

Item No: 7	Classification: Open	Date: April 21 2008	Meeting Name: Overview & Scrutiny Committee
Report Title:		Call-in: Gateway 2 – Contract Award Approval – Modernisation Programme Consultancy (Executive Member for Resources April 9 2008)	
Ward(s) or Group affected:		All	
From:		Head of Overview & Scrutiny	

RECOMMENDATION

1. That overview & scrutiny committee considers a call-in request relating to the decision taken by the executive member for resources on April 9 2008 in respect of a Gateway 2 contract award approval for the modernisation programme consultancy.

BACKGROUND INFORMATION

2. On April 9 2008 the executive member for resources considered a report on Gateway 2 contract award approval for the modernisation programme consultancy. The open report is attached as an appendix. The closed report, not for publication by virtue of category 3 of paragraph 10.4 of the Access to Information Procedure Rules, and record of decision is included in the closed agenda.
3. The executive member approved the award of the modernisation programme consultancy contract to KPMG LLP. The approval of award of contract for consultancy work formed part of the council's modernisation programme.
4. On April 16 2008 the Chair of Overview & Scrutiny Committee - Councillor Fiona Colley - and three members of the Committee (Councillors John Friary, Barrie Hargrove and Veronica Ward) requested call-in of the decision on the following grounds:

"We request to call-in this decision due to concerns that the executive member did not take the decision in accordance with the principles of decision making as set out in the constitution. We have concerns about the proportionality of spending such a large sum on management consultants and the lack of a proper risk assessment of the project.

Possible alternative courses of action include a smaller scale consultancy project or the assignment of the project to existing or new permanent employees of the council. These options and others can be explored at the call-in meeting.

We do not believe this decision is outside the policy framework."

KEY ISSUES FOR CONSIDERATION

5. Requests for call-in should normally only be made if there is evidence that the decision was not taken in accordance with the principles of decision making as set out in the Constitution:
 - Proportionality (i.e. the action must be proportionate to the outcome);
 - Due consultation and the taking of professional advice from Officers;
 - Respect for human rights;
 - Presumption in favour of openness;
 - Clarity of aims and desired outcomes;
 - The link between strategy and implementation must be maintained;

Decision making generally should have reference to the policy framework and be in accordance with the budget.

6. The Overview and Scrutiny Procedure Rules require the Committee to consider any call-in request and in particular whether or not the decision might be contrary to the policy framework or not wholly in accordance with the budget. Advice should be sought from appropriate Chief Officers including the Monitoring Officer and the Chief Finance Officer.
7. If, having considered the decision and all relevant advice, the Overview & Scrutiny Committee is still concerned about it, then it may either:
 - refer it back to the decision-making body [*or officer to whom responsibility for that decision was delegated*] for reconsideration, setting out in writing the nature of its concerns; or
 - refer the matter to Council Assembly if the decision is deemed to be outside the policy and budget framework.
8. The executive member with relevant portfolio responsibilities has been advised of this meeting.

LEGAL & FINANCIAL IMPLICATIONS

9. Rule 18.6 of the Overview and Scrutiny Procedure Rules requires a call-in to be requested by the Chair or Vice-Chair of the Overview and Scrutiny Committee plus three members of the Committee; the call-in request has been validly made in accordance with this rule.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
Key decisions taken under delegated authority	Town Hall, Peckham Road, London SE5 8UB	Richard Blakeley Constitutional Team 020 7525 7232

Audit Trail

Lead Officer	Shelley Burke, Head of Overview & Scrutiny	
Report Author	Peter Roberts, Scrutiny Project Manager	
Version	Final	
Dated	16/04/08	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER		
Officer Title	Comments Sought	Comments included
Borough Solicitor & Secretary	Yes	-
Executive Member	No	-

APPENDIX

Item No.:	Classification: Open	Date: 28 March 2008
To	Executive Member for Resources	
Report title	Gateway 2 – Contract Award Approval - Modernisation Programme Consultancy	
Ward(s) or groups affected	All	
From	Deputy Chief Executive	

RECOMMENDATION

1. That the Executive Member for Resources approves the award of the Modernisation Programme Consultancy contract to KPMG LLP.

