

Professional Consulting Services Usage

Recommendation

That the March 1, 2021, Financial and Corporate Services report CR_7472, be received for information.

Previous Council/Committee Action

At the July 16, 2019, City Council meeting, the following motion was passed:

That Administration provide a report to Committee regarding the City's usage of Professional Consulting Services, including:

- A summary by branch of costs and services broken out by all major categories such as engineering, management consulting and general professional services for the past 5 years
- The number of change orders in the past 5 years and the total amount per year in excess of original contracted prices
- The percentage of the budget (in each operating and capital budget) per year spent on consulting services over the past 6 years
- An update on the work that has occurred since the audit on how Administration decides whether they will hire a consultant or add more internal capacity.

Executive Summary

Administration uses professional consulting services in a number of ways in support of the City's objectives, including strategic and objective advice, analysis, and opinions, or work that falls within a non-trades regulated industry in the Government of Alberta. In some cases, such as engineering, architecture or technology consulting agreements, professional consultants provide expertise where City staff do not have the capacity or skillset to meet the specific requirements of the work. In many of these cases, hiring permanent staff to conduct this work is not financially feasible or advisable.

Between 2015 and 2019, Administration spent \$580,969,857 on professional services, which includes expenses related to all types of professional services noted above. Based on the analysis conducted, a majority (75.8 percent) of professional services contracted were for capital funded activities approved by Council.

From a budgetary perspective, Administration has spent 1.2 percent of operating budgets and 9.0 percent of capital budgets between 2015 and 2019 on professional services.

Report

Administration uses 21 different cost elements to track professional services usage across the organization such as Management Consulting, Communications Consulting General Professional Services, and Engineering Services. Details on all 21 cost elements are included in Attachment 1.

Summary of Department and Branch Professional Services Costs

Between 2015 and 2019, Administration entered into contracts totaling \$580,969,857 on professional services as summarized in Attachment 2, which includes expenses related to all of the professional services included as described in Attachment 1. Based on the analysis conducted, a majority (75.8 percent) of professional services contracted were for capital funded activities approved by Council. This value represents transactions that were coded to the “professional services” categories indicated in this report and may not include some transactions that were miscoded. Professional services were commonly miscoded as external services or contract services in the past. This issue was discussed in the November 9, 2018, Office of the City Auditor report CR_6549, and is unable to be modified due to the closure of financial transactions for previous years.

Attachment 3 provides a summary of all professional services expenses by category for each Branch (based on the current branch structure).

Summary of Change Orders (Contract Amendments) for Professional Services

Change orders, commonly referred to as contract amendments across the Corporation, are approved in contracts when work is added, removed, or modified from an original contract. Contract amendments are needed for most contracts the City requires and a process for managing them is generally in place when the contract is started. Examples of contract amendments that would regularly occur include additional time periods for services, broadening the scope of work identified as a possibility during the initial procurement phase, and amending contract completion dates. These types of changes are referred to as planned changes when they are anticipated in the planning phase of the contract.

An unplanned contract amendment can occur when something is not anticipated during the contract negotiation and award, and may require an amending agreement/contract, and/or an increase in the target value of the contract. An unplanned contract amendment can occur due to special circumstances arising during the contract lifecycle. An example was when the City of Edmonton transitioned

drainage services to EPCOR in 2017; all of the contracts used by drainage services were amended to assign the agreements to EPCOR. In other cases, unplanned contract amendments may be the result of unexpected site conditions that require additional investigation and engineering studies during a capital construction project; changes in strategy that require a project to reassess its functional program or overall direction as well as other changes that require greater coordination based on results from public engagement.

Generally, planned contract amendments are included in the contract's approved budget and will not require additional funding. Unplanned amendments, however, depending on the project's scope and expense management, may require additional funding.

From 2015-2019, the City of Edmonton administered 944 contract amendments to professional services contracts. These include:

- 544 planned contract amendments with a net value of \$318,896,490
- 400 unplanned contract amendments with a net value of \$59,041,893

Approximately 84 percent of the value of all contract amendments are from planned contract amendments. A summary of contract amendments by department are included in Attachment 4.

Summary of Budgetary Spend on Professional Services

Between 2015 and 2019, professional services accounted for small percentages of both the operating and capital budgets. The following table provides a summary of the percentage of spend:

	Percentage of Budgetary Spend				
	2015	2016	2017	2018	2019
Operating	1.3%	1.3%	1.1%	1.2%	1.3%
Capital	8.6%	9.1%	8.8%	9.5%	9.1%

Progress Since Consulting Services Audit

Two recommendations were made as a result of the audit of Professional Consulting Services, outlined in the November 9, 2018, Office of the City Auditor report CR_6549:

- Recommendation 1 - Training and Quality Assurance - Develop and implement a training program for staff engaged in classifying transactions and that regular quality assurance reviews are conducted.
- Recommendation 2 - Reducing Unplanned Change Orders - Work with business areas to improve scope of work preparation and estimation relating to

consulting services in order to reduce volume and value of unplanned change orders.

Both of the above recommendations have been implemented and closed since the audit. In addition, Administration provides reports on new and amended professional consulting agreements on a regular basis to the Executive Leadership Team for ongoing monitoring of the use of professional consulting services.

Consulting Services Reductions in 2020 and 2021 Operating Budget

Due to the COVID-19 pandemic, and as part of the reductions to get to a zero percent tax increase in 2021, consulting and contracting spending has decreased.

To manage the budget effects of COVID-19 on the 2020 and 2021 operating budgets, and to reflect the City's changing needs due to the pandemic, consulting and contractor costs were reduced by \$16.0 million (2020) and \$2.8 million (2021), on a one-time basis.

In the ongoing reduction strategies to achieve zero percent tax increase in 2021, "Consulting, contractor, general services" were also reduced by \$3.7 million.

Additionally, Administration has provided training to contract managers to work with suppliers on continuing to seek contract savings from all active contracts as part of the December 2018 Council motion to reduce contract spending in the organization. Contract savings are tracked corporately in support of this motion and reported as part of the spring Supplementary Operating Budget Adjustment process.

Corporate Outcomes and Performance Management

Corporate Outcome: The City of Edmonton's corporate processes are robust and helpful for integrated service delivery			
Outcome(s)	Measure(s)	Result(s)	Target(s)
The City manages and monitors its use of professional services agreements	Percentage of spend on professional service agreements of the overall operating and capital budget	1.8% - operating (2015-2019) 7.4% - capital (2015-2019)	TBD
City budget reporting demonstrates corporate accountability and performance	Percentage of significant capital profiles that are projected to be within acceptable tolerance (green/yellow status)	94.7% (as of September 30, 2020)	100%

Attachments

1. Professional Services Categories and Definitions
2. Professional Services Summary by Department
3. Professional Services Summary by Department and Branch
4. Professional Services Contract Amendment Summary

Others Reviewing this Report

- C. Owen, Deputy City Manager, Communications and Engagement
- G. Cebryk, Deputy City Manager, City Operations
- A. Laughlin, Deputy City Manager, Integrated Infrastructure Services
- K. Armstrong, Deputy City Manager, Employee Services
- R. Smyth, Deputy City Manager, Citizen Services
- S. McCabe, Deputy City Manager, Urban Form and Corporate Strategic Development
- B. Andriachuk, City Solicitor