

Dame Gill Morgan DBE
Ysgrifennydd Parhaol • Permanent Secretary



Llywodraeth Cymru
Welsh Government

Darren Millar AM
Chair - Public Accounts Committee
National Assembly for Wales
Cardiff Bay
Cardiff
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23 November 2011

Dear Darren,

Public Accounts Committee - The delivery of ICT services and ICT projects under the Merlin contract

Please find the further information you requested on behalf of the Public Accounts Committee that looked at the report of the Auditor General for Wales, 'The delivery of ICT services and ICT projects under the Merlin contract' at the Committee meeting on 18th October 2011.

You firstly asked for more detailed information regarding the number of Welsh based suppliers and the proportion of spend of those suppliers within Wales.

Of the 298 different suppliers, 81 have their registered office in Wales (source: Companies House records). Of the remaining 217 ICT suppliers, ATOS (formerly Siemens), Cap Gemini and Logicalis account for the majority of spend by value. All three organisations maintain significant presence within Wales. It is not possible to provide more detailed analysis of the proportion of total expenditure with those suppliers which spent within Wales.

Secondly you asked for further information regarding the savings made by avoiding disallowance, including how Value for Money was demonstrated and any reputational issues.

The primary benefit identified within the business case for the WEFO Grant Management system related to improved forecasting and resource commitments. It is currently forecast that we will be able to achieve around 99% spend against the £2.2bn allocated to Wales which is about 2% greater than the 2000-2006 programmes. This equates to a benefit of over £40M. Other programmes in the UK and EU have experienced major difficulties hitting these targets leading to automatic de-commitment of monies allocated from the EU. In Wales we will be able to meet all targets through to

programme close which will be primarily assured due to the ICT system supporting the administration of the programmes. It is impossible to say with accuracy what would have happened had we not upgraded the systems but other member states have had serious problems because they have poor systems which have led to disallowances.

Value for money has also been protected due to use of a fixed price service with an option to downscale at year 4. The arrangement also includes a large element of continuing development work which has enabled WEFO to add in valuable additional functionality since the system launched. The system has also exceeded all of its service level agreement targets with no variation clauses to the contract since it was signed in 2008. Much of this development work has led to further efficiencies for example, switching off a legacy IT system saving £100K as functionality was built into the WEFO project. The service has also been widely recognised as a best practice example winning a major category at the UK and European outsourcing awards in 2010.

You also asked for further information regarding a number of areas that were not raised during the proceedings. Please find responses below.

1. We would be grateful for further information on why the Welsh Government did not attempt to identify the likely impact of these changes on the cost of the Contract, so that it would be able to ascertain whether or not actual expenditure under the Contract is higher than it should have been.

Prior to the mergers the Welsh Government benchmarked the prices it paid for its ICT services and also used the opportunity to forecast the estimated price it would pay post any merger. This information was then used to ensure that the price for ICT services continued to represent value for money post merger. There were other pre-existing arrangements built into the contract to safeguard Welsh Government from any significant movements in future market rates. For instance, price benchmarking is regularly conducted using external industry price benchmarking services.

2. We would be grateful if you could inform us what the Welsh Government intends to do to ensure that it has a robust evidence base to inform its decision about the future of the Contract?

The Welsh Government does retain information on historical spend on ICT, and this will contribute to the decision making process. In addition the future ICT needs are currently under review which will result in a detailed technology roadmap and associated implementation plan which will be aligned with the Programme for Government. Historic spend information will be a component of the evidence base which will be used to inform the Welsh Government's decision regarding its future ICT needs.

3. We would be grateful if you could provide details on the lessons learned from the failures of the first phases of the Transformation project in terms of delivering major ICT projects and managing relationships with suppliers.

The Welsh Government Task & Finish team that looked at the first phases of Transformation identified the following key lessons which were subsequently all acted upon.

Lesson: Welsh Government did not employ appropriate governance arrangements.

Action undertaken: New governance arrangements have been established that include an identified ICT business lead for each Welsh Government department and a technical forum to agree common standards, design and solutions.

Lesson: Welsh Government had not sufficient intelligent client capacity or capability.

Action undertaken: Creation of the Deputy Director of ICT Services & Contract Management role to oversee the Merlin relationship and contract and to act as Head of ICT Profession.

Lesson: The Transformation project itself did not adopt and follow best practice project management behaviour.

Action undertaken: A dedicated project and portfolio management office has been established to develop the Welsh Government project management capability and to promote best practice behaviour.

4. We would be grateful if you could explain why performance standards have not been updated since 2004 in order to reflect up-to-date standard commercial practice.

Performance standards are subject to continuous review and have been amended where appropriate. We consider the current service levels are inline with up-to-date best practice. However, as part of the review of future ICT needs, along with the introduction of online services, it is expected that this will result in a more fundamental change to service levels.

5. We would be grateful if you could clarify what the Welsh Government is doing to ensure that its benefits evaluation processes are robust across all ICT projects, and other major capital projects, in line with accepted good practice.

The Enabling Government Portfolio is responsible for the management, high level delivery and strategic alignment of corporate change programmes and projects within the central departments and benefits management is a core activity embedded within the Portfolio.

In future this will ensure that all corporate change projects within the Portfolio maximise the greatest return in investment through the realisation of identified benefits.

The Portfolio Management Office (PMO) has developed an approach to managing benefits drawn from experience and lessons learned and is in line with Cabinet Office best practice.

A Benefits Strategy has been developed which provides a framework for benefits realisation and a means of monitoring achievement and evidencing success of business change. The PMO works with every project within the Enabling Government Portfolio (EGP) to ensure projects are aligned to the strategy and benefits are clearly identified prior to any financial investment being made.

Where projects have already been established prior to EGP being setting up, the PMO has worked with these projects and their stakeholders to conduct benefit reviews and ensuring they to align to the benefits strategy. The PMO provides ongoing support and assurance to projects at each stage of benefits management ensuring mechanisms are in place to actively monitor, track and report benefits through to realisation.

I hope that this provides the further information you requested.

Yours sincerely



GILL MORGAN