



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Cyfrifon Cyhoeddus
The Public Accounts Committee**

**Dydd Mawrth, 18 Hydref 2011
Tuesday, 18 October 2011**

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cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mohammad Asghar	Ceidwadwyr Cymreig Welsh Conservatives
Mike Hedges	Llafur Labour
Darren Millar	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Julie Morgan	Llafur Labour
Gwyn R. Price	Llafur Labour
Jenny Rathbone	Llafur Labour
Aled Roberts	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Paul Dimblebee	Cyfarwyddwr Grŵp, Swyddfa Archwilio Cymru Group Director, Wales Audit Office
Bernard Galton	Cyfarwyddwr Cyffredinol Pobl, Lleoedd a Gwasanaethau Corfforaethol, Llywodraeth Cymru Director General, People, Places and Corporate Services, Welsh Government
Y Fonesig/Dame Morgan	Gillian Yr Ysgrifennydd Parhaol, Llywodraeth Cymru Permanent Secretary, Welsh Government
Crispin O'Connell	Dirprwy Gyfarwyddwr, Lleoedd a Gwasanaethau, Llywodraeth Cymru Deputy Director, Places and Services, Welsh Government
Huw Vaughan Thomas	Archwilydd Cyffredinol Cymru Auditor General for Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Dan Collier	Dirprwy Glerc Deputy Clerk
Joanest Jackson	Uwch-gynghorydd Cyfreithiol Senior Legal Adviser
Dr Eleanor Roy	Gwasanaeth Ymchwil Research Service
Bethan Webber	Clerc Clerk

Dechreuodd y cyfarfod am 9.02 a.m.
The meeting began at 9.02 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon Introduction, Apologies and Substitutions

[1] **Darren Millar:** Good morning, everybody. Welcome to this morning's meeting of the Public Accounts Committee. I remind Members and witnesses that you are welcome to speak in either English or Welsh, because the National Assembly for Wales is a bilingual institution. Headsets are available for those who want to hear the translation or they can be used for amplification—channel 0 is for amplification and channel 1 is for the translation. I encourage Members to switch off their BlackBerrys, pagers and mobiles, because they can interfere with the broadcasting equipment. As a housekeeping notice, if the fire alarms sound, we should not panic, but simply follow the instructions of the ushers.

[2] I am not in receipt of any apologies this morning, so I assume that we will soon have a full house soon—[*Interruption.*] Indeed, we now have a full house. Good morning, Jenny.

9.03 a.m.

Cynnig Gweithdrefnol Procedural Motion

[3] **Darren Millar:** I move that

the committee resolves to exclude the public for items 3 and 4 on today's agenda in accordance with Standing Order No. 17.42(vi).

[4] Are there any objections? I see that there are none.

*Derbyniwyd y cynnig.
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 9.03 a.m.
The public part of the meeting ended at 9.03 a.m.*

*Ailymgynullodd y pwyllgor yn gyhoeddus am 10.08 a.m.
The committee reconvened in public at 10.08 a.m.*

Darparu Gwasanaethau a Phrosiectau TGCh o dan Contract Merlin: Tystiolaeth gan yr Ysgrifennydd Parhaol The Delivery of ICT Services and ICT Projects under the Merlin Contract: Evidence from the Permanent Secretary

[5] **Darren Millar:** I am delighted to welcome to the meeting Bernard Galton, the director general of people, places and corporate services in the Welsh Government.

[6] **Mr Galton:** Good morning.

[7] **Darren Millar:** The Permanent Secretary will be with us later in the meeting, but we also have at the table Crispin O'Connell. Crispin, would you like to introduce yourself and to give your job title and so on?

[8] **Mr O'Connell:** Yes. I am deputy director of places and services. I also hold the ICT head of profession post, in effect.

[9] **Darren Millar:** Thank you very much indeed for your attendance. The Permanent

Secretary is hoping to attend during the course of the meeting. May I ask you to present your response to the report by the auditor general on the ICT contracts? The report was fairly hard-hitting. It identified that greater than anticipated spends were being incurred through the contract, that there were problems with upgrading and modernising the ICT infrastructure, and difficulties in judging value for money within the contract. However, it also said that some things had improved in terms of the service being provided. Of course, it also mentioned the relationship between the Assembly Commission and the Welsh Government and some issues there. Do you want to give me your initial response as the Welsh Government?

[10] **Mr Galton:** Yes, certainly. Good morning, everyone. As the Chair has explained, the Permanent Secretary will be joining us, hopefully by about 10.40 a.m., so some questions and statements may best be reserved for her. In terms of introducing our response, first of all, we welcome the report, as we always do with audit reports of this nature. We are always keen to be seen as an improving organisation, and therefore we find recommendations made in this way to be extremely helpful.

