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# The delivery of ICT services and ICT projects under the Merlin contract



# The delivery of ICT services and ICT projects under the Merlin contract

I have prepared this report for presentation to the National Assembly under the Government of Wales Act 2006.

The Wales Audit Office study team that assisted me in preparing this report comprised Claire Flood-Page, Emma Giles, Jeremy Morgan and Patrick Spillane under the direction of Paul Dimblebee.

**Huw Vaughan Thomas**  
**Auditor General for Wales**  
**Wales Audit Office**  
**24 Cathedral Road**  
**Cardiff**  
**CF11 9LJ**

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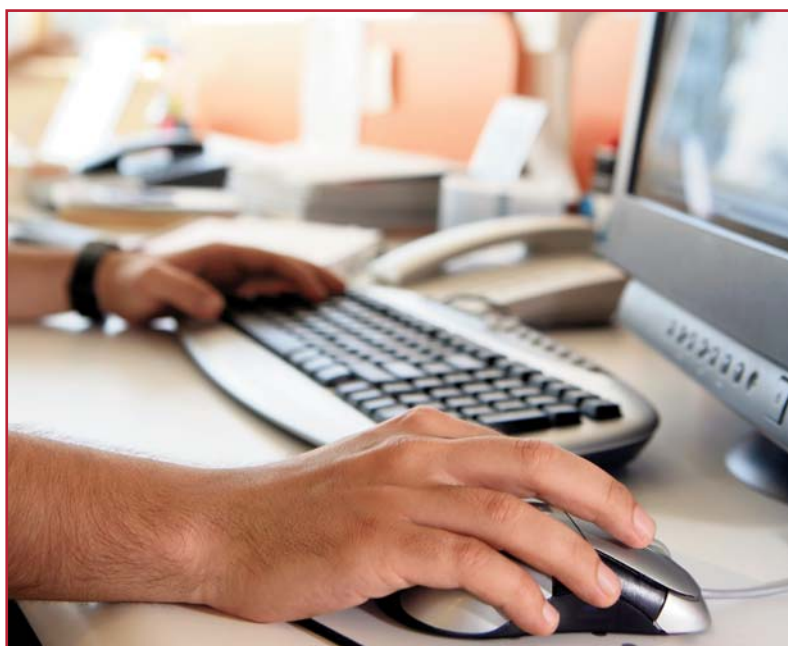
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## Report presented by the Auditor General for Wales to the National Assembly for Wales on 17 August 2011



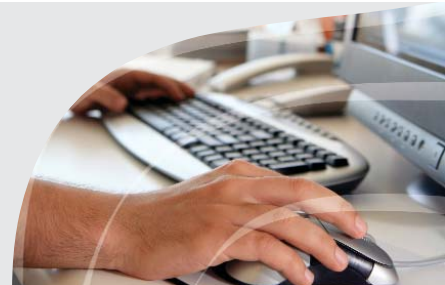
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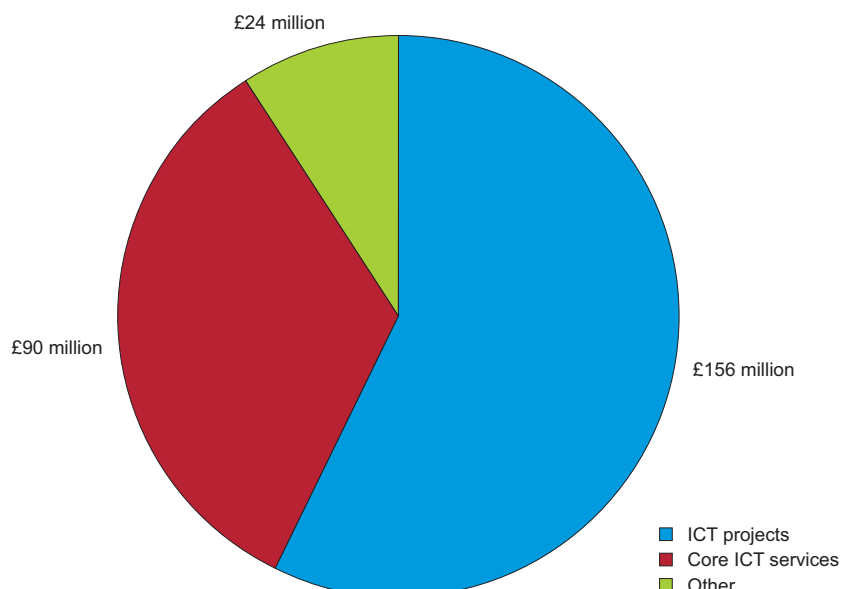
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## Summary

- 1 The Merlin contract (the Contract) is a ten-year contract for Information and Communications Technology (ICT) between the Welsh Government and Siemens Information Services. Siemens leads a consortium of suppliers, known as the Alliance: Siemens leads on core ICT services, Capgemini on selected applications, PA Consulting on business process re-engineering and change management, and Siemens Enterprise Communications on telecommunications.
  - 2 The Contract was signed in January 2004 and commenced in April 2004. There is an option to extend the Contract for a further five years, to 2019.
  - 3 The Contract provides ICT services to both the Welsh Government and the National Assembly for Wales. The original budget for the Contract over its ten-year life was a minimum spend of £220 million: £82 million for core ICT services and £138 million for ICT-enabled business change projects (ICT projects), originally delivered through the Merlin Programme.
  - 4 In April 2006, the National Assembly for Wales Public Accounts Committee considered the effectiveness of the Contract in providing ICT and business change services within the National Assembly for Wales, following the earlier publication of a report by the Wales Audit Office. The Committee made recommendations for the future management of the Contract and for procuring subsequent ICT contracts. The Committee noted that it was too soon to assess the impact of the new contract and said that it expected to return to the issue in the future.
  - 5 This report examines whether core ICT services and services in support of ICT projects delivered under the Contract achieved their intended benefits at a reasonable cost.
- The Welsh Government has increased its expenditure through the contract, but it cannot demonstrate that all expenditure represents value for money**
- 6 **The original scope of the Merlin contract has changed and there is no longer a single budget for total expenditure under the Contract.** Soon after the start of the Contract, governance arrangements changed. The budget for core ICT services provided under the Contract was retained, but budgets for ICT projects delivered through the Merlin Programme became the responsibility of individual Welsh Government programmes. In addition to the Merlin Programme, individual Welsh Government departments have used the Contract for departmental specific ICT projects under their own governance arrangements.
  - 7 Over the first seven years of the Contract, to 31 March 2011, the Welsh Government had spent £270 million (Figure 1). Just over a third of the expenditure has been on core ICT services and more than half has been on services in support of ICT projects.



**Figure 1 – The majority of expenditure under the Contract has been on ICT projects**



**Note**

Invoiced to 31 March 2011

Source: Wales Audit Office analysis of Welsh Government data

- 8** Services in support of ICT projects have accounted for the main increase over time in expenditure under the Contract, increasing from £10 million in 2004-05 to £32 million in 2010-11. In total, the Welsh Government has spent some £156 million on ICT projects since the start of the Contract.
- 9** The cost of core ICT services also increased over the first seven years of the Contract, from £9 million in 2004-05 to £14 million in 2010-11. The Welsh Government told us that the increase was largely because of increases in user numbers, networks, locations and telephony following the mergers into the Welsh Government of the Welsh Government Sponsored Bodies (WGSBs) in April 2006. Since 2006-07, annual expenditure on core ICT services costs has remained at a fairly constant level.
- 10** The Welsh Government has also spent £24 million under the Contract on other items for which no budget had been set. These include items which did not form part of the core ICT services pricing model, such as software (including licences), hardware, components, new data networks and training.
- 11** Expenditure under the Contract does not represent the Welsh Government's total expenditure on ICT. In 2009-10, the Welsh Government spent some £81 million on ICT, £56 million (69 per cent) of which was through the Contract. The remaining £25 million was spent through 298 separate suppliers.



