

COMMERCIAL IN CONFIDENCE

SCHEDULE 7.5

FINANCIAL REPORTS

Financial Reports

1 DEFINITIONS

In this Schedule, the following definitions shall apply:

“Annual Contract Report”	the annual contract report to be provided by the Supplier to the Authority pursuant to Paragraph 1 of Part B;
“Audit Agents”	(a) the Authority’s internal and external auditors; (b) the Authority’s statutory or regulatory auditors; (c) the Comptroller and Auditor General, their staff and/or any appointed representatives of the National Audit Office; (d) HM Treasury or the Cabinet Office; (e) any party formally appointed by the Authority to carry out audit or similar review functions; and (f) successors or assigns of any of the above;
“Contract Amendment Report”	the contract amendment report to be provided by the Supplier to the Authority pursuant to Paragraph 1 of Part B;
“Contract Inception Report”	means the initial baseline of the Financial Model (attached to this Agreement as part of CD1), the content requirements of which have been set out in in Annex 1;
“Final Reconciliation Report”	the final reconciliation report to be provided by the Supplier to the Authority pursuant to Paragraph 1 of Part B;
“Financial Model”	the Contract Inception Report, the latest Annual Contract Report, the latest Contract Amendment Report, or the Final Reconciliation Report, whichever has been most recently approved by the Authority in accordance with Paragraph 2 of Part B;
“Financial Reports”	the Contract Inception Report and the reports listed in the table in Paragraph 1.1 of Part B;
“Financial Representative”	a reasonably skilled and experienced member of the Supplier’s staff who has specific responsibility for preparing, maintaining, facilitating access to, discussing and explaining the Open Book Data and Financial Reports;
“Financial Transparency Objectives”	has the meaning given in Paragraph 1 of Part A;

- “Material Change”** a Change which:
- (a) materially changes the profile of the Charges;
or
 - (b) varies the total Charges payable during the Term (as forecast in the latest Financial Model) by *Information redacted in line with section 43 of the FOIA*;
- “Open Book Data”** complete and accurate financial and non-financial information which is sufficient to enable the Authority to verify the Charges already paid or payable and Charges forecast to be paid during the remainder of the Term, including details and all assumptions relating to:
- (a) the Supplier’s Costs broken down against each Service and/or Deliverable, including actual capital expenditure (including capital replacement costs) and the unit cost and total actual costs of all hardware and software;
 - (b) operating expenditure relating to the provision of the Services including an analysis showing:
 - (i) the unit costs and quantity of consumables and bought-in services;
 - (ii) manpower resources broken down into the number and grade/role of all Supplier Personnel (free of any contingency) together with a list of agreed rates against each manpower grade;
 - (iii) a list of Costs underpinning those rates for each manpower grade, being the agreed rate less the Supplier’s Profit Margin; and
 - (iv) Reimbursable Expenses;
 - (c) Overheads;
 - (d) all interest, expenses and any other third party financing costs incurred in relation to the provision of the Services;
 - (e) the Supplier Profit achieved over the Term and on an annual basis;
 - (f) confirmation that all methods of Cost apportionment and Overhead allocation are consistent with and not more onerous than such methods applied generally by the Supplier;
 - (g) an explanation of the type and value of risk and contingencies associated with the provision of the Services, including the amount of money

attributed to each risk and/or contingency; and
(h) the actual Costs profile for each Service Period.
Quarter means any of the 3 month period ending 30 June, 30
September, 31 December or 31 March;

PART A

Financial Transparency Objectives and Open Book Data

1 FINANCIAL TRANSPARENCY OBJECTIVES

The Supplier acknowledges that the provisions of this Schedule are designed (inter alia) to facilitate, and the Supplier shall co-operate with the Authority in order to achieve, the following objectives:

Understanding the Charges

- (a) for the Authority to understand any payment sought from it by the Supplier including an analysis of the Costs, Overhead recoveries (where relevant), time spent by Supplier Personnel in providing the Services and the Supplier Profit Margin;
- (b) for both Parties to be able to understand the Financial Model and Cost forecasts and to have confidence that these are based on justifiable numbers and appropriate forecasting techniques;
- (c) to facilitate the use of Guaranteed Maximum Price with Target Cost pricing mechanisms (where relevant as referred to in Schedule 7.1 (*Charges and Invoicing*));

Agreeing the impact of Change

- (d) for both Parties to agree the quantitative impact of any Changes that affect ongoing costs and to identify how these could be mitigated and/or reflected in the Supplier's Charges;
- (e) for both Parties to be able to review, address issues with and re-forecast progress in relation to the provision of the Services;

Continuous improvement

- (f) for the Parties to challenge each other with ideas for efficiency and improvements; and
- (g) to enable the Authority to demonstrate that it is achieving value for money for the tax payer relative to current market prices,

(together the "Financial Transparency Objectives").