[11] This report covers a fairly lengthy period from 2003, when the original Merlin contract was being prepared, through to where we are now in 2011. However, this report was started in 2008, and many of the recommendations in the report have already been actioned, or are being actioned, and so have been taken forward.

[12] It is important that we also appreciate that, during those eight years, what is now the Welsh Government, and what was, in 2003, the National Assembly for Wales, have changed enormously. The original specification for the Merlin contract came before the announcement of the mergers of the then Assembly-sponsored public bodies, so the scope of the contract changed significantly in 2006, when the organisation increased by 45 per cent in head count, and almost doubled in size in terms of the estate. For the contract to have survived that trauma, if you like, in terms of the change of scope, is noteworthy. Throughout all of this we have learned lessons. It would be wrong of me to say that we were perfect on everything, because this was still a very young organisation, and we were going into something that was embracing modern technology as an enabler for a much broader organisational change that we were going through. So, while this report concentrates very much on the spend on ICT, ICT is only ever something that enables bigger organisational changes. That is what we have been learning from over the last eight or nine years.

[13] We accept the recommendations. We understand that we could have been better on some of the areas, in particular benefits and identifying spend, and we have done a lot of work to improve that. If you look at the corporate way that we spend money on our organisational change, you will see that we have put in a place a number of improvements to our governance so that we can be better placed to look not just at spend, but at the benefits from that. We remain a fairly complex organisation. So there is spend that goes on within the organisation to meet ministerial priorities, which comes from the programme expenditure, which we can still account for, but it is not brought in in the central way, as for the administrative spend on ICT. ICT is very much an enabler. We are improving and learning and we will continue to use these recommendations to take us forward over the next period, where we are looking at the options for the change to the Merlin contract that is coming up shortly.

[14] **Darren Millar:** The contract expires in 2014, as I understand it.

[15] **Mr Galton:** That is right.

[16] **Darren Millar:** What groundwork have you done to date in preparing for the expiration of the contract and the need for either a new supplier or a new contract with the existing supplier?

[17] **Mr Galton:** Perhaps I could ask Crispin to answer that in more detail as he is leading on this.

[18] **Mr O'Connell:** We have done some quite detailed preparatory work, which commenced this time last year. From that, we have produced what we call a strategic outline case, which has evaluated the options that we have post 2014, when the current arrangements expire. We have done an outline costing on each of those options, which include such things as re-procuring a similar type of arrangement, looking to extend the existing arrangements, and looking at what we term multi-sourcing, which is a different approach. We have also looked at the feasibility of bringing services back in-house and providing them internally. The strategic outline case has identified those as four possible options, we have presented that to the strategic delivery and performance board, and it has agreed that they look feasible as options. We are now preparing a full business case to go back to the board early next year. So, all options are still available, and we are taking a very measured and evaluated approach to each of those and using a business case to decide the optimum way forward.

10.15 a.m.

[19] **Darren Millar:** Just to clarify, are you trying to capture all of the ICT needs of the Welsh Government within the new contract? One issue identified by the auditor general was the significant spend outside of the contract that the Welsh Government was incurring.

[20] **Mr O'Connell:** We are looking at all those options. The contract is not necessarily the best vehicle for all ICT spend. In terms of the spend that we have identified, it includes a number of significant programme activities that we would categorise as ICT, but which would not necessarily be suitably procured via the Merlin arrangements. An example of that would be the public sector broadband aggregation system, which, though an ICT initiative, is not a type of initiative that would be effectively procured through the Merlin arrangements.

[21] **Darren Millar:** Okay, thank you. Mike is next, and then Gwyn.

[22] **Mike Hedges:** That leads me on to what I was going to ask about. Have you scoped the expected needs in ICT over the next six or seven years and, within that, have you come to a conclusion as to what you need to have within a central contract and what you need to deal with outside of that central contract?

[23] **Mr O'Connell:** That is precisely the work that we are undertaking at the moment. As part of the strategic outline case, we did a technology horizon view. We have looked at the types of technologies that may be available over the next five, seven and 10 years and we are taking a more detailed view as part of the development of the full business case. We are using some specialist advisers from outside to ensure that we are getting a full view of the options presented to us. That work is very much under way as we speak.

[24] **Mr Galton:** I would just like to add to that, if I may. Later on this week, we have a meeting of our strategic board and we will be taking a paper to that board on the Welsh Government ICT strategy for the next three to five years. Also present at the meeting will be Gwyn Thomas, who is the chief information officer for Wales, so we will be looking at the wider needs of the Welsh public service in terms of ICT over the next three to five years so that we can ensure that, wherever possible, we are aligning and sharing, and that we have the flexibility in our ICT system in future contract arrangements to ensure that we get best value for the Welsh public service.

