent Review of South Yorkshire Digital Region Project

Contents

The contacts at KPMG in connection with this report are:

John Cornett
Director

Tel: 0116 256 6064
john.cornett@kpmg.co.uk

Linda Wild
Manager

Tel: 0113 231 3512
linda.wild@kpmg.co.uk

Alastair Newall
Manager

Tel: 0113 231 3552
alastair.newall@kpmg.co.uk

	Page
Executive summary	3
Project chronology	6
Business case review	7
Detailed findings	8

Independent Review of South Yorkshire Digital Region Project

Introduction

Background

Following initial considerations in 2005, in 2008 the four South Yorkshire Councils and Yorkshire Forward initiated a project to transform the economy of South Yorkshire through the development, implementation and exploitation of a high speed broadband network.

Digital Region Limited (DRL), a special purpose vehicle (SPV), was created to manage the project, with the four South Yorkshire Councils and Yorkshire Forward (subsequently this became the Secretary of State for Business Innovation and Skills) as shareholders and guarantors. In April 2009 DRL entered into a 10 year contract with Thames to build and operate the network.

In August 2013 the shareholders all determined to proceed with a 'managed closure' of DRL, accepting that the project costs to achieve financial stability, and the barriers to enable the project to proceed in a sustainable manner, were prohibitive. The managed closure will continue until August 2014, when DRL and the project will cease.

Scope of the work

Barnsley Metropolitan Borough Council, on behalf of all four South Yorkshire Council's engaged us to carry out an independent review of the project.

The scope of our work was to carry out a 'phase 1' risk assessment leading to a possible 2nd phase of more detailed focus.

The work has reviewed the whole project cycle, from initial decision to invest to the decision to close the company and included specific reviews of:

- The original business case;
- Governance arrangements;
- Information flows and decision making;
- Risk management; and
- Procurement arrangements and specialist advice available.

Scope of the report

This report is not a lengthy analysis of all decisions and deliberations that have been considered in the past nine years since the project was conceived. Nor is it a consideration of how the problems could have been avoided, and a discussion on the other options that could have been considered.

What this report aims to do is succinctly and clearly set out our observations on the key elements of the project, and identify the successes achieved through the project, and the lessons we consider the participants can learn for the future from this project.

Independent Review of South Yorkshire Digital Region Project

Executive summary – Headlines

<p>Overall conclusion</p>	<p>The aim of phase 1 of our review was to carry out a risk assessment of the stages of the project and consider whether there are any further, more detailed areas of review that we would need to consider.</p> <p>Having carried out our phase 1 work, we conclude that there is no further work that we would consider would provide any further insight to the shareholder Councils.</p>
<p>Positive aspects</p>	<p>The aims and objectives of the project, as set out in the business case were to create a next generation broadband network to:</p> <ul style="list-style-type: none"> • Stimulate economic growth and inward investment through the availability of high speed communication services to business and residential users; and • Provide a communication network that can be used by the commercial and public sectors to deliver more advanced services to citizens and businesses. <p>The view of all the participants we spoke to was clear, that in regards of both aspects elements of the aims above, there is evidence that the aims of the project have been achieved – albeit not necessarily directly by the DRL project itself.</p> <p>There is no doubt that since the conception of the project in 2005, and the start of the contract in 2009, the digital communication market in South Yorkshire has changed enormously. The participants that we spoke to were clear in their view that the South Yorkshire digital economy would not have developed at the rate it had done without DRL. Clearly some of the change in the marketplace is directly attributable to DRL, and the project has delivered the infrastructure and network elements of the business case, but a less ‘evidenced’ conclusion is that the DRL project has been a catalyst for the large service providers to invest heavily in their digital communication developments in the region.</p> <p>A related benefit for the local community and for the Councils, is that the public’s interactions and transactions with the Council are being transformed, with an increasing number of those interactions and transactions being carried out electronically.</p> <p>All the main parties to the project, DRL officers, the DRL Board and the wider Council officers have invested a huge amount of energy, and maintained the energy and enthusiasm throughout the past five years. This is an achievement that bears stressing, especially given how clearly difficult the project has been to manage and deliver: we have observed that there has been a consistent commitment at DRL and the shareholders to ‘make the project work’, despite the continued difficulties.</p>

Independent Review of South Yorkshire Digital Region Project

Executive summary – Headlines

Key lessons to learn

Business case

- The due diligence and review of the business case should be clearly and formally articulated.
- The external reviews of the business case carried out as part of the due diligence approach, raised concerns and issues, which would be expected from such reviews. While all four Councils included details of project risks in their reports to decision makers, these were of variable depth and detail, and did not specifically refer to the outcomes of the due diligence reviews.