2 OPEN BOOK DATA

2.1 The Supplier acknowledges the importance to the Authority of the Financial Transparency Objectives and the Authority's need for complete transparency in the way in which the Charges are calculated.

2.2 During the Term, and for a period of 7 years following the end of the Term, the Supplier shall:

- (a) maintain and retain the Open Book Data; and
- (b) disclose and allow the Authority and/or the Audit Agents access to the Open Book Data.

COMMERCIAL IN CONFIDENCE

PART B

Financial Reports

1 PROVISION OF THE FINANCIAL REPORTS

1.1 During the Term the Supplier shall provide the following Financial Reports to the Authority, in the frequency specified below:

Financial Report	Description of Financial Report	When to be provided
<p>Contract Amendment Report</p>	<p>The revised draft of the Contract Inception Report, or previously agreed Contract Amendment Report, updated to show the Charges and associated financial information both before and after the impact of the Material Change item. The Contract Amendment Report shall be provided in the same format and to the same level of detail as the Contract Inception Report.</p>	<p>Within 1 month of a Material Change being agreed between the Supplier and the Authority</p>
<p>Quarterly Contract Report</p>	<p>The Report, in the format agreed with the Authority, detailing actual financial performance over the most recent Quarter, and in aggregate over the contract to date relative to the anticipated financial performance set out in the Contract Inception Report or most recent Contract Amendment Report. This Report shall also include a forecast financial outturn position for the Contract Year.</p>	<p>Within 1 month of the end of each Quarter</p>
<p>Annual Contract Report</p>	<p>The Report, in the format agreed with the Authority, , incorporating detailed information in relation to actual financial performance over the Contract Year and in aggregate over the contract to date relative to the anticipated financial performance set out in the Contract Inception Report or most recent Contract Amendment Report. . This Report shall include detail of the calculation of any Gain Share amounts due to the Authority, and shall include a forecast financial outturn position for the Contract Period in full.</p>	<p>Within 1 month of the end of the Contract Year to which that report relates.</p>

Financial Report	Description of Financial Report	When to be provided
Final Reconciliation Report	A Financial Model detailing actual financial performance in aggregate over the contract period relative to the anticipated financial performance set out in the latest Contract Inception Report or most up to date Contract Amendment Report (whichever is the most recent). This Report shall include detail of all Charges, Costs incurred, adjustments to the Charges and Profit Margin earned by the Supplier, as well as any final payments due to the Authority as a result of the application of the Maximum Permitted Profit Margin provisions detailed in Schedule 7.1.	Within 3 months after the end of the Term

- 1.2 The Supplier shall provide to the Authority the Financial Reports in the same software package (Microsoft Excel or Microsoft Word) and format as the blank templates which have been issued by the Authority to the Supplier on or before the Effective Date for the purposes of this Agreement. The Authority shall be entitled to modify the template for any Financial Report by giving written notice to the Supplier, including a copy of the updated template.
- 1.3 A copy of each Financial Report shall be held by both the Authority and the Supplier. If there is a Dispute regarding a Financial Report, the Authority's copy of the relevant Financial Report shall be authoritative.
- 1.4 Each Financial Report shall:
- (a) be completed by the Supplier using reasonable skill and care;
 - (b) incorporate and use the same defined terms as are used in this Agreement;
 - (c) quote all monetary values in pounds sterling;
 - (d) quote all Costs as exclusive of any VAT; and
 - (e) quote all Costs and Charges based on current prices.
- 1.5 The Annual Contract Report and the Final Reconciliation Report shall be certified by the Supplier's Chief Financial Officer or Director of Finance (or equivalent as agreed in writing by the Authority in advance of issue of the relevant Financial Report), acting with express authority, as:
- (a) being accurate and not misleading;
 - (b) having been prepared in conformity with generally accepted