[25] **Darren Millar:** I have a follow-up question to Mike's question. You are looking to capture as much as possible within the contract, but recognise that occasionally it may be

more sensible to procure for specific projects outside of the contract. The figures in the report suggest that, in 2009-10, £81 million of expenditure was incurred on ICT, £56 million of which was within the contract and £25 million outside it, with 298 different suppliers. That seems an extraordinary scatter-gun approach to procurement. We already know that there are issues identified in the report regarding whether you are achieving value for money or not. How are you going to address that to reduce the number of suppliers and make sure that you are getting the best bang for your buck?

[26] **Mr O'Connell:** We probably do have too many suppliers across the whole of the activities that are undertaken, but those 298 suppliers are not just suppliers of services procured centrally, but suppliers of services that are procured across different delivery programme areas. Last year, for the first time, we did an in-depth analysis of total spend on ICT, and, from that, we have put in place new governance structures. In particular, there is now a group in the Welsh Government called the ICT strategic leads, which is looking at all spend to identify areas of commonality and where we can rationalise expenditure. I agree that, historically, there were too many sources of IT provision, and we are actively looking to reduce those.

[27] **Darren Millar:** So, we will not be seeing 298 in future.

[28] **Leanne Wood:** May I ask a follow-up question, Chair?

[29] **Darren Millar:** Yes, and then I will bring Gwyn in.

[30] **Leanne Wood:** Could you tell us whether you have any idea as to how many of those 298 suppliers are based in Wales?

[31] **Mr O'Connell:** I would not have that information to hand, but I can endeavour to discover it.

[32] **Leanne Wood:** That would be useful to know.

[33] **Gwyn R. Price:** Expenditure on ICT projects has already increased over the years, from £10 million in the first year of the contract to more than £34 million in 2009-10. However, paragraph 1.4 tells us that the responsibility for ICT projects is dispersed across the Welsh Government. What assurance do you have that the increased level of expenditure on ICT projects is needed, is controlled, and is delivering what it is intended to deliver?

[34] **Mr Galton:** Across the whole of the Welsh Government, as we modernise into the twenty-first century, we need to do a number of things. One is to respond to how society is changing, so, for example, we invested in online recruitment services because more and more people want to do business online. Therefore, we invested in that as a response. One need only to look at the way in which the Driver and Vehicle Licensing Agency and others now have much more of their services online. However, we need to ensure that whatever investment we are making, there is a customer requirement for it, and we need to ensure that we can also see the benefit to the organisation. In terms of the increase in spend and the governance arrangements that we have in place, for the corporate spend, we need to ensure that there is a solid business case first, so that would come for consideration. We use the gateway process extensively—we are going for accreditation for the Office of Government Commerce gateway process—and we have reconfigured what we call the 'operations group', which is one level below the strategic board, to have a change facility as well. So, each of the programmes goes to that board for close scrutiny, and we look at the risks and whether they are red or amber and see what action needs to be taken. In the past, we have had a pretty strong record. If it does not look like it is going according to plan, we pause and review, and we then restructure and go forward.

[35] In terms of the spend, it is quite big money in headline terms and we have to ensure, obviously because it is public money, that we are getting value. I believe that we have improved the governance and that we continue to do that. There is spend outside of the centre, and this is on meeting ministerial requirements, but we are always looking at ways to improve the governance and ensure that we can track the value of that spend. I hope that that has answered your question.

[36] **Gwyn R. Price:** So, you think that you are on top of the situation.

[37] **Mr Galton:** I think that we are on top of the situation, but we are always looking for ways to improve. The latest changes that we have made in the governance, very much in line with the recommendations in this report, will help us still further to give that assurance.

[38] **Jenny Rathbone:** In your scoping, are you looking at any models of good practice of public sector ICT schemes that are delivering what they say on the tin and within budget? Obviously, there are loads of spectacular examples of ICT projects that have cost billions more than they were supposed to. I wondered whether there are any about which you think, ‘Well, that one’s working well and we need to look at the reasons why that one is working well’.

[39] **Mr Galton:** I will ask Crispin to give some of the detail, but all the way through this, we are very keen on benchmarking. We look across, not just at the public sector in Wales, but much more broadly at the public sector in the UK and at the private sector as well. We will all be aware of big headlines about ICT projects that have gone wrong. All too often, it is because they have been looked at as an ICT project rather than an organisational project where ICT will help to deliver the desired result. So, we do benchmark and we do use some external assistance, such as Gartner and others, from those who have far more experience across the broader sector than us. That is always important, because we are talking about large-scale investments of public money, and we need to ensure that we are getting the value there. I will ask Crispin to give you some more specific examples.