- 12 Changes to the organisation of government in Wales will have increased ICT costs but, although there are provisions in the Contract to control cost increases, the Welsh Government cannot demonstrate that all expenditure under the Contract represents value for money.**

Changes to the organisation of government will have increased core ICT service costs and made business changes more complex. Some of these changes were anticipated when the Contract was signed but their scale and nature were unknown and had not been factored into the Contract. The most significant organisational changes included: the mergers into the Welsh Government of various WGSBs; the Welsh Government's Location Strategy; and the legal separation of the National Assembly for Wales from the Welsh Government, and the subsequent creation of the Assembly Commission. These changes increased the number of core ICT services users and resulted in a larger than expected number of ICT projects.

- 13 The Contract includes provisions aimed at reducing the risk of unsupported increases in costs. These include benchmarking core ICT service costs against other comparable ICT contracts, open book accounting, volume discounts, and the option to market test any ICT projects valued at more than £500,000. However, the Welsh Government cannot demonstrate that all expenditure under the Contract represents value for money. This is because it did not estimate the impact of each of the changes in the organisation of government on expenditure under the Contract, and following changes to the governance arrangements for ICT projects, there was no overall budget for services provided under the Contract in support of ICT projects.**

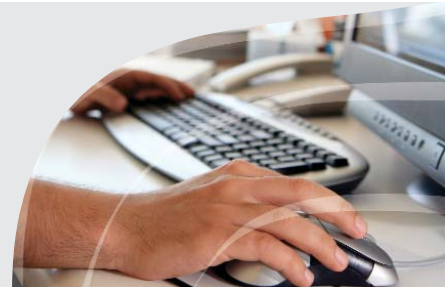
## **Following some difficulties and slippage in the modernisation of the ICT infrastructure, the Contract is now delivering core ICT services effectively**

- 14 Following significant delays and failures, a new programme to modernise the ICT infrastructure has been rolled out.** A major part of the Contract was the upgrade and standardisation of the Welsh Government's ICT infrastructure. This project, known as the Transformation project, was originally due for completion in June 2005. However, delays, caused primarily by the project being more complex than had been anticipated, led to the project being paused in July 2005. A revised scope and timetable for the project was agreed, with an expected delivery date of September 2006.

- 15 User satisfaction with ICT services deteriorated during 2005 and 2006 and, by April 2006, only 38 per cent of the 6,500 users had access to modernised and standardised ICT, although this group included all Assembly Members and staff in the (then) Assembly Parliamentary Service. In May 2006, the continuing difficulties and the disruption caused by the WGSB mergers led the Welsh Government to pause and review the project again. The review found that both the Welsh Government and Siemens had underestimated the difficulties of delivering the project. It concluded that the project had lacked basic levels of programme management and control, and that the Welsh Government and Siemens had failed to adhere to Office of Government Commerce<sup>1</sup> best practice for managing programmes and projects. The review also questioned the adequacy of the governance structures for both core ICT services and ICT projects.**

<sup>1</sup> The responsibilities of the Office of Government Commerce were absorbed into the Efficiency and Reform Group of the Cabinet Office in June 2010.

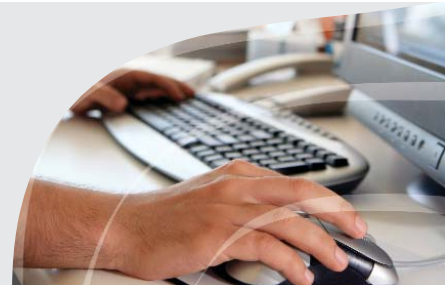




- 16** The Welsh Government considered its options, including that of terminating the Contract. It concluded that a change of supplier was unlikely to guarantee a better service or reduced costs, and recognised significant risks in carrying out a new procurement exercise. Instead, the Welsh Government sought to resolve the problems through negotiation with the supplier and by strengthening its capacity as an intelligent client to take greater ownership of the project. This signalled a change in emphasis in the Contract, from a partnership approach to a more traditional purchaser-supplier relationship, and resulted in the Welsh Government playing a more active role in managing and delivering its ICT needs. However, in doing so, the Welsh Government accepted back some of the risks it had sought to transfer to the supplier when it signed the Contract.
- 17** The upgrade of all workstations to a common standard was delivered in phases. Delivery risks were managed through piloting the upgrade in two Welsh Government divisions. This proved successful, and upgrading the remaining parts of the Welsh Government began in September 2008 and was completed on schedule and to budget in March 2010.
- 18** The Welsh Government's ICT strategy 2008-2011 included, amongst other things, plans for further improvements to core ICT services. However, as at July 2011 funding for these further phases of the Transformation project had not been agreed.
- 19** **Financial and non-financial benefits have been delivered, but the financial benefits anticipated from the new ICT infrastructure were not defined sufficiently clearly to be evaluated effectively.** Although the Transformation project has cost more than £19 million in total, the business cases for the revised project did not provide a robust framework for evaluating its financial benefits. However, the Welsh Government has identified some significant benefits. In particular, as well as moving all Welsh Government staff and all Assembly Members and Assembly Commission staff to a centralised ICT system, the Transformation project has also reduced the ICT carbon footprint and maintenance costs.
- 20** **The Welsh Government is making progress in developing a reliable asset register and has recently developed a policy for asset disposal and/or reuse.** The Welsh Government has approximately 17,500 ICT assets worth about £10 million. However, there was no up-to-date register of these assets until 2007 when, following a review by the Welsh Government's Internal Audit Service, it was established that Siemens was responsible for creating and maintaining a register. Since then Siemens has made good progress in establishing a register, although the register does not include peripheral items such as keyboards and mice.
- 21** The Internal Audit report also highlighted the lack of a systematic means of disposing of unwanted ICT assets. This has since been resolved: a contract for the disposal of ICT assets was signed in January 2009, and an asset disposal and reuse policy has been in place since September 2010.
- 22** **ICT services provided under the Contract have improved, as has the relationship between the Welsh Government and the supplier.** The standards for core ICT services are set out in the Contract and comprise standards relating to service availability, answering and dealing with service requests and the time taken by helpdesk services to rectify problems. Although service standards were in line with industry norms when the

Contract was let in 2004, they have not been revised since to keep pace with industry-wide improvements.

- 23** If service standards are not met, Siemens is penalised in the form of service credits. This provides a reliable indicator of the overall standard of service provided by Siemens for core ICT services. The number of service credits has almost halved since 2007-08, even though the number of users has increased.
- 24** From the outset, the vision of the Welsh Government was to develop a partnership with the supplier to improve efficiency, gain better value for money and deliver improved success from projects and programmes. The relationship between the Alliance and the Welsh Government was tested during the delivery of the Transformation project. Use of the Office of Government Commerce's approach to assessing the relationship between the Welsh Government and the Alliance shows that the relationship has improved, from 'poor' in the first half of 2006 to 'good' in February 2010.
- 25** **Assembly Members and the Assembly Commission have generally received reliable core ICT services under the Contract and the Assembly Commission is preparing options for future service delivery.** Core ICT services are provided to the National Assembly for Wales and the Assembly Commission through a memorandum of understanding with the Welsh Government. Although satisfaction with core ICT services has remained at acceptable levels, there have been some areas of concern. These include: the perception that the National Assembly for Wales has limited influence over the Contract as its expenditure accounts for less than five per cent of total expenditure on the Contract; Assembly Members' concerns about problems with remote access; and minor failings in 2010, which Siemens and the Assembly Commission agree was likely to have been caused by ageing equipment that has since been replaced.
- 26** Since legal separation of the National Assembly for Wales and the Assembly Commission from the Welsh Government in 2006, the Assembly Commission has increased its in-house ICT capability. In July 2008 the Assembly Commission established a review of all the technology used to support its business, including the services provided to Assembly Members, staff and the public. The review identified that the highest priority for Assembly Members was to be able to access ICT systems from wherever they are working.
- 27** In June 2009, the Assembly Commission agreed to the development of a unified network, whereby Assembly Members and National Assembly for Wales staff could operate on the same system, separate from the Welsh Government. The system was completed during 2010-11 at a cost of £4.3 million, a rise from the June 2009 estimate of £2.7 million. The unified system is expected not only to improve resilience and security, but it should also make it easier for the Assembly Commission to independently consider its options for ICT service provision at the end of the Contract in 2014. The Assembly Commission intends to carry out a full analysis of its costs under the Contract to consider if they represent good value for money. For this purpose, it is seeking to gain clarity and detail from both Siemens and the Welsh Government on their proportion of the total costs under the Contract.