Governance arrangements

- The appointment of officers to the Board by the shareholder Councils should take into account the skills required for the Board. For DRL the Board appointments did not include any IT specialists to provide assurance/challenge on the technological aspects of the project.
- Where there is potential conflict between the duties to the Council, there should be clarity as to how that conflict is to be managed and addressed.

Information flows and decision making

- Council's reports to make the decision on the initial investment did not include the information on the sensitivity analysis and the extent to which financial success was dependent on the speed and level of take-up of the service.
- The lack of a robust sales and marketing plan earlier in the process did not help the Councils and DRL to demonstrate the achievability of the business plan.

Risk management

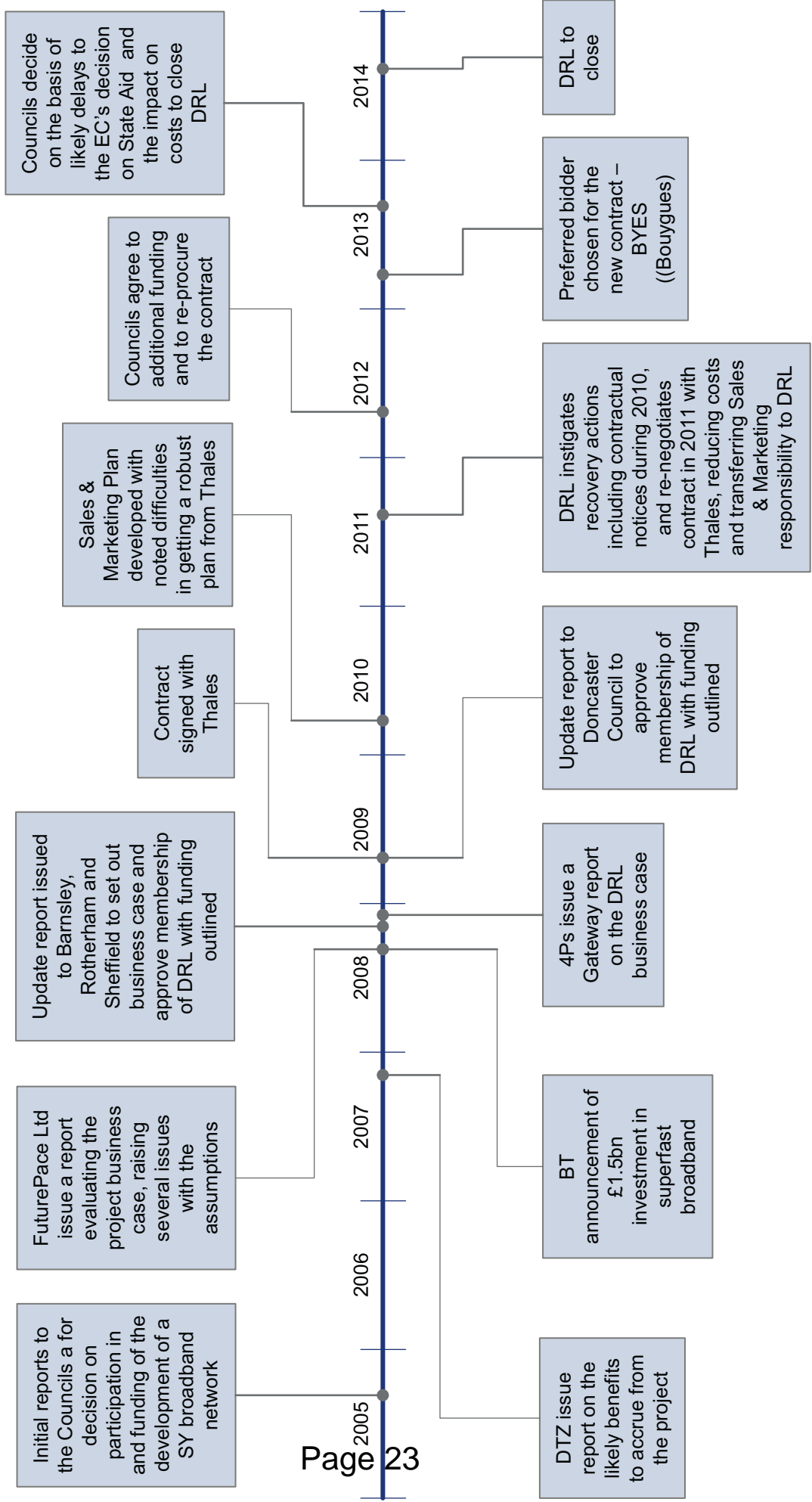
- Risks have been regularly reported to shareholder Councils through the project focusing on the financial risks to the Councils.