accounting principles within the United Kingdom; and

- (c) being a true and accurate reflection of the information included within the Supplier's management and statutory accounts.
- 1.6 The Supplier shall prepare each Financial Report using the same methodology as that used for the Contract Inception Report.
- 1.7 During the Term, and for a period of 18 months following the end of the Term, the Supplier shall make available the Financial Representative at reasonable times and on reasonable notice to answer any queries that the Authority may have on any of the Financial Reports and/or Open Book Data.
- 1.8 If the Supplier becomes aware of the occurrence, or the likelihood of the future occurrence, of an event which will or may have a material effect on the following:
- (a) the Costs incurred (or those forecast to be incurred) by the Supplier; and/or
 - (b) the forecast Charges for the remainder of the Term,

the Supplier shall, as soon as practicable, notify the Authority in writing of the event in question detailing the actual or anticipated effect. For the avoidance of doubt, notifications provided in accordance with this Paragraph 1.8 shall not have the effect of amending any provisions of this Agreement.

2 DISCUSSION OF FINANCIAL REPORTS

- 2.1 Following the delivery by the Supplier of each Financial Report:
- (a) the Parties shall meet to discuss its contents within 10 Working Days of receipt (or such other period as the Parties shall agree). The Financial Representative shall attend the meeting;
 - (b) the Supplier shall make appropriate Supplier Personnel and advisers available to discuss any variations between the relevant Financial Report and the Contract Inception Report and/or previous Financial Reports and to explain such variations (with reference to supporting evidence) to the satisfaction of the Authority; and
 - (c) the Authority shall either within 10 Working Days of the meeting referred to in Paragraph 2.1(a) notify the Supplier that:
 - (i) the relevant Financial Report contains errors or omissions or that further explanations or supporting information is required, in which event the Supplier shall make any necessary modifications to the Financial Report and/or supply the Authority with such supporting evidence as is required to address the Authority's concerns within 10 Working Days of such notification and the Authority shall following receipt of such amended Financial Report and/or supporting information, approve or reject such Financial Report; or

- (ii) the Authority has approved the relevant Financial Report. This does not override any rights the Authority may have to recourse within the Agreement should any errors or omissions be found at a later date relating to the approved relevant Financial Report.
- 2.2 Following approval by the Authority of the relevant Financial Report in accordance with Paragraph 2.1(c), that version shall become, with effect from the date of such approval, the current approved version of the Financial Model for the purposes of this Agreement, a version of which shall be held by both the Authority and the Supplier. If there is a Dispute regarding a Financial Report, the Authority's copy of the relevant Financial Report shall be authoritative.
- 2.3 If the Parties are unable to reach agreement on any Financial Report within 30 Working Days of its receipt by the Authority, the matter shall be referred for determination in accordance with Schedule 8.3 (*Dispute Resolution Procedure*).

3 KEY SUB-CONTRACTORS

- 3.1 The Supplier shall, if requested by the Authority, provide (or procure the provision of) a report or reports including the level of information set out in the Financial Reports in relation to the costs and expenses to be incurred by any of its Key Sub-contractors.
- 3.2 Without prejudice to Paragraph 1.1 of Schedule 8.4 Part B (Audits), the Supplier shall:
 - (a) be responsible for auditing the financial models/reports of its Key Sub-contractors and for any associated costs and expenses incurred or forecast to be incurred; and
 - (b) on written request by the Authority, provide the Authority with:
 - (i) full copies of audit reports for the Key Sub-contractors. The Authority shall be entitled to rely on such audit reports; and
 - (ii) further explanation of, and supporting information in relation to, any audit reports provided.