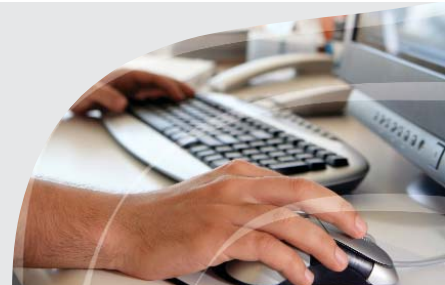
- 28 The Welsh Government and the Assembly Commission need to manage key risks in procuring core ICT services following expiry of the Contract in 2014.** The Contract runs until 2014 with an option of a five year extension. Procurement of the Contract took more than two years to complete. The Welsh Government and the Assembly Commission will therefore each need to start procurement processes soon if they decide to exit the Contract in 2014. The assessment of their requirements will need to take into account all ICT requirements, not just those delivered under the Contract. The Assembly Commission is exploring four options for the future provision of its ICT services, including the options of a partnership with the Welsh Government or with other UK Legislatures.
- 29** In its 2006 report, the National Assembly for Wales's Public Accounts Committee identified a number of shortcomings in the procurement of the Contract. In procuring Merlin's successor, the Welsh Government and the Assembly Commission should review and take on board the relevant recommendations from the Committee's report ([Appendix 5](#)).

## ICT projects delivered under the Contract have brought benefits but their value for money is uncertain

- 30 The Welsh Government has developed its approach to managing ICT projects since the Contract began in 2004.** Soon after the Contract was signed, PA Consulting, an Alliance member, identified priority areas for an ICT-enabled Merlin business change programme (the Merlin Programme). Also in 2004, the Welsh Government decided that the Contract should provide a supply framework through which ICT projects could be delivered to support the delivery of the Merlin Programme.
- 31** In 2005, the Welsh Government agreed the first instalment of ten ICT projects, together known as the Foundation projects, which were part of the Merlin Programme. The Merlin Programme and other aspects of Merlin provision were initially managed by the Merlin Management Board, but following the broadening of the Welsh Government's change agenda in 2006, governance structures were reconfigured in early 2007.
- 32** In 2006 the Welsh Government expanded its role and functions, following the mergers into it of the WGSBs. This, alongside other factors, such as the separation of the National Assembly for Wales from the Welsh Government, prompted the Welsh Government to revise its approach to business change and to review delivery arrangements. Change projects, including many non-ICT projects, were aligned into programmes as part of the Business Development Portfolio (which subsequently evolved into the Enabling Government Portfolio). Not all of the projects in the Enabling Government Portfolio are delivered through the Contract.
- 33** Eight of the ten Foundation projects were taken forward in some form into the Enabling Government Portfolio, with the other two having been already completed. The Foundation projects were included within the Enabling Government Portfolio alongside newly identified ICT projects and non-ICT projects, as part of a £40 million investment over three years.

- 34** Within the Enabling Government Portfolio governance framework, project managers are required to provide monthly reports on project costs, staffing levels, benefits and progress against key milestones to project boards (if in existence) and programme boards. However, the Welsh Government's ability to monitor the progress of its ICT projects has been hampered by its inadequate reporting of progress against key milestones, and project closure documents do not always set out clearly how projects have progressed against original schedules and costs.
- 35** **Some of the initial Foundation projects experienced problems in their delivery.** Five of the original ten Foundation projects have been completed, with three costing more and/or taking longer to complete than had been anticipated in their original business cases. In the case of the Welsh European Funding Office Grant Management and Payment System, the project was delayed for more than a year and cost twice the original estimate.
- 36** Of the original five Foundation projects that have not been completed, two were stopped during their development and their objectives incorporated into Enabling Government Portfolio projects. The remaining three projects are still being implemented within the Enabling Government Portfolio, but with revised scopes, budgets and timescales.
- 37** **The Welsh Government has not consistently managed some of the risks to value for money in delivering ICT projects.** ICT projects can be inherently complex and risky and, in recent years, the public sector in the UK has overseen a number of high profile and expensive ICT project failures. We identified several risks from ICT projects delivered through the Contract that hamper the achievement of value for money and the Welsh Government's ability to assess the Alliance's performance in delivering ICT projects.
- 38** Although some individual projects have delivered or are delivering some positive outcomes and the Welsh Government has sought to strengthen its arrangements for evaluating project benefits, financial benefits have not been consistently identified, collated and monitored. We found that:
- a** anticipated benefits had not been articulated for some Foundation projects;
  - b** the Welsh Government has not systematically monitored the benefits delivered by all the Foundation projects;
  - c** the Welsh Government has strengthened its arrangements for evaluating the financial benefits achieved by ICT projects, but much of the relevant data is inconsistent and incomplete; and
  - d** the way in which the Welsh Government records information on costs and benefits does not enable it to carry out an overall assessment of value for money from services in support of ICT projects procured under the Contract.
- 39** Under the current governance arrangements the Welsh Government no longer monitors and reports the aggregate spend under the Contract on ICT projects. This means that the Welsh Government is hampered in its ability to assess the Alliance's aggregate performance in supporting ICT projects and the overall value for money of the Contract.





- 40** One of the original aims of the Contract was to deliver skills transfer from the Alliance to Welsh Government staff. The Welsh Government has built its capacity to manage programmes and projects, but cannot quantify the impact of this in terms of reduced expenditure on external support for ICT projects.
- 41** A significant number of projects have been procured on a 'time and materials' basis, whereby payments are made for the number of hours worked rather than for the delivery of a specified end product. Two-thirds of expenditure on ICT projects procured under the Contract was incurred on a 'time and materials' basis. If not managed closely, these contracts risk offering little incentive for the contractor to be efficient. The Welsh Government has responded to the risks of procuring projects on a time and materials basis by making the achievement of desired outcomes a condition of such contracts. For high risk time and materials projects, it has also included warranty clauses.
- 42** The Contract does not restrict the Welsh Government to using only the services of the Alliance. It also allows the Welsh Government to market test any ICT project over the value of £500,000. We found that the Welsh Government has used this provision to procure some major ICT projects outside the Contract.

## Overall conclusion

- 43** Following some difficulties during 2005 to 2007, when the Welsh Government lacked the capacity to act as an intelligent client, the Contract is now delivering core ICT services effectively. ICT projects supported by services delivered under the Contract have been developed and implemented with varying degrees of success. However, the Welsh Government has not monitored the costs of these services effectively, and has not consistently managed some of the risks to value for money in managing ICT projects. Accountability for ICT projects services delivered under the Contract is dispersed across the Welsh Government and the overall value for money from the Contract is uncertain.

## Recommendations

### Merlin costs

- 1** While the cost of core ICT services are discernible and closely managed and monitored, accountability for ICT projects is dispersed and the Welsh Government no longer monitors aggregate spend on ICT projects. Total spend through the Contract is monitored only by the Contract managers and no longer reported to a governance board. Also, management information on the costs of individual ICT projects is not robust. Together, these factors hamper the Welsh Government's ability to judge the Alliance's performance across all ICT projects and to assess the value for money of the Contract as a whole. **We recommend that the Welsh Government records and monitors all spend under the Contract in a way that enables meaningful analyses of the performance of the Alliance to be carried out. Monitoring reports should be provided**

to the Welsh Government's Strategic Delivery and Performance Board and include a detailed breakdown of all costs components. Such analysis will:

- a** enable judgments to be made on the value for money that the Welsh Government is receiving from the Alliance for ICT projects;
- b** provide an understanding of exactly what Welsh Government resources are being spent through the Contract on ICT projects, what is driving expenditure and where accountability lies; and
- c** provide useful baseline information to inform the specification for the procurement of a new contract following expiry of the Contract.