[40] **Mr O’Connell:** Just to reiterate, we do take some external advice—we use a company called Gartner, which has a huge wealth of information, both in public sector provision in the UK and worldwide. We have fed that in to our current planning for post 2014. The challenge that we also have at the moment is that there is a huge change in the way that technology is being delivered. One of the key things that we are concerned about is ensuring that any replacement or change to the arrangements gives us the flexibility to embrace new technologies as they come along. The traditional model that we have had for IT delivery will not be with us for much longer. So, the need for us to host things as we have done will disappear, and we have to ensure that we go forward with that. It is not about only looking at the existing best practice that is out there, which we are doing; it is also about ensuring that we are embracing the latest techniques so that we can reduce costs and improve the services that we deliver.

[41] **Jenny Rathbone:** Sure, but of the ones that are working well at the moment, is there one about which you can say, ‘Yes, that’s a good project—working to the organisational requirements as well as the technical requirements’?

[42] **Mr O’Connell:** There are some good examples. Some really good work was done by the Cabinet Office around the Directgov delivery, and we have looked at the work around the Government gateway in terms of embracing some of those technologies, particularly to reuse them within the Welsh Government.

[43] **Mr Galton:** The farm payments are a good example as well.

[44] **Mr O'Connell:** That is a good point made by Bernard. We have some best practice examples ourselves. There are two areas: the work that that has been done around rural payments and the work that we have done around the Wales European Funding Office. Although they were challenging to start, they have both become best practice examples. In the case of WEFO, it is cited by the European Commission as a best practice system and a benchmark to be used by other grant agencies across Europe. It has enabled us as an organisation to be the only grant agency in a UK region to be fully audited by the Commission. The primary reason for that was the capability of the IT system that underpins the service.

[45] **Aled Roberts:** Ar y pwynt am WEFO, mae'r adroddiad yn dweud bod oedi o ryw flwyddyn cyn i'r gyfundrefn weithio a bod y gost o £18 miliwn yn ddwbl yr hyn a amcangyfrifwyd. Yr ydym hefyd yn deall bod cymorth parhaus i'r system yn costio rhyw £1 miliwn ar hyn o bryd. Sut ydych yn credu bod hynny'n werth am arian?

Aled Roberts: On the point about WEFO, the report says that there was a delay of about a year before the system came into force and that the cost of £18 million was double the estimate. We also understand that providing continual support for the system currently costs around £1 million. How do you think that that provides value for money?

[46] **Mr O'Connell:** It has allowed us to become fully audited—as I said, we are one of the few grant paying agencies in Europe able to have been fully audited. It has also allowed us to avoid what is known as 'disallowance', where the grant funding is reclaimed by Europe because of an inability to show the full value and auditability of what is being delivered. So, it is difficult to put an exact number on what we have avoided in terms of disallowance, but other regions in the UK have seen the recovery of many millions of pounds of grant funding by Europe.

[47] **Aled Roberts:** I was just wondering, it has cost £9 million more than you estimated, and it has saved only £6 million—are you saying that it is not possible to establish what the likely level of disallowance would have been had the old system been in operation?

[48] **Mr Galton:** We can provide you with more information, because we know that the Department for Environment, Food and Rural Affairs had some significant disallowance bills in terms of payments to farmers in England, and we can provide that as a benchmark. In terms of investment to get it right up front to ensure that we have a flexible system, a lot of farmers were not online, but we have progressively gone for a more online system, so it was about getting the planning right to ensure that we paid farmers on time and we got it right. We can provide more examples for you, not only of the size of the disallowance, but also of the reputational issue of not being able to get the money out to farmers by the due date, which is extremely important. We can provide you with more information that would demonstrate value for money in financial, reputational and quality terms.

10.30 a.m.

[49] **Leanne Wood:** You gave some examples earlier of good practice with IT systems—you mentioned WEFO and the Cabinet Office. Did they come in within budget?

[50] **Mr Galton:** Our systems or theirs?

[51] **Leanne Wood:** Those examples of good projects.

[52] **Mr Galton:** I think that it is explained in the paper that, with some of them, we had to do a pause and review, but overall it is recognised that the big ones were delivered on budget. Doing the pause and review was helpful in order to make sure that we had the scope

right. Sometimes it is difficult, in the early stages, to understand how big a project will be, especially when you are going through mergers. I will ask Crispin to give some more examples, but the good examples that we have quoted have demonstrated value for money and delivery within budget and on time.