BACKGROUND

2. The total modernisation consultancy budget is up to £2.5m, the majority of which is likely to be expended with a single consultancy partner. Ten per cent of the total budget, (£250,000) is to be held by the client for specialist consultancy activity which may or may not be sourced via the successful bidder. This provides the Council with additional flexibility. It is anticipated that the expenditure will fall principally in 2008/09 and 2009/10.
3. The value of the expenditure is capped. Although the timeframe has some flexibility, the contract is not expected to extend beyond 2010/11. A clearer picture will develop as the consultants' proposals are reviewed.
4. Timetable of procurement process followed:

Activity	Complete by:
Pre-tender clarification: Despatch of draft brief to prospective tenderers	21/12/2007
Pre-tender clarification meetings with prospective bidders	16/01/2008-18/01/2008
Despatch to bidders of pre-tender clarification responses to questions received	15/02/2008-28/02/2008
Gateway 1: Procurement strategy for approval report	08/02/2008
Completion of tender documentation	11/02/2008
Advertise the contract	N/A. OGC Catalyst Framework
Closing date for expressions of interest	N/A. OGC Catalyst Framework

Activity	Complete by:
Completion of short-listing of applicants	N/A. OGC Catalyst Framework
Invitation to tender	15/02/08
Closing date for return of tenders	05/03/08
Evaluation – Stage 1	11-14/03/08
Evaluation – Stage 2	17-18/03/08
Completion of evaluation of tenders	18/03/2008
Completion of any post-tender clarification meetings/interviews	20/03/2008
Gateway 2: CCRB - Contract award for approval report	27/03/2008
Executive Member for Resources signs IDM report	09/04/2008
Contract award	21/04/2008
Contract start	23/04/2008
Contract completion date	Not fixed term

Table 1 – Procurement Timetable

Description of contract outcomes

5. The contract is in three blocks: (a) Phase 1a – the design and provision of a programme office for the modernisation programme; (b) Phase 1b - a review and analysis of the Council's preparedness for business transformation, including its activities to drive out efficiencies; (c) the development of (principally) efficiency business cases for approval by the Council.
6. Phase 1a – Modernisation Programme Office. The outcomes will be:
 - The modernisation programme is clearly linked to the Council's vision for the future.
 - The Council's leading Members and senior management are able to support and fully understand the purpose of the programme.
 - The programme is well co-ordinated and documented.
 - There is a consistent approach to reporting outcomes and performance against targets.
 - Benefits are clearly identified, allocated appropriately in terms of responsibility for delivery and are tracked effectively.
 - The Council is able to run an efficient modernisation programme office function.
7. Phase 1b – Business Transformation Review and Analysis. The outcomes will be:

- The Council's departments are supported in adopting, implementing and embedding modern ways of working as part of the move to the new premises and other change initiatives including rationalisation of local and specialist office sites.
 - Support, involvement and engagement of internal and external stakeholders are all secured for the move to Tooley Street and to other locations, and the implementation of modern ways of working generally.
 - Individual services and functional areas are supported to improve their service provision and overall efficiency by fully utilising modern and flexible working practices.
 - The rationalisation of shared support services is accelerated and departments are supported in moving towards new working arrangements.
 - The Council is confident that it understands its current position with regard to the delivery of efficiency savings.
 - The Council has a clear view as to where efficiencies will come in future.
 - Key stakeholders throughout the Council are committed to delivering a well defined programme of activity which will realise efficiency savings.
8. Phase 2 – Business Transformation - Business Cases and Implementation. The outcomes will be, as a minimum:
- Effective change management is embedded
 - By the end of 2010/11 the investment of the contract sum of up to £2.5m is paid back.
 - The modernisation programme efficiency targets for 2009/10 and 2010/11 of £3m and £8m, respectively are delivered. With investment cost payback this means cash efficiency savings of £13.5m will need to be achieved by 2010/11 (£3m + £8m + £2.5m).
 - Plans for future efficiency delivery are firmly established.
 - Benefits realisation is firmly established in practice.
 - Skills and knowledge transfer are firmly established.

KEY ISSUES FOR CONSIDERATION

Policy Implications

9. The modernisation consultancy contract supports the internal modernisation of the Council's internal infrastructure, which in turn supports the departments and services working in their different way to achieve the Council's vision for securing the future well-being of local people and to be a world class quarter of a world city.
10. The contract strengthens the Council's ability to identify, develop and deliver a programme of efficiencies, delivering in 2009/10 and 2010/11 and laying foundations for additional savings in the longer-term, in accordance with the medium-term financial strategy. The end of 2010/11 represents the end of the payback

period (for the avoidance of doubt, payback is net of any investment costs including the full £2.5m consultancy costs).