### Evaluating the benefits of ICT projects

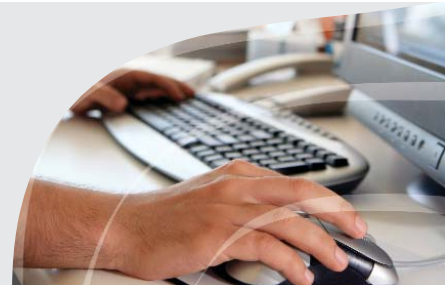
- 2** One of the main aims of the Contract was to use ICT to enable business change through a series of projects. Expenditure on services in support of ICT projects delivered through the Contract amounts to £156 million. While projects have brought some benefits, their value for money is uncertain because a systematic approach to benefits realisation for ICT projects has not been embedded. **We recommend that the Welsh Government:**
  - a** develops a system for planning, measuring and monitoring the financial and non-financial benefits of ICT projects, in line with Office of Government Commerce guidelines; and
  - b** requires senior responsible owners to report annually on the financial and non-financial benefits being delivered by all individual ICT projects.

### Use of external support and the Welsh Government's capacity to manage and deliver ICT projects

- 3** One of the original aims of the Contract was to reduce over time, the dependency on external support and increase the capacity of Welsh Government officials to manage and deliver ICT projects. The Welsh Government has strengthened some of its arrangements for supporting the management and delivery of ICT projects, but management information is inadequate to assess whether this has resulted in a year-on-year reduction in the use of external support for ICT projects. **We recommend that the Welsh Government measures and monitors the use, over time, of external support on ICT projects. This should include not only measures of time and cost, but also the benefits delivered from external support.**

### Delivering large and complex ICT projects

- 4** The Welsh Government manages a number of large, complex and high-risk ICT projects. The procurement, management and delivery of these projects should be in line with accepted best practice, such as the guidance provided by the Office of Government Commerce. Adherence to good practice will also enable lessons to be learnt and disseminated throughout the Welsh Government and the wider public sector. **We found that Gateway reviews were not used on ICT projects and therefore recommend that the Welsh Government carries out Office of Government Commerce Gateway reviews for all major ICT projects, and use independent, external Gateway assessors for complex and high-risk projects.**



### Procurement of Merlin's successor

- 5** The Contract expires in 2014, but there is an option to extend for a further five years. Given that the Merlin contract took over two years to procure, the Welsh Government and the Assembly Commission should be taking action now to be in a position to decide soon whether to extend the current contract or start the procurement of its successor. If a decision is made not to extend the Contract, **we recommend that the Welsh Government and the Assembly Commission should each:**
- a** make an early decision about whether or not to procure a new contract for ICT services jointly, or to carry out their own, separate, procurements;
  - b** develop an exit strategy for the current contract, which should include identifying all work that needs to be completed by the contract end date and consideration of intellectual property rights and staff employment issues;
  - c** review and take on board, as appropriate, the procurement related recommendations from the 2006 Wales Audit Office and Public Accounts Committee reports on the Merlin contract;
  - d** review the success or otherwise of the partnership model used under the Contract, and decide on the most appropriate approach for the new contract;
  - e** carry out Office of Government Commerce Gateway 5 (operations review and benefits realisation) reviews soon after the end of the Contract to identify all the financial and non-financial benefits gained from the Contract;
  - f** ensure that their procurement strategies for a successor to Merlin include Office of Government Commerce Gateway (strategic assessment) reviews;
  - g** identify data requirements for the procurements, including data collection, analysis and monitoring requirements, possible performance indicators, and rewards and sanctions for good or poor performance; and
  - h** institute governance arrangements that ensure clear accountability for the management of all services delivered under the new contract.



## Part 1 – The Welsh Government has increased its expenditure through the Contract, but it cannot demonstrate that all expenditure represents value for money

### The original scope of the Merlin contract has changed and there is no longer a single budget for total expenditure under the Contract

#### The Welsh Government procured the Merlin contract on the basis of a minimum spend of £220 million over the 10 year life of the Contract

- 1.1** The Merlin contract (the Contract) is a 10 year agreement (with an option to extend for a further five years) between the Welsh Government and a consortium (the Alliance) led by Siemens Information Services (Siemens). The Contract is for the provision of core ICT services and support for ICT-enabled business change projects (ICT projects) for the (then) National Assembly for Wales<sup>2</sup> (Box 1).
- 1.2** Based on extant levels of expenditure on ICT and related services of £22 million a year, in 2003 the Welsh Government budgeted to spend a minimum of £220 million over the ten-year life of the Contract from 1 April 2004 to 31 March 2014. This amount was considered affordable based on existing ICT expenditure: the Welsh Government believed that core ICT services costs could be reduced and the remainder used for ICT projects. It budgeted £82 million (37 per cent) for core ICT services and £138 million (63 per cent) to deliver ICT projects under what was then

#### Box 1 – The Merlin Contract

The Merlin contract was signed in January 2004 and service delivery started in April 2004.

Merlin replaced the OSIRIS contract, which was a more traditional IT contract also provided by Siemens. The new agreement was styled as a partnership between the public and private sectors, through which ICT could be used to enhance business change. The benefits of the partnership were seen as improving efficiency, gaining better value for money from commercial activities and delivering improved success from programmes and projects.

Siemens leads a consortium of suppliers: Siemens leads on ICT services; Caggemini leads on selected software applications; PA Consulting leads on business process reengineering and change management; and Siemens Enterprise Communications leads on telecommunications.

The Contract covers both the Welsh Government and the National Assembly for Wales. There is an option to extend the Contract for a further five years until 2019.

ICT services in the Welsh Government and National Assembly have been the subject of two earlier reports by the Wales Audit Office and the National Audit Office:

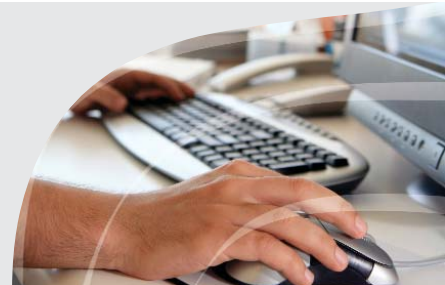
- The Merlin contract - enabling the National Assembly to change its business processes through ICT (2006); and
- OSIRIS: the PFI contract for information technology in the National Assembly for Wales (2002).

Source: Wales Audit Office

known as the Merlin Change Programme. Whilst the Welsh Government recognised that the budget may change to account for inflation, it envisaged that any additional expenditure would be justified by separate business cases<sup>3</sup>.

<sup>2</sup> The Merlin contract covered the whole of the National Assembly for Wales, including the Welsh Government. Since the separation of the Welsh Government from the National Assembly for Wales under the Government of Wales Act 2006, the National Assembly for Wales and the Assembly Commission receive ICT services under the Merlin contract through a Memorandum of Understanding with the Welsh Government.

<sup>3</sup> *The Welsh Government's Procurement Decision Business Case*, December 2003.



### Changes to the governance of ICT projects led to the Merlin budget for ICT projects being absorbed into other Welsh Government budgets

- 1.3** In Autumn 2004, soon after the start of the Contract, Welsh Government officials recognised a conflict of interest in the governance arrangements for ICT projects. They considered it inappropriate for the Merlin Partnership Board<sup>4</sup> to make investment decisions for the Merlin Change Programme, as the Board included Alliance executives whose companies stood to benefit from the decisions. Subsequently, changes were made to the governance of ICT projects, including the establishment in December 2004 of an Investment Board. This Board excluded Alliance representation and made investment decisions in respect of all Welsh Government change projects, whether or not they included an ICT element.
- 1.4** The Welsh Government also changed and broadened its corporate change programme, from a small number of ICT projects delivered under the Merlin Change Programme to a larger number of projects, including non-ICT projects, not all of which were delivered under the Contract. Changes in the governance of ICT projects resulted in expenditure under the Contract for ICT projects being charged to the budgets of individual Welsh Government programmes. As a result since 2006-07, whereas there is a single budget for core ICT services, there has been no overall Merlin budget covering all services provided under the Contract.