[53] **Mr O’Connell:** Again, one of the things that we have learned is that, where there were issues with the early commissioning of projects, and early estimation of cost—and some of this goes back to 2006—we have taken the opportunity to learn from previous reports, and fed that into a better way of benefit identification and project management. The other thing that has been challenging—and this was recognised in the previous Wales Audit Office report—is that our ability to identify true estimates of the cost of doing projects was not at the level that it should have been, and as it is now, so there was a level of underestimation and of tracking activities. In the case of the Welsh European Funding Office, one of the issues early on was that the cost was estimated against a changing European plan, and, as that plan developed, our cost estimates developed with it, so a pause and review was put in place because of the concern that those estimates were getting out of place. It took a year to do that, we re-estimated the cost once the European Commission had finalised the grant scheme, and then we recommissioned at a new baseline, and it was delivered to that new baseline.

[54] **Leanne Wood:** Is this pause and review now standard practice across Government? Does it just happen where there is trouble?

[55] **Mr O’Connell:** It is more standard practice, because of the rigour that we have now brought to the project commissioning and project management side of things. There is much closer tracking. We use an OGC model—

[56] **Darren Millar:** Sorry, what is OGC?

[57] **Mr O’Connell:** It is Office of Government Commerce—apologies. We follow that model, and it has a set of five stages from early commissioning to the point of investment, with identification of benefits—there are checks all the way through, with what is known as traffic-light scoring, so projects are either green, amber or red. The assessment is done on a regular basis by the senior responsible officer in charge, and if a project starts going amber, or going into red, pause and review is then a standard format to look at what will be undertaken.

[58] **Darren Millar:** I welcome to the table Dame Gillian Morgan, the Permanent Secretary. I think that you want to come in on this issue.

[59] **Dame Gillian Morgan:** If I may. You asked whether this is common across Government; it is increasingly becoming custom and practice in the Welsh Government. We are talking about ICT today, but if you look back through some of the issues around this building, you will see that we took a pause and review, and that meant that we came in within budget on our building strategy. If you look at other Governments, you will be aware of the recent fire brigade stuff, and one of the points raised by the National Audit Office was that the Department for Communities and Local Government in London did not pause and review. So, it is custom and practice for us, and we find it very beneficial, and we have about half a dozen examples of where it has really helped us move on, but it is not yet common practice across Governments throughout the UK.

[60] **Aled Roberts:** Gaf i ofyn am bwynt arall, sef gwerth am arian? **Aled Roberts:** May I ask about another point, which is value for money?

[61] **Dame Gillian Morgan:** I am sorry that I am late. I have been in Cabinet, so it is not rudeness or anything like that.

[62] **Darren Millar:** Any excuse. [*Laughter.*]

[63] **Aled Roberts:** Ynglŷn â gwerth am arian, mae'r adroddiad yn dweud ei bod hi'n anodd iawn, gan nad yw cyllideb yr adran hon yn awr o fewn un pennawd, i weld os ydym yn cael gwerth am arian. A oes gennych unrhyw dystiolaeth i ddangos ein bod yn cael gwerth am arian?

Aled Roberts: On value for money, the report says that it is very difficult, because the budget of this department is not now under one heading, to see whether we are getting value for money. Do you have any evidence to show that we are getting value for money?

[64] **Dame Gillian Morgan:** I apologise, because, in coming in late, I may be repeating things that other people have said. In fact, I hope that I am repeating things that others have said.

[65] **Aled Roberts:** It would be more interesting if you said something completely different. [*Laughter.*]

[66] **Dame Gillian Morgan:** If you look at the history of the last eight years, you will see that we are increasingly moving from thinking about ICT projects, which is where the big disasters happen—people go for ICT projects and they do not understand what they are doing and they get implemented as ICT projects—to looking at how we improve the way that we do business. That is where we are now. I use the word 'business' not in the commercial sense, but in the sense that any organisation has to be a business, and we are aiming to be a really slick twenty-first century business in terms of the technology that we use, because we are going to have to use more technology and fewer people. That is the story of where we are going. So, increasingly, value for money has to be based on the whole of the business case, not just the ICT bit of it, but the whole programme of what we are trying to do. So, for example, one project in hand at the moment is looking at grants and how we manage grants, and, if you look entirely at the ICT bit of it, you will get one answer about value for money because it looks as if we are putting something else in. If, however, you are looking the risks of what we are avoiding by having tighter and stronger management of grants, you will see that there are substantial benefits. What we have not been good at doing in the past—but the five-case business model is going to help us get there—is articulating not just the financial, value-for-money benefits of the ICT bit, but the benefits of the whole programme of what we are aiming to achieve in terms of better performance as an organisation.

[67] So, I think that we are in a much better place now about understanding value for money than we would have been two, four or six years ago. Having this in a single budget means that we can monitor it as a whole. The difficulty that we have is in the way that money is allocated to us as a Government. We have a number of headings, which are quite hard headings—they are ministerial expenditure groups. One of the expenditure groups is a central administration bit. Central administration runs the majority of the core services; it is run on behalf of the First Minister and I take accountability for that. The programme budgets that come out of individual ministerial MEGs are there to serve the policy objectives of individual portfolios. So, although we can aggregate it and look at it, one is directly in our control and the other is serving external business processes. One of the questions that I have, and I am learning from this report, because a good report makes you think about how you improve things, is how we bring some of the same rigour to the bit that is in the programme expenditure that we bring now to the central core within the central administration MEG, and how we do that in a way that does not cut across the reporting lines and accountability to Ministers.

