

## Exemption from Tender – Kronos Technical Upgrade

File No: X101622

### Summary

This report seeks a revision to the previously approved exemption from the tender for Kronos Australia Pty Limited (ABN: 17074408067) to transition from the current on-premise version of the Kronos system to a Software-as-a-Service (SaaS) platform and requests that the Council approve a new contract for Kronos Australia to transition Kronos to the cloud.

The City's core workforce management and time and attendance functions use an on-premise system called Kronos, provided by Kronos Australia. Kronos Australia has advised that engineering support for the on-premise Kronos system will stop after December 2025. Future upgrades will only be available on the SaaS version of Kronos, called UKG Pro Workforce Management, which is a market-leading workforce management solution.

In March 2024, Council approved a tender exemption for Kronos support maintenance and licence expenses for a total period of six years ending in January 2031. At the time, the City was in discussions with Kronos Australia to better understand when support for its on-premise product would end. These discussions have concluded sooner than expected and there is now sufficient information to seek a revision to the previously approved exemption to enable the City to transition Kronos to the cloud.

The changes requiring Council approval are:

- (a) the need for a replacement contract for the SaaS version of Kronos; and
- (b) the additional costs that will be required to transition the system to the cloud.

Since Kronos Australia is the proprietary owner of Kronos (SaaS) software and as this cannot be supplied by another company in the market, a tender is not possible.

This report recommends that Council grant an exemption from tender for transitioning from on-premise installation of Kronos to a SaaS platform. Additionally, this report requests that Council approve a new contract with Kronos Australia for an initial term of three years with one optional extension of three years (up to six years in total), solely at City's discretion, as detailed in Confidential Attachment A. The contract period is considered appropriate to enable the City to review its enterprise software within the next three years, make any required transition, or extend the contract.

## Recommendation

It is resolved that:

- (A) Council approve an exemption from tender in accordance with section 55(3)(i) of the Local Government Act 1993 to enter into a contract with Kronos Australia Pty Limited (ABN: 17 074 408 067) for the transition to the Kronos Software-as-a-Service platform;
- (B) Council note that a satisfactory result would not be achieved by inviting tenders for this work because:
  - (i) Kronos is the core workforce management and time and attendance system used by the City;
  - (ii) the existing supplier is the proprietary owner of the Kronos Software-as-a-Service product; and
  - (iii) the costs associated with transferring to a different supplier and implementing a new product, together with the implications on the day-to-day operations of the City do not support undertaking a competitive tender process; and
- (A) authority be delegated to the Chief Executive Officer to negotiate, finalise, execute and administer (including exercising options, if appropriate) the contract relating to the Kronos' transition to a cloud-based platform and Software-as-a-Service on terms acceptable to the City for the term and total contract sum detailed in Confidential Attachment A to the subject report.

## Attachments

**Attachment A.** Financial Implications (Confidential)

## Background

1. The City's core workforce management and time and attendance functions use an on-premise system called Kronos, provided by Kronos Australia, which was selected from a tender process in 2003 and implemented in 2004.
2. Kronos is a core City business system that is deeply embedded across the operations of numerous Business Units in the organisation. Over the last 20 years, the City has invested in significant software customisations to improve the City's time and attendance capabilities. The current on-premise system is integrated with other core business systems, including Chris21, for payroll and synchronisation of employee information.
3. Following the 2003 tender process, the contract with Kronos was executed for an initial term of 12 months starting on 20 January 2004, with automatic yearly renewals on the anniversary date. An exemption from tender was approved by Council in October 2019 to extend the contract from 30 January 2020 until 29 January 2025. A further Council exemption was more recently approved in March 2024 to extend the contract until 29 January 2031.
4. The current City of Sydney Kronos Workforce Central (WFC) implementation includes functionality for:
  - (a) scheduling and rostering;
  - (b) capture of time and attendance (timecards);
  - (c) award rules interpretation and transformation;
  - (d) integration with biometric clocks; and
  - (e) integration with the core HR and payroll system (Chris21).
5. The system is used by 500 employees 24 hours a day, seven days a week, and processed over 55,000 timesheet entries in the last year.
6. In October 2023, Kronos Australia advised the City that support and future development and enhancements to our existing on-premise solution will end in December 2025. From that date, the support will be restricted to security bug fixes for critical vulnerabilities and regulatory updates. From April 2027, Kronos Australia will turn off all support for on-premise instances.
7. The new Software-as-a-System (SaaS) version of Kronos is called UKG Pro Workforce Management (Pro WFM) and is the only option available from the vendor. The current contract for Kronos on-premise will be terminated and replaced by a new contract for the SaaS version.
8. The City's current Information and Technology Strategic Plan recommends transitioning to cloud/SaaS-based computing and mobile-enabled applications to maximise the benefits these technologies and approaches offer.