### To March 2011 the Welsh Government has spent £270 million under the Contract

- 1.5** We found that between 1 April 2004 and 31 March 2011 the Welsh Government had spent £270 million under the Contract. Just over a third of expenditure (34 per cent) has been on core ICT services, to support the work of Welsh Government staff, Assembly Commission staff and Assembly Members, and more than half (58 per cent) has been on support for ICT projects (Figure 2). The most significant areas of expenditure on ICT projects have been:
- a** the Welsh European Funding Office grants system (£18.1 million, covering development and implementation);
  - b** the 'Transformation project' to rebuild the Welsh Government and Assembly Commission's ICT system (£19.3 million);
  - c** ICT for the Senedd building (£10.1 million); and
  - d** the Welsh Government's Electronic Records and Document Management System (£9.9 million).
- 1.6** Expenditure under the Contract does not represent all Welsh Government expenditure on ICT over the last six and a half years. The Welsh Government's ICT Strategy 2008-2011 notes that 'currently there is little visibility of the total ICT activity within the Welsh Government as it is vested in multiple departments and can be initiated from a variety of sources.' To improve the visibility of all ICT activity and spend, the Welsh Government appointed in 2008 a Head of Profession for ICT.

<sup>4</sup> The group comprised of Welsh Government officials and Alliance executives, chaired by the Permanent Secretary, which had responsibility for managing the relationship between the National Assembly and the Alliance.

**Figure 2 – The majority of expenditure under the Contract has been on ICT projects**

Area of spend	Total spend <sup>1</sup>
<b>ICT projects</b> Support for a range of ICT enabled business change projects connected to the delivery of core ICT services, to the development of ICT infrastructure or to technology-enabled business change projects.	£155.9 million (58 per cent)
<b>Core ICT services</b> Services relating to the ICT systems and applications used on a day-to-day basis by the Welsh Government, the Assembly Commission and Assembly Members. Costs are determined by using the pricing model set out in the Contract. [Core ICT services expenditure includes some costs for the Transformation project to upgrade the ICT infrastructure (£3 million in 2005-06 and £1 million in 2006-07). The majority of Transformation project expenditure is included as part of ICT projects costs.]	£90.3 million (33 per cent)
<b>Other</b> A varied category including non-core ICT items (mostly consumables) which do not form part of the core ICT services pricing model.	£23.8 million (9 per cent)
<b>Total</b>	<b>£270 million</b>

**Note**

<sup>1</sup> Invoiced to 31 March 2011

Source: Welsh Government

**1.7** In 2009-10, the first year for which total Welsh Government ICT expenditure has been calculated, the Welsh Government spent some £81.3 million<sup>5</sup> on ICT, 69 per cent of which (£55.7 million) was through the Contract. The remaining £25.6 million was spent through some 298 separate suppliers<sup>6</sup>. The Welsh Government stated that the data collection exercise used to calculate these figures was comprehensive but not exhaustive, and it is likely that additional ICT spend has not been identified.

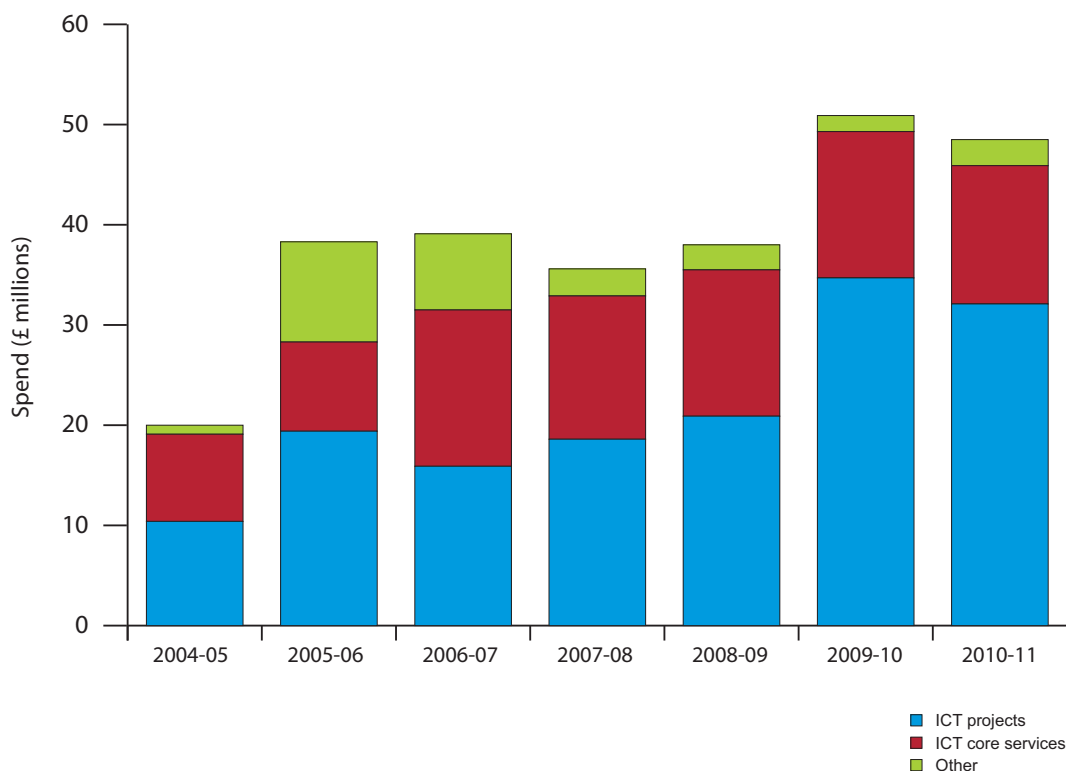
**1.8** Annual expenditure under the Contract has increased over its first six years. This is due primarily to increased spending on ICT project services, which rose from £10.4 million during the first year of the Contract in 2004-05 to £34.7 million in 2009-10 (Figure 3). Total expenditure on ICT project services to March 2011 was £155.9 million. A further £7.1 million (six per cent) was on expenses.

<sup>5</sup> This includes £2.5 million which is recoverable VAT from core ICT services.

<sup>6</sup> Welsh Government ICT Spend. Paper produced by Commercial and Contracts Unit for the Strategic Delivery and Performance Board Meeting, 22 October 2010.



**Figure 3 – Total expenditure on both core ICT services and ICT projects has increased over the lifetime of the Contract**



Source: Welsh Government

**1.9** Annual expenditure on core ICT services has also increased, from £8.7 million in 2004-05 to £13.8 million in 2010-11. In 2006-07 core ICT service costs increased by 76 per cent to £15.6 million compared to the previous year. The Welsh Government told us that this increase was due to the increased number of users, networks, locations and telephony resulting from the merger of WGSBs into the Welsh Government, and associated costs. Core ICT service costs have remained at a fairly constant level since 2006-07 despite subsequent falls in user numbers, by 235 (three per cent), to 2009-10.

**1.10** The Welsh Government told us that the higher than anticipated expenditure through the Contract on ICT projects is an indicator of the success and growing levels of confidence in the use of the Contract. However, there is no data available on the proportion of total Welsh Government ICT expenditure that has been spent under the Contract, over time, to support this assertion.

## Changes to the organisation of government in Wales will have increased ICT costs, but although there are provisions in the Contract to control cost increases, the Welsh Government cannot demonstrate that all expenditure under the Contract represents value for money

Changes to the organisation of government in Wales will have increased the cost of core ICT services and made business change more complex

- 1.11 In our March 2006 report we noted that the Welsh Government was about to undergo three major structural changes (Box 2) that were likely to increase ICT expenditure:
- a the merger of WGSBs into the Welsh Government in April 2006<sup>7</sup>;
  - b the separation of the National Assembly for Wales from the Welsh Government and the subsequent creation of the Assembly Commission in May 2007; and
  - c the Welsh Government's Location Strategy, which would create a more dispersed estate.