[68] Through our programme office, we can be a little bit more rigorous than we have been in the past in terms of identifying some of the big projects, all of which have ICT as a component, although none of them are ICT projects; they are about business transformation

happening externally. We will be looking at whether we can create something that will look more like the sort of function that has been created in the Cabinet Office over the last six to nine months, where it handles major projects and keeps a much tighter view over what goes on inside individual Whitehall departments. We have not quite gone down that route because we are close to it and we know more instinctively when things are going wrong, but what the report has made me realise is that we could put another piece of process around that, building it into the work that goes on in the programme office, and that would add some value to how we keep control of that. That would help us demonstrate both value for money and efficiency and economy. Value for money is one component of what we want to do, but we need to demonstrate all the time that we are benchmarking the things that we do and we are getting a cost per unit as effectively and cheaply as we can. So, they all sit together.

[69] **Mohammad Asghar:** Bernard said that things were not so good in the past, and lessons have been learned from mistakes, or however you put it—I am a layman on the street, not a high-tech person. These IT systems are being developed all the time and are getting cheaper, but not in your case. You have not upgraded your system since 2004, and yet the cost is increasing. Is there any reason for that?

[70] **Dame Gillian Morgan:** There are a number of things. It is not as simple as that. Lots of the stuff that we have done through transformation has upgraded our system, so we have more modern technology. On the comments about not upgrading, that is actually to do with the software programmes that we use—that takes you back to the question of the added value of changing from the Microsoft version that we have to a more modern version, and when it would be appropriate to do that. One of the issues, and it is a real challenge that we are wrestling with as we look at how we re-procure Merlin, is that technology is advancing so fast that some of the stuff that we thought was standard is not, and there are ways of doing things that I cannot even imagine. There are all kinds of technological solutions out there, and people talk about cloud computing, and different ways of putting it together. One of the challenges for an organisation such as ours is identifying when the technology becomes out of date, and when to move to new types of technology so that you can look for some of the savings that you have talked about, as well as identifying the scale of disruption. When you shift technologies, it is an incredibly disruptive process, and, at the moment, my judgment around a lot of this is that, as an organisation, over the last year we have taken £42 million out of our running costs and reduced staff numbers by over 1,000, so now is not the time to create more disruption to do with learning and training. Within six months, nine months or two years we will have a different window, but at the moment we are not in a position to cope with that degree of disruption. When we are making those sorts of decisions, it is not as simple as asking, ‘Has the technology been updated?’—it is, ‘What is the capacity for change in the organisation?’ We have probably been the biggest changing public organisation in Wales, with a fifth of our staff having left over the last year, and we therefore have to factor that in to how we think about further transformation.

[71] **Mr Galton:** Also, as I said in my opening remarks, in 2004 we were a very different organisation. In 2006 the organisation increased by 45 per cent in head count, so although the original contract referred to a minimum spend of £220 million, and the spend turned out to be £270 million, which is only a 25 per cent increase, you have to factor into that the mergers with other organisations that would have had separate budgets and ICT plans. All of that was brought in, so it is not just a case of this costing significantly more than was originally anticipated. The estate doubled in size, and we were 45 per cent higher in terms of head count, so it is not just a case of spending more than we planned. We became a much bigger organisation, and that needs to be factored in.

[72] **Darren Millar:** I know that Leanne wants to come in, but I will just ask a straightforward question: you have referred to the significant changes that occurred over the duration of the contract; a 10-year contract is a heck of a long contract, frankly, for ICT

purposes, or for any procurement of this kind other than premises and so on. Do you envisage the new contract being for as long as 10 years, given the fact that things are moving apace and that requirements may need to change, as you quite rightly said, Gill, in terms of cloud computing, tablet computing and all those things? What sort of length of contract do you envisage in the future?

10.45 a.m.

[73] **Dame Gillian Morgan:** We are looking at a range of options around contracts, ranging from sticking with the contract that we have to completely retendering. The timing depends on which route is adopted. If we completely retender—the cost of a full retendering and procurement process is substantial; it is many tens of millions to get into the scope of having a new contract—the question becomes what partners would want to do. At what point would it become worthwhile for them to invest the amount of money that they would have to invest to retender? A brand-new organisation will look for a longer contract than we would have if we ended up going for a renewal or refresh of Merlin. So, the timing depends on how all those factors come together when we look at the full business case.

