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**Welsh Assembly Government Response To The Audit Committee Report
“OSIRIS: The PFI Contract for Information Technology in the National
Assembly for Wales”**

On 25th February you presented the above report to the National Assembly for Wales under section 102(1) of the Government of Wales Act 1998.

I enclose the Assembly Government's response to the recommendations made in the report. This response will be laid before the Assembly in accordance with Standing Order 12.5.

The thrust of the reply is that the recommendations of your Committee will in the main be taken up in the MERLIN Programme. Where this is the case then the actions will in general be complete when the MERLIN contract goes live and that is scheduled for January 2004. The exceptions to this date are for recommendation vi) when the agreed action happened in November 2002 and recommendations v), xiii) and xiv) where the agreed action continues throughout the period of the MERLIN contract.

On behalf of the Assembly Cabinet, I would like to thank you and the Committee for the careful and considered way in which you undertook the investigation and produced this report.

Welsh Assembly Government Response To The Audit Committee Report “OSIRIS: The PFI Contract for Information Technology in the National Assembly for Wales”

The Welsh Assembly Government is grateful for the report. We welcome the findings and offer the following response to the fourteen recommendations in the Report.

Recommendation 1: Assembly officials use robust scenario planning and sensitivity analysis when letting major contracts, based on the widest possible range of eventualities and possible future political developments. Decision – making should be based both on the likelihood of such eventualities materialising, and their potential impact.

Agreed - a robust scenario planning, risk and sensitivity analysis will be included in the Full Business Case for MERLIN. The Full Business Case will be completed in July 2003.

In respect of this and the other recommendations made by the Committee with regard to major contracts in the future: the Assembly Compliance Office will circulate, before the end of April 2003, the Committee’s recommendations and a copy of this response both within the Assembly and to Assembly Sponsored Bodies for their attention.

Recommendation 2: Future contracts include mechanisms such as discounts or charge banding to protect the Assembly against unlimited exposure to risks.

Agreed for Information and Communications Technology contracts - a range of mechanisms to reduce exposure to risk including discounts, charge banding, possibly shared benefits etc. will be included in the MERLIN contract.

Recommendation 3: Future contracts allow greater transparency about profits made by the private sector and include clear profit sharing arrangements.

Agreed for Information and Communications Technology contracts - open book accounting will be integral to the MERLIN contract. The MERLIN contract will be modelled on the best practice guidance from the Office of Government Commerce including a cap on profits and profit sharing arrangements. Performance related payments will also form part of the payment arrangements. The potential MERLIN suppliers have been informed that in addition to the above it is likely that a range of charging arrangements will apply for different elements of the contract .

Recommendation 4: Assembly officials and their professional advisers take great care to ensure that all of the terms of suppliers’ best and final offer are fully reflected in the eventual contract.

Agreed – the Best and Final Offer from the successful MERLIN supplier will become an integral part of the MERLIN contract.

Recommendation 5: Future contracts contain robust value for money mechanisms to enable costs to be benchmarked and externally validated. These mechanisms should extend to contractual change provisions. We also recommend that, whilst recognising the importance of affordability, value for money should always be given weight when negotiating contracts.

Agreed - a rigorous value testing regime capable of external validation will be included in the MERLIN contract. Delivery of benefits from the MERLIN Change programme will be continuously monitored. Achieving good value for money is a fundamental objective of the MERLIN negotiations; and more widely, of contract management and procurement procedures within the Assembly.

Recommendation 6: The Assembly takes steps to improve accountability for expenditure on OSIRIS and its successor contract, ideally through delegation, so that responsibility for staff recruitment within the Assembly take account of the total employment-related costs including the information technology overhead.

Agreed – since November 2002 new IT equipment is only being supplied under the OSIRIS contract if the requesting business area can demonstrate a sound business case acceptable to Business Information Systems Division.

In the case of recruitment to fill vacancies from April 2003 the business area must demonstrate that their allocation of Departmental Running Costs (DRC) cover any additional costs arising from the provision of IT and this will be used to fund the expenditure. This regime will also apply to casuals recruited to carry out non permanent tasks, or secondments into the Assembly, or the employment of contractors/consultants.

The policy decision has been taken to delegate budgets to individual business areas for both existing and new staff. The practicalities of introducing delegated budgets within a centralised contract management structure. will be examined in the discussions for the MERLIN contract. Since this will necessarily need to involve the Merlin contractor introduction of a full delegated budget system will not be possible before April 2004.

Recommendation 7: The MERLIN contract contains a break clause under which the service credit regime is reviewed after each technology refresh.

Agreed - It is intended to include break clauses related to both Time and Performance at which all aspects of the charging mechanisms will be candidates for review and change.

Recommendation 8: The improvement of the speed with which remote users can access the Assembly network be a key priority of the MERLIN procurement..

Agreed - the MERLIN Outline Statement of Requirement which was issued to potential suppliers included the need for high speed connections for constituency offices and other remote users. This has been reinforced by officials with the short listed suppliers. The potential suppliers have acknowledged they understand the imperative to resolve this as a priority as soon as the new contract takes effect.

Recommendation 9: The Assembly takes steps to minimise the delay in addressing service requests, considering carefully the likely demand under MERLIN and the appropriate regime to incentivise their early resolution.

Agreed – the potential MERLIN suppliers will be asked to encompass in their proposed solutions various options for the delivery of Service Requests more directly targeted at the differing requirements of different parts of the Assembly.

Recommendation 10: The Assembly rigorously analyses the costs and benefits of the various options available to fund the MERLIN contract, ensuring that there is a clear value for money justification for the eventual decision.

Agreed - this will be reflected in the Full Business Case

Recommendation 11: The effective operational relationship between the Assembly and the contractor is maintained under MERLIN, and is enhanced by a more effective strategic partnership.

Agreed - MERLIN will be a strategic partnership that will identify and incorporate relevant and enforceable governance arrangements.

The Permanent Secretary in his evidence to the Committee stated his intention of setting up a partnership committee under his joint chairmanship to run the implementation of the contract. The potential suppliers recognise the Permanent Secretary's intent for a partnership committee which is to form part of the governance arrangements of the MERLIN contract.

Recommendation 12: The MERLIN contract develops more differentiated services to meet the needs of individual users, and explores means of harnessing the views of these users more fully within the partnership in order to deliver a product which better meets their needs.

Agreed - the "one size fits all" approach has no place in the MERLIN requirement. The potential MERLIN suppliers have been asked to forward proposals for a variety of different categories of users. These will be discussed with them during the detailed contract negotiations.

The MERLIN contract will also incorporate flexibility in adapting arrangements to meet circumstances. This will include technological innovation that could not reasonably be foreseen at the outset.

Recommendation 13: A process of regular evaluation and review be built into the Assembly's contract management arrangements from the outset of the MERLIN contract.

Agreed - this will be established under the partnership and governance arrangements that will be put in place for MERLIN.

Recommendation 14: The Assembly uses open book accounting fully within the MERLIN contract, linked to mechanisms for profit sharing. We view open book accounting linked with mechanisms for profit sharing as the key means of securing a good deal from PFI contracts.

Agreed – open book accounting is an integral requirement of the MERLIN procurement process and will be included in the final contract and its management arrangements.