### Box 2 – Three major changes likely to impact on ICT expenditure under the Contract

#### Mergers of WGSBs into the Welsh Government

In July and November 2004 the then First Minister announced that, with effect from 1 April 2006, four WGSBs would merge into the Welsh Government: the Welsh Development Agency; the Wales Tourist Board; Education and Learning Wales; and the Qualifications, Curriculum and Assessment Authority for Wales. Subsequently the Welsh Government has taken over some functions of other organisations. For example, in October 2006 the Welsh Government took over responsibility for running the agri-environment scheme Tir Gofal from the Countryside Council for Wales.

#### Legal separation of the National Assembly for Wales and the Welsh Government

The 2006 Government of Wales Act provided for the separation of the National Assembly for Wales - the legislature comprising of sixty democratically elected Assembly Members - and the Welsh Government. The separation took place in May 2007.

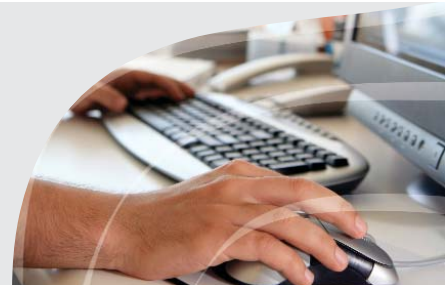
#### Location Strategy

The Welsh Government's Location Strategy aimed to relocate 400 posts from Cardiff to offices across Wales by 2007, and subsequently to increase the number of posts located outside of Cardiff by at least 900 compared with 2002, in at least three new multi-functional offices and other smaller offices across Wales.

Source: Wales Audit Office

- 1.12 The combined effect of these changes was to increase the cost of providing core ICT services by increasing the number of users, increasing the number of locations over which services are delivered, and making the ICT more complex with more software applications and legacy systems from the merged organisations (Figure 4). They also made the business change programme more complex as the Welsh Government embraced new functions and a legacy of business processes.

<sup>7</sup> In 1 April 2006, the Welsh Development Agency, Welsh Tourist Board, Education and Learning Wales and the Qualifications, Curriculum and Assessment Authority for Wales merged into the Welsh Government.



**Figure 4 – The combined effect of a range of changes will have increased the cost of ICT services**

Change	Impact
Increase in staff numbers, including those resulting from the mergers of WGSBs into the Welsh Government	One of the bases of core ICT services costs under the Contract is a charge per user. Therefore, costs increase as the number of users increases, subject to some volume discounts. The merger of WGSBs into the Welsh Government increased the number of ICT service users by nearly 40 per cent compared to the start of 2006. Increasing staff numbers also increased the cost of the ICT-rebuild programme, known as the Transformation project, and will have affected the cost of some ICT projects.
Increase in the number of Welsh Government offices across Wales	Both the WGSB mergers and the Welsh Government's Location Strategy increased the number of offices used by the Welsh Government, and hence core ICT costs, partly through requiring additional network links and servers and also because ICT support costs increase over a more dispersed estate. The WGSB mergers more than doubled the number of Welsh Government offices, although the Welsh Government has subsequently sought to rationalise its estate.
Inheriting ICT contracts held by the merged WGSBs	Where possible, the Welsh Government terminated the ICT contracts inherited from the merged WSPBs and replaced them with services procured under the Contract, for example in the provision of anti-virus software.
The ICT system became more complex	Each merged organisation had different ICT platforms, applications and business processes. Significant work was initially required to enable these to continue operating and enable effective communication between staff prior to migration to a new ICT platform.
Increasingly complex user needs	The WGSB mergers and other changes increased the scale and complexity of the Welsh Government's work. This affected the Welsh Government's ICT projects which covered wider business needs and more users than originally anticipated.
Legal separation of the National Assembly for Wales and the Welsh Government	In 2005 the Welsh Government commissioned Siemens to provide an estimate for a project to create a separate ICT system for the Assembly Commission and Assembly Members. The Assembly Parliamentary Service (the predecessor to the Assembly Commission) chose not to proceed with this work in 2006, primarily because there was a significant risk that the work could not be completed in the short time available before the separation. The work was subsequently taken forward through the Assembly Commission's Unified Network project, which was completed in October 2010 at a cost of £4.3 million.

Source: Summary of Wales Audit Office analysis



### The Welsh Government has used provisions in the Contract to reduce the risk of unsupported increases in the cost of core ICT services

- 1.13** The Contract includes clauses to help the Welsh Government ensure value for money for core ICT services. These include:
- a** volume discounts, within limits, so costs per user fall as user numbers increase;
  - b** open-book accounting, to give transparency about the Alliance's costs and profits, and to allow the Welsh Government to estimate core ICT services and project costs by using the pricing model set out in the Contract;
  - c** a cap on the Alliance's profits at 15 per cent of costs, with any excess reimbursed to the Welsh Government;
  - d** benchmarking core ICT services costs against those of comparable organisations;
  - e** market testing for projects costing more than £500,000, where the project concerned is not so closely linked to the Alliance's work that another organisation could not complete it; and
  - f** linking increases in day rates for consultancy services charged by the Alliance to average increases across the sector.
- 1.14** Each year the Welsh Government has commissioned a benchmark of its ICT services costs under the Contract against other large ICT contracts. Prior to 2008, the benchmarking showed that the cost of core ICT services was at or below benchmark levels. However, the 2008 benchmarking exercise found that ICT services costs under the Contract were significantly (£1 million) higher than the comparable costs of other contracts.

- 1.15** The Welsh Government and Siemens agreed to review the pricing model for core ICT services (**Box 3**) and in April 2009 entered into negotiations over the price and standards for ICT services. Despite the results of the 2008 benchmarking exercise, Siemens considered that the pricing model did not accurately reflect the price that they should be charging for core ICT services, which was not profitable for them.

#### Box 3 – Merlin Pricing Model

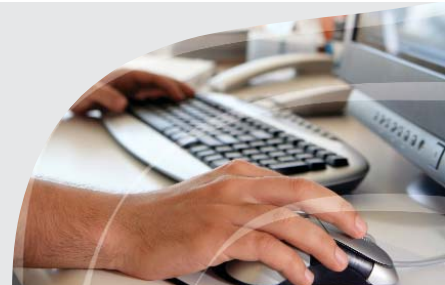
The pricing model is used to calculate how much the Welsh Government and Assembly Commission should pay for core ICT services provided by Siemens under the Contract. The model is made up of all the costs that the supplier incurs (administration of data networks, telephony, Siemens staff costs, overheads and third party costs) plus a profit margin.

The model is based on a baseline cost that is adjusted upwards or downwards depending on various parameters, most notably the numbers of locations, telephone switches, servers and service users.

*Source: Welsh Government – Merlin contract schedule, 2004*

- 1.16** Siemens withdrew from negotiations in April 2010 and the original pricing model used to calculate core ICT service charges has not been changed. However, since 2009 ICT core service costs have been at or below benchmark levels. The Welsh Government told us that this was achieved through a significant reduction in network costs, upgraded ICT infrastructure that allowed for more efficient data movement across networks, and the benefits of the Welsh Government's Location Strategy.





### **The Welsh Government cannot demonstrate whether all ICT project services expenditure under the Contract represents value for money**

**1.17** Although the Welsh Government has invested significant resources through the Contract, it is difficult for it to demonstrate that it is achieving value for money because:

- a** Changes in the organisation of government have caused significant additional expenditure under the Contract. However, the Welsh Government did not estimate the impact on expenditure of each change, to assess whether the additional expenditure incurred was reasonable.
- b** The Welsh Government did not revise its budget for the Contract following changes to the governance arrangements for core ICT services and ICT projects and, therefore, cannot assess whether spend under the Contract is in line with expectations.