Procurement arrangements and availability of specialist advice

- Appointment of consultants needs to be managed as part of a formal governance approach that seeks to address knowledge or resource gaps and should not impact demonstrably on the 'ownership' of the project by permanent employees.

Independent Review of South Yorkshire Digital Region Project

Executive summary – Key Decision Chronology



Independent Review of South Yorkshire Digital Region Project Executive summary – Business Case assessment

The Five Case Model

The Five Case Model is the approach for developing business cases recommended by HM Treasury, the Welsh Government and the UK Office of Government Commerce. It has been widely used across central government departments and public sector organisations over the last 10 years.

We have considered the extent to which the South Yorkshire DRL business plan met the requirements of the Five Case Model below.

The Case	The question	What the Business Case must demonstrate	Yes. The business case demonstrated that the 'question' and aim was to develop a new generation broadband network in South Yorkshire, in the absence of any input from the other broadband providers. The necessity for this is to stimulate the economic growth in the area.
Strategic Case	Is the proposal needed?	will it further the aims and objectives?	Yes. The business case articulates the reasons needed for the change and how the project would deliver the project aims and objectives.
Economic Case	Is it value for money?	has a range of options been considered?	Partial. The business case does not articulate the 'value for money' of the project but does consider the benefits from the investment. It is not clear what other options have been considered and consequently it is not clear that the project would deliver the best balance of cost, benefits and risk.
Commercial Case	Is it viable?	is there a supplier who can meet our needs?	Partial. The business case includes the risks in the project and a financial sensitivity analysis. This articulates the importance of achieving the sales income targets. The business case has a short section on the procurement process, outlining that Thales are the preferred bidder. It is not clear from the business case that a value for money deal can be secured.
Financial Case	Is it affordable?	are the costs realistic and affordable?	Yes. The business case includes a funding section which is based on assumptions. No assessment of 'affordability' is included, but the level and balance of funding between ERDF, RDA and local authority is supported by statements that give assurance that the funding is in place.
Management Case	Is it achievable	are we capable of delivering the project?	Partial. The business case makes positive statements on the achievability of the project, but does not consider the extent to which the systems and processes in place, given the complexities in a multi-shareholder arrangement, were robust or would help deliver the project as designed.

Independent Review of South Yorkshire Digital Region Project

Detailed observations

Key findings

We have outlined below the key observations and learning points arising from our review in the five specific areas on page 3.