Tender Process

11. The procurement was undertaken using the Office of Government Commerce's (OGC) Catalist framework for multi-disciplinary consultancy. The framework is compliant with EU procurement directives as well as UK procurement regulations and is designed to save the time and cost involved in undertaking a full tender exercise.
12. The framework provides access to broad-based, independent and impartial advice and support to enhance client-side capabilities to deliver transformational projects. It is of particular relevance to those who have taken a strategic decision to source from a single consultancy supplier the consultancy support across a range of disciplines required by the projects.

Plans for the Transition from the old to the new Contract

13. Not applicable.

Plans for Monitoring of the Contract

14. A programme director has been identified for the modernisation programme (the Assistant Director (Modernisation & Improvement), reporting to the Deputy Chief Executive. The same officer is the client for modernisation programme consultancy. He will be supported by a shadow programme office manager, a contract officer, an accountant and a number of colleagues who will take responsibility for overseeing specific elements of the contract e.g. skills and knowledge transfer.
15. The ITT was drafted with the needs of the client team in mind. Bidders were required to provide a substantial amount of performance information in their bids, which will be used to assist the Council's monitoring of the implementation of the contract. Examples include: (a) draft key performance indicators that will be agreed and finalised before contract start and (b) proposals around knowledge and skills transfer.

Performance bond/Parent Company Guarantee

16. Not applicable

Other considerations

17. Not applicable.

Community Impact Statement

18. The modernisation programme is internally focussed and as such largely does not impact on the community directly. The move of some 2,100 staff to 160 Tooley Street potentially has some impact and therefore a community impact assessment was undertaken and reported to the Executive on 15 May 2007.

Sustainability Considerations

19. A key element of the contract is to help build the Council's capability. Skills and knowledge transfer is therefore a key activity and one for which the Council has appointed a lead officer on the client-side. It was the subject of a specific question in the ITT and as a result, through the tenders received, the Council has access to a number of ideas as to how to structure the transfer of skills and knowledge to ensure that it is sustained into the future. KPMG have proposed:

- Council staff having devolved responsibility for delivering work packages
- Demonstration of good practice, provision of templates and demonstration of the skills to use them
- Coaching
- Interactive training sessions and workshops
- Working lunches
- Measurement of skills and knowledge transfer:
 - Set and test levels of competency for skills
 - Feedback from staff on skills acquires
 - Feedback from staff on training and coaching received
 - Informal input from KPMG staff into Council staff performance and development appraisals.

20. Environmental sustainability is a consideration for the contract in two respects:

- The programme office will support the delivery of Tooley Street to time and to budget. Tooley Street is a green building, replacing a number of old, environmentally challenging buildings in the Council's estate
- The efficiency business cases that will be produced by the consultants will consider the impact of their proposals across a number of areas, including environmental sustainability.

21. Market Development Considerations – the successful tenderer:

- is a private organisation
- has over 250 employees
- has a national area of activity.

Resource Implications

Staffing Implications

22. The staffing implications that may arise from efficiency projects will be identified in the business cases produced and managed through approved Human Resources processes and procedures.

Financial Implications

23. On 12 December 2007 CMT agreed the restructuring of the governance of the modernisation programme. Subsequent to this up to £2.5m was agreed from the modernisation fund on 20 December 2007 for consultancy support to the modernisation programme. Originally it was thought that £160,000 would be required in 2007/08. However, it will not now be necessary to call on any reserves in 2007/08 and it is expected that £0.700m will be required in 2008/09 and the remaining £1.800m be spent in 2009/10 as required (Table 2).

	2008/09 £'000	2009/10 £'000	Total £'000
Setting up and operating the modernisation programme office	340	-	340
Phase 1 (estimate for diagnostics, analysis and planning) and Phase 2 (estimate for DSM Efficiency Board agreed business cases to generate cash efficiencies and other implementation work)	310	1600	1910
Specialist consultancy	50	200	250
Total estimated call on reserves by year:	700	1800	2,500

Table 2 – Projected profile of spend

24. The client side costs to manage and monitor the consultants will be met from existing resources. Incidental costs of tendering this contract will be met from existing resources in 2007/08.

25. The skills transfer from the consultants will be managed from existing resources across departmental budgets, depending on the business case for the individual projects identified. The transfer of the MPO function will be considered once the operational benefits have been identified and the business case established.

Investment Implications

26. Not applicable.

Second Stage Appraisal

27. Not applicable.

Legal Implications

28. Legal implications are detailed under paragraph 31 of this report (supplementary advice from the Strategic Director of Legal & Democratic Services).