### **The Welsh Government spent £24 million under the Contract to March 2011 on items outside its main categories of spend**

**1.18** The Welsh Government spent £24 million under the Contract on items, such as software (including licences), hardware, components, training and data network lines, that falls outside the Welsh Government's main categories of spend on core ICT services and ICT projects. The original business case included no estimate for such expenditure but, to March 2011, it represents nearly ten per cent of total expenditure under the Contract.

## Part 2 – Following some difficulties and slippage in the modernisation of the ICT infrastructure, the Contract is now delivering core ICT services effectively

### Following significant delays and failures, a new programme to modernise the ICT infrastructure has been rolled out

#### The modernisation of the Welsh Government's ICT infrastructure was beset by problems and was paused in 2005 and in 2006

**2.1** During the procurement of the Merlin contract the Welsh Government recognised that its ICT infrastructure would require upgrading and standardisation soon after the start of the new contract, as the last upgrade had been in 2000. The cost of upgrading and standardisation was factored into the Contract and was due to be completed by June 2005. The Transformation project aimed to deliver a completely new ('transformed') ICT infrastructure for the Welsh Government, the National Assembly for Wales and the then Assembly Parliamentary Service to support current operations and future aspirations, in line with best practice and guidance.

**2.2** Our 2006 report explained how problems caused by, amongst other things, the unexpectedly large number of software applications used throughout the National Assembly and building work required to house new servers, had led to delays in completing the Transformation project<sup>8</sup>. In July 2005 the project was paused to resolve these issues and a new timetable for the project was agreed. The Welsh Government and the Alliance agreed that all non-standard software

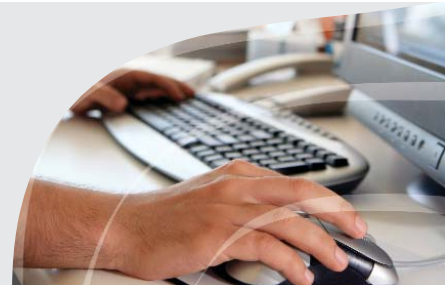
applications that did not require significant work or procurement to operate on the new infrastructure were to be included in the revised Transformation project, which was due to be completed in September 2006. More complex applications were to be treated as distinct ICT projects within the Welsh Government's Business Change Programme.

**2.3** User satisfaction with ICT services deteriorated during 2005 and 2006 and, by April 2006, only 38 per cent of the 6,500 users had access to modernised and standardised ICT, although this group included all Assembly Members and staff in the Assembly Parliamentary Service. User dissatisfaction was caused by:

- a** delays in the roll-out of the Transformation project, as Siemens had to divert staff to complete essential work in advance of the WGSB mergers in April 2006;
- b** technical difficulties with the new infrastructure, which meant that users faced problems with the new equipment and standardised applications; and
- c** frustration following the merger of the WGSBs in April 2006 because the Welsh Government's ICT infrastructure became a mix of different software versions that were not compatible with each other, making sharing information difficult and compromising the reliability of core ICT services. Users found themselves unable to communicate electronically with the person sitting next to them<sup>9</sup>.

<sup>8</sup> *The Merlin contract – Enabling the National Assembly to change its business processes through ICT*, Auditor General for Wales, March 2006, paragraphs 2.25 and 2.26.

<sup>9</sup> *Merlin Contract Task and Finish Group: Final Report*, May 2008.



- 2.4** The extent of the difficulties being experienced led both Siemens and the Welsh Government to review the viability of the Transformation project. Siemens initiated a review of the technical design of the project in February 2006, and subsequently, in May 2006, the Welsh Government again paused the project and instigated its own review. The (then) Permanent Secretary alluded to this review in his evidence to the National Assembly's Audit Committee on 6 April 2006, but we have since been told that neither he nor his officials were aware at that time of the full extent of the problems with the project that would subsequently lead to a far more significant delay.
- 2.5** The review team, led by a Welsh Government non-executive Director, reported in July 2006<sup>10</sup>. It found that both the Welsh Government and Siemens had underestimated the difficulties of upgrading and modernising the Welsh Government's ICT infrastructure and that the technology being implemented did not support the Welsh Government's needs. The report concluded that the original Transformation project had 'lacked the most basic level of programme management and control', including the lack of a business case, and that the project had 'failed to adhere to [Office of Government Commerce] best practice for the successful management of programmes and projects, despite these standards being explicit contractual requirements'.
- 2.6** The report also fundamentally questioned the adequacy of the governance structures for both core ICT services and ICT projects. In regard to the Transformation project, the report recommended a review of the Welsh Government's intelligent customer function and, where appropriate, the recruitment of

experienced staff. Following the review, the Welsh Government revised its governance structures and began the process for recruiting a Director of ICT and Contract Services.

- 2.7** In March 2007, the Welsh Government established a 'Task and Finish' Group comprising senior Welsh Government officials to assess the options available to it, including possible termination of the Contract (Box 4). The Group concluded that changing the supplier could not in itself be expected to guarantee an enhanced service or reduced cost, while there would be significant risks in carrying out a new procurement exercise, in terms of cost, time, day-to-day service and progressing with business change. The Welsh Government therefore decided to try to resolve the problems through negotiation and to 'drive forward improved supplier service as opposed to termination of the Contract'<sup>11</sup>.

#### Box 4 – The Merlin Contract Task and Finish Group was set up to review options for improving ICT services across the Welsh Government

The Merlin Contract Task and Finish Group was established by the Permanent Secretary of the Welsh Government in March 2007. The Group reviewed the appropriateness of the Contract in light of problems with the delivery of projects such as the Transformation project, changes to the structure of the Welsh Government following the WGSB mergers, and the Alliance's performance. The Group met over the following year, and reported periodically to the Welsh Government's Permanent Secretary and Management Board making key recommendations along the way. The Group produced a final report May 2008.

Source: Merlin Contract Task and Finish Group: Final Report, May 2008

<sup>10</sup> Report of the Merlin Review Team, July 2006.

<sup>11</sup> Merlin Contract Task and Finish Group, meeting minutes 4 April 2007.

**2.8** Both the Merlin Review Team report and the report of the Task and Finish Group identified the importance of strengthening the Welsh Government's capacity to act as an intelligent client by employing experienced ICT professionals. By enhancing its own capacity, the Welsh Government would be able to take greater ownership of services delivered under the Contract. This signalled a change in the emphasis of the Contract, moving away from the envisioned partnership approach to a more traditional supplier-contractor relationship, with the Welsh Government accepting back some of the risks of delivering such a contract it had previously transferred to the Alliance, such as identifying long-term ICT requirements and keeping pace with technological developments. The failure of the Welsh Government to act as an intelligent client had previously been identified as a key risk in our March 2006 report and by the Public Accounts Committee in its report later in 2006<sup>12</sup>.

**Since 2007, Welsh Government officials have taken a greater lead in the third and fourth phases of the Transformation project**

**2.9** In July 2007, the Welsh Government appointed a Director of ICT and Contract Services with responsibility for reviewing and making recommendations on its technical capability and ability to manage the Contract effectively. The newly appointed director led the design and technical discussions on the future shape of ICT services within the Welsh Government. This contrasted with the previous approach in which the Welsh Government provided a detailed business requirement for which Siemens prepared and recommended technical solutions. By taking a

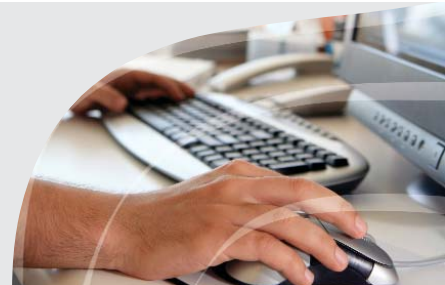
more active role in identifying technical solutions, the Welsh Government took greater control of the process but it also accepted back some of the risks previously transferred to the supplier under the partnership model. In January 2008 the Welsh Government published its ICT strategy to enable both 'the corporate body and departments to meet their objectives through an ICT organisation that has customer interests at heart and identifies innovative solutions to meet business needs'<sup>13</sup>.