[74] **Mr O'Connell:** To follow that up, what we are looking at, and it has very much been part of the work that we have done over the last 12 months, is striking a balance, because the longevity of the contract will improve the price, but we also need to ensure flexibility, because of the changing landscape. So, getting the balance correct is very much part of the work that we are doing, so that we get the contract or delivery period right so that we can ensure that we achieve good and low costings and also the flexibility to change and bring in new technologies in a much easier way than we have been able to do over previous years.

[75] **Darren Millar:** Leanne, did you want to come in on this issue?

[76] **Leanne Wood:** Yes, I was going to ask how flexible you can be in the new contract. You have mentioned technological changes, but there could also be, and there have been since this contract was initially drawn up, quite substantial changes to the devolution settlement. How are you planning for flexibility with regard to any further changes to the devolution settlement?

[77] **Dame Gillian Morgan:** There are two components with regard to the devolution settlement. What does it do to our core systems, the numbers of people that we have and so on? If we took on more responsibility we might need more staff—staff numbers have come down and we are managing to do our current stuff with fewer staff, but, if different things were brought in, our numbers would go up. Those sorts of things would be affected and we would ensure that the contract was flexible with regard to them. If you are talking about a certain function coming down and what we would need to fulfil that function and deliver for citizens, at that point we would have to ask a separate set of questions about the business case for that function and what we would need to support it. We would want to have a contract that was as flexible as the one that we have now, which would allow us either to use the core contract or to go to a different supplier. Although we would be tied in with whoever we would be tied in with for the future, if we were taking on a function that was already run in England and had a good ICT system, we would be mad to try to develop it ourselves. On the other hand, if it was a rubbish system, we would be mad not to try to develop it ourselves. So, it would have the flexibility to do that.

[78] The bigger flexibility, which I think it is much harder, and I do not have my head around it yet, but I am aware of it from conversations in the House of Commons in the last week, is with regard to people turning to iPads as the major technology. I know that a lot of businesses are now using iPads for documents. This is technology that, even a year ago, people did not think would be a mechanism. That type of flexibility is harder, which is why

there will be a real judgment call involved about whether we go for a longer or shorter contract to try to give us the flexibility to catch the tail when we know what that technology will do for us. At the moment, we have exuberance, but will that be sustainable in the long term? I do not know. So, everything that we do is about building space for us to make proper business plans for our needs.

[79] **Mr Galton:** We learned a lot from the mergers and changes that took place a few years ago. As I said earlier, the fact that our contract was flexible enough to deal with that is noteworthy. So, we would want to build that into any future arrangements. It is also fair to say, Crispin, in organisations such as ours, that it is not unusual to go into long-term contracts of maybe 10, 14 or 15 years. It is not unusual to do that because of the longer-term value that you can gain from that sort of negotiation and from building up a relationship.

[80] **Darren Millar:** I am going to bring in Julie now and then Mike.

[81] **Julie Morgan:** I suppose that it is difficult, with ever-changing technology, to choose at what point to start. We are told in this document that over the course of the contract the core ICT service has improved and that that is measured by user satisfaction surveys and the declining number of service credits. We hear a lot of anecdotal evidence that that may not be so, so how sure can you be that this service has improved?

[82] **Dame Gillian Morgan:** I look at all the incidents that happen every week. One of Crispin's tasks is to give me that information every week and we can plot on a graph how the number of service credits and the number of disruptions go down. The difficulty with such things as user satisfaction surveys is that you remember the last time that it went wrong; you do not remember the 100 days that it was fine, just the one day that it was a problem. So, as part of thinking about the contract, we have used external bodies to interview people, so it is not just based on simple satisfaction questions; there are also some in-depth interviews. We have changed some aspects of the contract because we were very clear that there were some groups of people whom we were serving who were systematically unhappy, and, therefore, we have negotiated with Siemens additional support in those areas. I am pretty confident therefore that we are in a much better position in terms of the contract than we were a few years ago.

[83] **Julie Morgan:** Who were the groups of people who were systematically unhappy?

[84] **Dame Gillian Morgan:** The biggest challenge that we have is around Ministers in the Cabinet and the issue there is their dual accountability. They have to be Ministers and therefore they need to be part of our Government security system, which brings a degree of inflexibility, which we have to deliver, because, if we had a cyber-threat, you could get into the main Government computing system through our system. So, for our Government stuff, we have to be very tight. The difficulty for them is that they also have their duties in their individual constituencies or as AMs, and the interconnectivity of the two systems has always been a difficulty because it means that people have to run parallel systems. So, it is that area that has been the biggest and the most concerning. I can understand that it is frustrating. One issue for us in the medium term is to begin to unpick on a UK level how much of the security system we need to have and what is right for us as opposed to other people. I do not know whether you have talked about some of the external stuff, such as the public sector broadband aggregation contract, which will give us a big benefit in telephony. It is clearly something that links the whole of the public sector together. We ought to be a big user—we funded it—but we have not been able to be a user because, until the middle of last year, it was not accredited by Government Communications Headquarters, so we could not use our own systems. We have now gone through the process of getting it accredited, so, again, that begins to open up extra opportunities for us. There is always a balance between how much are we in the Government's security net and how much we could do something differently, and Ministers

are right at the hub of that difficulty and challenge. It is less of a problem to us, because we only live in one world.