Other Implications or Issues

29. The contract provides for the design and implementation of a Modernisation Programme Office (MPO). It is proposed that the MPO will provide support and services to the wider Modernise family of linked projects and programmes, including the Local Service Delivery Project and the Customer Service Improvement Programme.

Consultation

30. Not applicable.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Legal and Democratic Services

31. This report seeks the Executive Member for Resources' approval to the award of the Modernisation programme consultancy contract to KPMG. Contract Standing Order 4.5.2 provides that at a contract value between £2-4 million, this decision must be taken by the relevant individual decision maker, after taking advice from CCRB.

32. The procurement of these types of services is a Part A service under the Public Contract Regulations 2006, and as such should ordinarily be tendered in accordance with those Regulations. However as the OGC Catalist framework (from which firms were selected and under which the appointment is to be made), has already been tendered in accordance with the EU Regulations, those requirements are satisfied. The Council's criterion for award of this contract is on the basis of the most economically advantageous tender, details of which are included in paragraph 18 of the closed report. As noted in paragraph 20 of the closed report, the tender submitted by KPMG is considered to represent the most economically advantageous tender and is therefore recommended for award.

33. Contract Standing Order 2.3 requires that no steps may be taken to award a contract unless the expenditure involved has been included in approved estimates or has been otherwise approved by the council. Paragraph 23 confirms how this appointment is to be funded.

Finance Director

34. The Modernisation Fund Reserve has earmarked up to £2.5m for consultancy support to the modernisation programme. It is expected that £0.34m will be needed to set up and run the MPO to support and ensure that efficiency and modernisation programmes are embedded in the departments. The remaining £2.16m is expected largely to be spent on implementing efficiency programmes on a case by case basis to be agreed by the DSM Efficiency Board. The release of the reserves will be subject to monitoring arrangements and will be kept under review.

35. The Finance Director has set a payback period of within three years on the investment of the contract sum of up to £2.5m. The expenditure will be incurred in 2008/09 and 2009/10. The modernisation efficiency targets for 2009/10 and 2010/11 are £3m and £8m, respectively. The payback will need to be net of any additional

investment costs i.e. a minimum of £2.5m, which when added to the efficiency target means that £13.5m will need to be achieved by 2010/11 (£3m + £8m + £2.5m).

36. The performance of this contract will need to be closely monitored against the clear business cases for agreed efficiencies. There will be a need for strong financial analysis of the business cases presented to the DSM Efficiency & Technology Board and measuring financial outcomes against agreed targets. Should there be repeated underperformance then the Council will reserve the right to terminate the contract.

Southwark Procurement

37. The procurement process outlined in this report satisfies both EU regulations and the Council's CSO's. Companies appearing on the OGC Catalist frameworks have been subjected to a rigorous EU procurement process ensuring that they offer the scope and quality of services required. In addition to this LBS has carried out a 'further competition' process which has specifically tested each company's ability to meet the council's requirement on this particular project. The further competition also included additional assessment of equalities to ensure that the Council's standard is met.

38. The evaluation process adopted on this procurement appears to have been both robust and in line with best practice. The evaluation criteria and approach was set by the evaluation panels from the outset and communicated to the bidders. The assessment of the tenders was broken down in two parts (written submissions and formal interviews) and separate panels were set up to evaluate each part. Paragraph 20 of the closed report confirms that KPMG successfully demonstrated their ability to delivery the Council's requirements for this project at both stages.

REASONS FOR URGENCY

39. Not applicable.

REASONS FOR LATENESS

40. Not applicable.

KEY POINT SUMMARY

- This procurement followed general protocol.
- This contract is for services and is a new provision.
- EU Regulations were followed during the procurement of this contract
- The procurement route followed: OGC Catalist Multi-disciplinary Consultancy Framework

BACKGROUND PAPERS

Background Papers	Held At	Contact
Gateway 1 - Procurement Strategy Approval – Modernisation Programme Consultancy	Deputy Chief Executive's Office, Modernisation & Improvement Division	Kevin Peters, 020 7525 0639

AUDIT TRAIL

Lead Officer	Deputy Chief Executive		
Report Author	Assistant Director (Modernisation & Improvement)		
Version	Final		
Dated	28/03/08		
Key Decision?	Yes	If yes, date appeared on forward plan	Notified: 09/01/08
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER			
Officer Title	Comments Sought	Comments included	
Director of Legal and Democratic Services	yes	yes	
Finance Director	yes	yes	
Head of Procurement	yes	yes	
Executive Member	yes	yes	
Date final report sent to Constitutional Support Services		01/04/08	