9. Inviting tenders would not achieve a satisfactory result as Kronos Australia is the sole provider of their proprietary SaaS-based Pro WFM product software, and a competitive tender process is not possible. Value for money outcomes will instead be optimised through negotiation and leverage the City's long-term business partnership with Kronos Australia to minimise the costs required to achieve the upgrade.
10. A new tender process for a replacement system would require significant time and resources. The large-scale expense, timeframes, risks, and impact of a new product review and implementation would be significant and not offset by sufficient benefits to represent value for the City. The introduction of a new system would significantly disrupt business units, potentially impacting the payroll of about 500 City employees.
11. Kronos Australia has provided the price estimate for the implementation and licensing of the Pro Workforce Management SaaS service, as listed in the Confidential Attachment A to the subject report.
12. A revision to the previously approved exemption is sought from Council to enable the transition of Kronos to the cloud and subsequently implement additional features and system improvements that will be available on that platform.

### **Performance Measurement**

13. The City has assessed the transition to cloud hosting for this application, including technical, functional and financial benefits and risks. Specific measures for this project and management of the contract will be developed to ensure optimal outcomes for the City.

### **Financial Implications**

14. There are sufficient funds allocated for this project within the draft 2024/25 operating and capital budget and future year's forward estimates .

### **Relevant Legislation**

15. Local Government Act 1993 - Section 10A provides that a Council may close to the public so much of its meeting as comprises the discussion of information that would, if disclosed, confer a commercial advantage on a person with whom the Council is conducting (or proposes to conduct) business.
16. Attachment A contains confidential commercial information which, if disclosed, would:
  - (a) confer a commercial advantage on a person with whom Council is conducting (or proposes to conduct) business; and
  - (b) prejudice the commercial position of the person or company who supplied it.
17. Discussion of the matter in an open meeting would, on balance, be contrary to the public interest because it would compromise Council's ability to negotiate fairly and commercially to achieve the best outcome for its ratepayers.

### Critical Dates / Time Frames

18. Kronos Australia has advised that no new functionality, updates or patches will be provided after 31 December 2025 for the on-premise version of the Kronos software. Only technical support and certain security patches will be provided for critical vulnerabilities after this date. From April 2027, support will cease entirely.
19. The transition to the SaaS platform for Kronos is proposed to commence in October 2024 and estimated to be completed in August 2025, well before the end of engineering support for the software. Transition to this new platform is a pre-requisite to the future implementation of system improvements prioritised by the business.

### Options

20. Council has the following options to consider regarding this requirement:
  - (a) Continuing with the current on-premise system without vendor engineering support. This option would severely hinder future system enhancements crucial for improving product uptake within business units and pose substantial operational risks to the City. A potential failure of the current system could cause major disruption to the payroll cycle and potentially trigger industrial action. This option is not recommended.
  - (b) Replacement of the existing system with an alternative product that would be a significant additional investment requiring replication of the existing software customisations in a new system. This would also cause significant disruption to the business units currently using the system. This cost and effort would not deliver sufficient benefits to represent value for money. This option is not recommended.
  - (c) Migrating the City's on-premise Kronos system to the UKG Pro WFM cloud. This option will provide the best value-for-money proposition to the City and significantly reduce the business disruption that would be caused by a new system implementation. This is the recommended option.

### Public Consultation

21. No public consultation has been undertaken.

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