[85] **Mr Galton:** We talk a lot to our users and we are looking at how we can improve. Where we want to be is ‘any place, anytime, anywhere, any device’, and we are trialling tablets like the iPad and how we might be able to make life easier for our users, and Ministers in particular are one of our special groups for whom we have to make life as easy as possible. So, we are looking at how we can make the very best use of how technology is changing, but we must always be mindful of that security aspect.

[86] **Mr O’Connell:** I will just add to that that it is very challenging to bring new technologies in. It is also important that we exploit fully what we have invested in already, because we cannot keep throwing away investments—they have to be leveraged to their full extent.

[87] **Mike Hedges:** Would you accept that there is no such thing as an ICT project? What you actually have is a business project with an ICT solution.

[88] **Dame Gillian Morgan:** You are right. We say that ICT is the enabler to allow us to achieve. You are spot on.

[89] **Mike Hedges:** We talk about ICT projects failing, and every project that I have known that has failed has hit one of these snags: it has used unproven technology, it has been unduly complex, it has lacked planning, or, more importantly, people kept changing it as it was being progressed and asking, ‘Wouldn’t it be nice to add x, y or z?’ How are you ensuring that those four problems do not occur in any future projects?

[90] **Dame Gillian Morgan:** That is down to having a proper business case at the beginning, and the proper use of gateway to ensure that we do not have scope creep. It is common sense. What is also important in this, and I think that our philosophy has changed in this regard over recent years, is to move from designing and building our own things to using what has happened in business—vanilla solutions, as they are called. There are a lot of vanilla solutions out there that are 90 per cent or 80 per cent good enough, and, for most of what we do, that is good enough. We are not going to put additional money in, because of the 80:20 rule: 80 per cent of the cost will be on that 20 per cent of achieving perfection. That is what programme management and the gateway controls will stop us from doing. However, you are absolutely right. Every professional would like their system to be the best, with go-faster stripes, and our task as managers is to say, ‘It would be very pretty to have go-faster stripes, but that is not what is important here’—it is functionality, and being good enough. That is a change in our thinking over the last few years.

[91] **Mr Galton:** Just to colour that slightly with an example, we brought in the electronic recruitment system, which I mentioned, and we used an off-the-shelf product from a company called WPM, I think, and we changed some of our processes and terminology to fit with this particular product. These were silly things such as the fact that we might use the term ‘staff number’ but the system used ‘employee number’. We decided to change to fit the system, because every design change costs money. We worked with this company to put in a bilingual model, and we are now selling that bilingual model to other Government departments, because they have adopted the same electronic recruitment system. So the Department for Work and Pensions, and other departments with offices in Swansea and Aberystwyth or wherever, are able to make use of that investment that we made. So, we go vanilla wherever we can, and we exploit that technology and change our processes if we need to, rather than change theirs.

[92] **Darren Millar:** I am afraid that the clock has almost beaten us. I just have one last

question: the auditor general makes reference in his report to the fact that you need to be an intelligent customer going forward, and that you have relied significantly on consultants in the past in order to deliver your projects. How are you addressing that challenge? If you could be as brief as possible, I would appreciate that.

[93] **Dame Gilliam Morgan:** On being an intelligent customer, we have halved in the last year the amount of expertise that we pull in from outside. We have a plan about how we transfer skills, and we will only employ external people if we either do not have the skills—in which case we suck out their brains—or we do not wish to have those skills, because there are some skills that go out of date so fast that we would be stupid to try to provide them ourselves. Our consultancy spend in this area has halved, and we can show, through the work going on through programme management, that we are managing and providing internal consultancy. That is one of the success stories, because we are doing that while having reduced our numbers by a fifth.

[94] **Darren Millar:** On that note, we will close this item.

10.59 a.m.

Papurau i'w Nodi Papers to Note

[95] **Darren Millar:** There are just a few papers to note for Members. Paper 3 is some correspondence from the auditor general, paper 4 is the Wales Audit Office ICT strategy document for 2009-12, and there are the minutes of our previous meeting. On that note, I will close the meeting.

*Daeth y cyfarfod i ben am 10.59 a.m.
The meeting ended at 10.59 a.m.*