Review area	Key observations	Lessons to learn
<p>Original business case</p> <ul style="list-style-type: none"> ▪ The business case, dated May 2007, is a lengthy and thorough document which was co-ordinated/produced by a 'consultant' employed for that purpose. ▪ The business case assumes that income will start in the second year (£3.5M of which £2M would come from the 'public sector') even though the 'build' of the network wasn't expected to be complete until the third year. The income was assumed to rise very sharply to over £15M for 2009/10. As has been well documented elsewhere, these income streams did not come close to being achieved. ▪ Producing the business plan (as distinct from the business case) was a lengthy and difficult process, but having an accurate and achievable business plan was fundamental to demonstrating the robustness of the project. We've not been able to conclude whether the resources available to produce the business case were sufficient and appropriate, but the final business plan wasn't produced and approved by the DRL Board until March 2009. ▪ There were many assumptions in the business case, for example around the technology developments and the financial projections. With the benefit of hindsight, a significant number of these fundamental assumptions were not realistic and did not come to reality. ▪ The financial projections in the business plan included a wide range of sensitivities in detail with associated explanatory narrative. The dependence of the future financial success of the project on the speed and level of take-up of the service was clear and articulated. ▪ The business case did form the basis of reports to the four Councils requesting approval to participate and contribute resources to the project. The project risks were outlined to the Councils but it is not clear that all the Councils were aware of the extent of the sensitivities in the financial analysis, or the heavy dependence on the level and speed of the take-up. ▪ The business case refers to an exit plan needing to be produced subsequent to the business case being approved. It is not clear whether this was produced, and what its focus was if it was produced, but the clear view of the participants we spoke to was that there did not seem to be a clear exit strategy as the project became more problematic and a positive outcome became more unlikely. 	<ul style="list-style-type: none"> ▪ The income projections in the business case were detailed and thorough. At that stage the projections were not on the basis of a robust and coherent sales and marketing plan. ▪ The due diligence and review of the business case should be clearly and formally articulated, and it is not clear that this was the case for this business case. ▪ It is not clear what the formal due diligence process was on the business case. There were reviews of the business case and its assumptions, including a review by DTZ Ltd in October 2007, a review by FuturePace Ltd in July 2008, and a Gateway Review by 4Ps in October 2008. It is not clear who commissioned these reviews and how they were reported. ▪ These reviews raised concerns and issues, which would be expected from such reviews. It is not clear the extent to which these were formally reported to the shareholder Councils to form part of their decision making process. 	

Independent Review of South Yorkshire Digital Region Project

Detailed observations

Health check area	Key observations	Lessons to learn
<p>Governance arrangements</p>	<ul style="list-style-type: none"> The governance arrangements were clearly understood by the participants. Each shareholder appointed a senior officer to the DRL Board. There has been a lack of clarity on how the shareholder Board Directors were expected to manage the potential conflicts of a) their fiduciary duty to DRL Ltd and b) their duties to their employing Council. This uncertainty gets the heart of a wider observation, detailed on page 10 which relates to the extent to which the shareholder Councils as a whole, understood what DRL was and how they could or should, assist with its successful delivery. As has been reported to us, the discussions between DRL and the ISPs, particularly the large ISPs, were largely handled by the DRL chairperson. Due to the technical telecommunications nature of these discussions the shareholder Board appointees were not involved in these discussions. This is understandable and a pragmatic approach. It is not clear though how the shareholder Directors were able to challenge the discussions and conclusions that were of a highly technical nature, and hence how the were able to be satisfied that the explanations and outcomes were reasonable. There has been a huge amount of 'non-financial' investment in the project by DRL staff and officers at each of the shareholder Councils. The drive and enthusiasm to make it work has been notable and commendable, and the project hasn't failed to succeed because of a lack of commitment by DRL and the Board. 	<ul style="list-style-type: none"> The appointment of officers to the Board by the shareholder Councils should take into account the skills required for the Board. For DRL the Board appointments did not include any IT specialists to provide assurance/challenge on the technological aspects of the project. Where there is potential conflict between the duties to the company and the duties to the Council, there should be clarity as to how that conflict is to be managed and addressed. The Councils should be clear on the reporting and governance arrangements where information is presented to Board meetings, but is relevant and informative to the Council in delivering its duties.