Annex 1

Financial Model Content Requirements

Financial Model at inception as at the Effective Date

1.1 The Financial Model shall:

- (a) provide sufficient detail for the Authority to have visibility of all the costs to be incurred by the Supplier and of the Charges to be paid in respect of the provision of the Services;
- (b) be constructed (in relation to all costs, calculations and outputs) on a monthly basis and summarised on an annual basis
- (c) quote all monetary values in pounds thousands Sterling;
- (d) quote all costs as exclusive of any VAT (except where VAT is classified irrecoverable to the Authority);
- (e) provide visibility of the input costs for providing the Services throughout the Term, excluding mark-up, which shall include without limitation at least the following and as required for Open Book Data (as defined under section 1 Definitions of this Schedule 7.5):
 - (i) Labour broken down by each job title (e.g. project manager), with the number of days and daily rate shown for each job title. Labour shall also be broken down and sub-totalled by the major phases of the project;
 - (ii) hardware and software costs broken down into Asset categories and (in respect of hardware) make and model and (in respect of software) make and version.
 - (iii) an explanation and supporting details (including assumed refresh costs) of any refresh policies included for Assets;
 - (iv) Depreciation policy applicable to Assets (including software and hardware);
 - (v) an explanation and supporting details of any asset leasing costs applicable to this Agreement;
 - (vi) separately identifiable costs for licences, licence support and software version upgrades;
 - (vii) Sub-contractor costs and other third party costs (which for the avoidance of doubt does not include MSP costs unless agreed by the parties);

- (viii) Accommodation costs (if applicable);
 - (ix) Profit margins and recovery of any indirect costs or overheads separately identified and their calculation explained;
 - (x) Pricing of risk / contingency fully explained and the quantification supported by a risk matrix contained within the Assumptions Book (to be included within the Financial Model). The Supplier to ensure that clear and identifiable links exist between the Assumptions Book, Risk Register, and the Output Summary sheets, all contained within the Financial Model;
 - (xi) Financing costs (if applicable) showing the interest rate and calculation and the need to apply financing explained; and
 - (xii) Other miscellaneous costs;
- (f) provide a full analysis of the Supplier's capital and operating costs, along with a classification of the costs according to the Authority's budgetary (CDEL and RDEL) classifications.
 - (g) identify the relevant Payment Mechanism and Pricing Mechanism for each line item comprising the Charges, summarised clearly into the Charges set out in Schedule 7.1 (Charges and Invoicing);
 - (h) quote all input costs, prices and revenues based on current prices;
 - (i) describe any inflation/deflation (indexation) assumptions relating to input costs;
 - (j) be constructed in a format compatible with Microsoft Office Excel 2007 or such other format as specified by the Authority from time to time;
 - (k) not have any parts which are hidden, protected, locked or made otherwise inaccessible or obscured to review or alteration;
 - (l) be laid out in a clear and logical manner. The overall flow of information in the Financial Model shall flow from inputs, to calculations, to outputs, with:
 - (i) all outputs being consistent with the Charges set out within Schedule 7.1 (Charging and Invoicing);
 - (ii) any formulae in the Financial Model showing a clear separation between inputs and calculations;
 - (iii) any macros used must be clearly documented and explained; and,
 - (iv) any column labelling in the Financial Model shall be consistent between worksheets;

- (m) shall include a monthly cash flow statement that shows the timing and relationship between the planned costs and the revenue which the Supplier expects to receive;
- (n) clearly show the calculation of any financing charges/interest earned associated with period balances (between costs incurred and revenue received as set out within the cash flow statement);
- (o) shall include an annual profit and loss account and balance sheet statement in accordance with UK GAAP.
- (p) provide visibility of profit (and the calculation of profit) both as a value and as a percentage for the combined Services, and for each Component.
- (q) Include a version control sheet that provides visibility of all changes from the previous approved version of the Financial Model, together with a summary reconciliation of those changes;
- (r) calculate and set-off deductible Service Credits in accordance with Schedule 2.2 and Schedule 7.1;
- (s) calculate any claim for Gain Sharing in accordance with Schedule 7.1; and ,
- (t) include a Record of Assumptions and Operating Manual.

ANNEX 2

Financial Templates

Information redacted under Section 43 of the FOIA

It is the Supplier's responsibility to ensure that the Contract Inception Report and Delivery Financial Model are fit for purpose under the terms of the Agreement. To this end, a detailed independent model review audit opinion letter will be provided. For the avoidance of doubt, it remains the Supplier's sole responsibility to ensure that the formulae used in the models are accurate and remain so throughout the Term of the Agreement.

Subsequent errors found in the model throughout the Term of the Agreement which are in the Authority's favour, shall be promptly rectified by the Supplier. The rectification of such errors shall not entitle the Supplier to increase the Charges paid or payable by the Authority. If the rectification of the errors results in a reduction in the Charges paid or payable by the Authority, the Supplier shall promptly reimburse the Authority for any excess Charges paid by the Authority arising out of such errors.

As part of this Agreement the Supplier commits to making the following updates to Delivery Financial Model, Financial Model Record of Assumptions and the Financial Model Operating Manual no later than 16th January 2015:

Delivery Financial Model

1. Gainshare calculations are currently calculating a gain to IBM where actual cost exceeds target cost. Gain Share should be set to zero in this event as per the Agreement.
2. Baseline line by line cost calculations worksheets from baseline financial model to be incorporated, along with a worksheet showing variances between actual and baseline on a line by line basis. Agreed that this does not need to be done for a_I_Units at this stage, but can be added at a later date if required.
3. Month by month summary sheet, setting out Milestone and Service Charges per Agreement, adjustments and amount invoiced to be incorporated, similar to straw man format sent to MC by JP and discussed during call.

4. The Service Credit and Reward Regime calculations were discussed. It was agreed that a monthly calculation should be deemed to form an element of the Annual/Quarterly Contract Report (either incorporated within the delivery model or as a separate model feeding into the delivery model),
5. CPI inputs to be separated and clearly labelled as a model input.
6. Consistency control checks to be incorporated.

Financial Model Record of Assumptions

1. Produce a statement which describes that FTEs for milestones will be slightly higher in future years due to the baking in of indexation for the real cost position
2. Article I and section 1.01 refer to A12_ITN_Financial Model Submission and this should be revised to the latest financial model version name,
3. Section 101 - Staff Costs subcategories need updating
4. Supplier profit margin needs to be updated for Initial Term and Extension Period profit margin percentages
5. Capital depreciation is stated as 5 (five) years but capital purchased with less than 5 (five) years of the Agreement remaining is depreciated over the remainder of the Term.

Financial Model Operating Manual

1. Introduction - the model refers to a previous iteration of the model and needs updating for the current model.
2. 1.2 Iteration point above is also apparent in 1.2 - Model Versions.
3. 2.1.2 Overview of financial model map needs to be amended in line with the revised financial model and incorporate tabs including s_I_Change_Log and any reconciliation tab if completed. (This also needs updating in the a_I_Data_Flow tab of the model).
4. 2.1.3 - Needs updating in line with point 3 above.
 - a. Also remove reference to a_O_Summary
5. 2.2.2 - Question here as to whether we reference which column categories are dependants in the S_C_Calc tab.
6. 2.2.3 - Probably worth noting that we do not use the margin section of the sheet for calculation purposes in S_C_Calc.
7. 2.25 a_I_RateCard - needs to be updated for the Supplier sections underneath row 43

8. 2.2.3 s_C_Termination - Maximum unrecovered cost diagram needs updating for the revised calculations
9. 2.3.4 - General revisions in line with the changes to S_C_Calc including:
 - a. Apportionment calculations for Project Management, change and Enhance implementation.
 - b. Descriptions of Vitality & Rollout Milestones
 - c. Descriptions and flow diagrams on Milestones (phased) - indexed price pre and post retentions need to be amended in line with the re-work. Specific reference to AT3096 and AW3097 might be useful considering the manual amendments to formulae.
 - d. Sections on component 3 Service Charge
10. 2.4.1 - Should detail that Cost Sum_N pre retention is equal to post retention.
11. 2.4.4 - A7 this is the section that doesn't match up to the Milestone Profile. Worth mentioning the misalignment between this profile and milestone profile which will be amended if required.
12. 2.4.5 - needs updating for the revisions to the calculation of profit margin exc HW and Oracle.
13. 2.4.8
 - a. Need to remove any reference to CPP2 Milestones (this applies throughout the document)
 - b. Update of margin illustration in line with point 11
14. 2.4.9 Revision to the descriptions for from a_O_Summary to s_O_Summary.
15. New description for s_I_Change
16. New description of reconciliation tab if completed.
17. 2.4.10 Delete repetition of a_O_Checks
18. 2.6 Update sheet listing