Independent Review of South Yorkshire Digital Region Project

Key findings

Health check area	Key observations	Lessons to learn
<p>Information flows and decision making</p>	<ul style="list-style-type: none"> ▪ Hindsight has shown the income projections to be clearly optimistic, and there was a sensitivity analysis in the bus case that set out the dependence on the level and speed of the 'sign-up' of customers. ▪ The information available and presented to the Councils to make their decisions on participating in the project appear to include the key project risks, and includes some of the financial projections. It is not clear that the Councils received and were aware of the sensitivity analysis in the business case, and the extent of the dependence on the speed and level of take-up to achieve financial success. ▪ Shareholder Councils have reflected to us a lack of clarity around the extent to which issues raised at the DRL Board meetings were able to be shared with the Councils. To exemplify this, finance and IT colleagues in Councils were not routinely 'in the loop' with the information being sent to the Board and the decisions that the Board made. This did not help to raise the profile and understanding of DRL within the Councils. ▪ It took until late 2009 to have a sales and marketing plan that was robust and accepted by the DRL Board, despite this being routinely raised and discussed at the Board meetings through 2008 and 2009. The sales and marketing plan was clearly so significant to the achievement of the business case, and was revised many times through the drafting process. Ultimately, as judged through the actual delivery, the sales and marketing plan was not realistic and not achievable. ▪ It is evident that DRL, as a project, has not been commonly and consistently understood within the shareholder Councils. This is a consistent view expressed to us through the review. This lack of common understanding has likely been a factor in DRL not persuading all Councils to put all their IT business through the new network. ▪ The communication of information, and for decisions to the shareholder Councils has increased as the DRL project has become more problematic and required more input from Councils. The reporting, particularly to Council members had been quite limited between 2009 and 2011. While there have been no gaps in the decision making process, and no points at which reports must have been taken to Council members, this lack of formal reporting/communication will not have helped raise the profile and understanding of DRL across Council senior officers and members. 	<ul style="list-style-type: none"> ▪ Council's reports to make the decision on the initial investment did not include the information on the sensitivity analysis and the extent to which financial success was dependent on the speed and level of take-up of the service. ▪ The lack of a robust sales and marketing plan earlier in the process did not help the Councils and DRL to demonstrate the achievability of the business plan. ▪ The communication plan for strategic delivery projects such as DRL should include clear internal communication to raise the profile of the project and achieve full buy-in.

Independent Review of South Yorkshire Digital Region Project

Key findings

Key findings

Health check area	Key observations	Lessons to learn
<p>Risk management</p>	<ul style="list-style-type: none"> ▪ The project risks were clearly set out in the business case, and these were made clear to the Councils when they approved their participation and investment in the project. What is less clear is the extent to which the sensitivities and the clear dependence on the delivery of the sales targets to the timescales in the business case, was communicated to each Council when they made their decision. ▪ The shareholder Councils have included DRL related risks on their own corporate risk registers through the project. The primary focus on these risks has been on the financial risk to the Council as would be expected, and these risks have been reported through the Council risk management systems. 	

Independent Review of South Yorkshire Digital Region Project

Key findings

Key findings

Health check area	Key observations	Lessons to learn
<p>Procurement arrangements and availability of specialist advice</p> <p>Page 29</p>	<ul style="list-style-type: none"> It is clear that DRL and the shareholders intended that Thales were responsible for producing and delivering the sales and marketing targets, though Thales disputed this. The wording in the contract was not sufficiently tight and robust to enforce, which led to compromise amendments to the contract subsequently. Not all the Councils have transferred all their IT business onto the DRL network. Although the income stream from the Council's was not expected to be relatively large this would have provided an initial strong statement of support to the project and given the opportunity for a 'snowballing' of business. The business case presumed that the Councils would transfer all of its IT business to DRL quickly, and while that may have oversimplified the processes required to make that happen, it is clear that securing the Councils, and other public sector, business, was important both to the financial viability (with projected income of £4M income from 2010/11 onwards) and to the reputation of DRL. There were many changes in personnel at Thales, DRL and the shareholders for a variety of reasons, some related and some unrelated to the performance of the project/contract. This turnover has not helped the continuity and delivery of the project, the buy-in at the shareholders, and the ability of shareholders to understand the project and what it was and wasn't. Throughout the conception and initiation of the project there were a number of consultants involved. This is understandable given the level of specialist skill and knowledge required for a project such as DRL. Given the turnover of permanent staff and the time since appointment of some of these, it is unclear the extent to which the consultants have been appointed through an agreed and consistent governance process. 	<ul style="list-style-type: none"> Appointment of consultants needs to be managed as part of a formal governance approach that seeks to address knowledge or resource gaps and should not impact demonstrably on the 'ownership' of the project by permanent employees.



cutting through complexity™

© 2014 KPMG LLP a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (KPMG International), a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).