**2.10** The remainder of the Transformation project was undertaken in phases rather than the 'big bang' approach favoured previously (Figure 5). This included the requirement for a business case for each stage setting out its objectives, costs and benefits. Also, unlike previously, the proposed new infrastructure would meet the Welsh Government's concerns about ICT security and systems back-up. All workstations were to be upgraded to a common standard, including those previously included in the first phase of the project. The risk of failure was managed by successfully piloting the upgrade in two divisions of the Welsh Government (phase three of the Transformation project) before the new infrastructure was rolled out to the rest of the Welsh Government (phase four). A representative from the Welsh Government's Statistics division, which was a pilot site for the roll-out, noted that: 'Unlike previously, transformation happened with us and not to us and we are very pleased with the result'<sup>14</sup>.

<sup>12</sup> *The Merlin Contract – Enabling the National Assembly to change its business processes through ICT*, report by the National Assembly for Wales Audit Committee. Committee Report (2) 06-06, September 2006.

<sup>13</sup> *Information and Communications Technology Strategy 2008-2011*, Welsh Government, January 2008.

<sup>14</sup> *Merlin Contract Task and Finish Group: Final Report*, May 2008.



**Figure 5 – The Welsh Government implemented a phased approach when the Transformation project was restarted in 2007**

Transformation phase	Description	Timescale
<b>Original Transformation project</b>		
1	Original 'Transformation Project' - upgrade the infrastructure and hardware and software for 6,500 staff in the Welsh Government, the National Assembly for Wales and the Assembly Parliamentary Service (rollout completed for the National Assembly for Wales and the Assembly Parliamentary Service).	Planned - April 2005 to June 2005 (Revised to September 2006)
2	Extension of first phase to include merged WGSBs. This was abandoned when the Transformation project was paused for a second time in May 2006.	Planned - November 2006 to July 2007
<b>Revised Transformation project</b>		
3	Project for new common ICT infrastructure using centralised ICT technology. Piloted in two divisions of the Welsh Government.	Planned and delivered - January to July 2008
4	Roll-out of new ICT infrastructure for 85 per cent of the Welsh Government, and staff in the National Assembly for Wales and the Assembly Parliamentary Service previously upgraded in Phase 1.	Planned and delivered - September 2008 to March 2010
5	Roll-out of new ICT infrastructure for remaining 15 per cent of Welsh Government staff whose ICT requirements were unsuitable for the technology rolled out during phase four.	Planned for 2009-10, but partly delivered as part of the fourth phase - September 2008 to March 2010. Phase five included a project to reduce the carbon footprint of the Welsh Government's ICT estate
6	Withdrawal of unsupported software applications and those that carry out the same functions as more up-to-date versions.	Planned for 2010-11, but funding not agreed and not yet started
7	Rollout of Microsoft Office 2007.	Planned for 2010-11, but funding not agreed and not yet started
8	Future Technology Upgrades.	Planned for 2011-12 and 2012-13

Source: Transformation Programme T4 Outline Business Case, Welsh Government, July 2008; ICT Strategy 2008-2011, Welsh Government, January 2008



### The third and fourth phases of the Transformation project were delivered within budget and on time, but funding for future improvements is uncertain

- 2.11** The fourth phase of the Transformation project started in September 2008. Except for a few minor delays, for example where Rural Affairs staff were moving to the new Aberystwyth Office, the phase was completed on schedule at the end of March 2010. The fourth phase delivered new ICT infrastructure to all Welsh Government staff, meaning that the fifth phase focussed on reducing the carbon footprint of the Welsh Government's ICT estate.
- 2.12** The third and fourth phases of the Transformation project were delivered for just under the budget agreed in July 2008 (Figure 6). This figure represent a £1 million saving on the cost originally agreed a year earlier in the strategic outline case. The

Welsh Government told us that it had delivered within the budget because it had an improved understanding of costs as a result of the piloting phase of the project, and because it took a more direct role through being an intelligent client.

- 2.13** The ICT strategy for 2008-2011 includes, amongst other things, plans for long-term improvements in ICT services and provision. These were envisaged as phases five to eight of the Transformation project. However, as at June 2011, only the fifth phase of the Transformation project has been delivered. The Welsh Government has not set aside any funding and has not set a timetable for the delivery for the other improvements.

**Figure 6 – Expenditure on the third and fourth phases of the Transformation project compared with business case estimates**

Item	Strategic Outline Case (September 2007) (£million)	Outline Business Case (July 2008) (£million)	Actual cost (£million)
Phase 3	2.4	2.4	2.4
Phase 4	Capital	6.0	6.8
	Revenue	6.1	4.3
	Total	12.1	11.1
<b>Total</b>	<b>14.5</b>	<b>13.5</b>	<b>13.4</b>

Source: Transformation Programme. T4 Strategic Business Case, Welsh Government, September 2007



## Financial and non-financial benefits have been delivered, but the financial benefits anticipated from the new ICT infrastructure were not defined sufficiently clearly to be evaluated effectively

### The Welsh Government did not define clearly the financial benefits expected from the Transformation project

**2.14** In total the Transformation project cost just over £19 million. However, contrary to generally accepted good practice, there was no formal business case or Gateway review for the original Transformation project. The Welsh Government believed the project to be essential as its ICT had not been updated in the last years of the predecessor ICT contract, and modernisation was necessary to enable business to continue as usual and to enable any future change programmes. Therefore, a requirement to introduce new ICT soon after the Contract started was included in the procurement negotiations. However, the failure to set out a formal business case for the Transformation project means that there is no baseline against which to evaluate any benefits flowing from the first phase of the project.

**2.15** The Welsh Government developed business cases for both the third and fourth phases of the revised Transformation project. The Welsh Government told us that the business cases were prepared over a short timescale because there was a clear urgency and priority to deliver the standardised ICT infrastructure across the Welsh Government. The business cases focused primarily on the non-financial benefits anticipated (**Box 5**) and

### Box 5 – Desired outcomes and benefits from the fourth phase of the Transformation project

The Strategy Sub-Committee, a sub-committee of Welsh Government's Strategic Delivery and Performance Board, approved the Strategic Outline Case for the fourth phase of the Transformation project in September 2007. This business case outlined the basic business need for this phase of the project. The Outline Business Case, which provided more detail on how and why the project would be delivered, was approved in July 2008. A range of outcomes and benefits are identified in the Outline Business Case, most of which are difficult to evaluate in financial terms:

- safeguard business as usual;
- enable users to collaborate and benefit from up-to-date applications (eg, Microsoft Office);
- secure and compliant infrastructure;
- user mobility and equality of access regardless of Welsh Government location;
- provide a platform for rollout of corporate/enterprise applications, including the ICT enabled Business Design projects in 2008-09;
- provide greater management control;
- consolidate and rationalise hardware;
- improve user satisfaction;
- improved value for money; and
- sustainable solution.

*Source: Transformation Programme. T4 Strategic Business Case, Welsh Government, September 2007*

do not provide a robust framework for evaluating any financial benefits from the project.

### The Transformation project has delivered some financial and non-financial benefits, including improved information security and a reduction in the Welsh Government's carbon footprint

**2.16** The Transformation project moved all Welsh Government staff, Ministers, Assembly Members and Assembly Commission staff to a centralised ICT system. The system is based on technology that has a number of benefits compared with traditional personal computers. These include hardware that has



a longer lifespan, lower system maintenance costs, lower carbon footprint and more secure storage of data.

**2.17** A benefits' appraisal exercise carried out by the Welsh Government in April 2010 identified more than 100 benefits and 10 disbenefits from the fourth phase of the Transformation project. The Welsh Government grouped these into eight 'key end benefits', and selected four for further analysis (Figure 7). However, it is not clear what the eight key end benefits were or how the four selected for further analysis were chosen.

**2.18** Siemens undertook a review of the impact on the Transformation project on the Welsh Government's carbon footprint<sup>15</sup>. It concluded that, excluding any parallel ICT changes and allowing for increasing energy costs, the fourth phase of the Transformation project would reduce the organisation's carbon

footprint by nearly 12 per cent and energy costs by almost £5,000 per month.

## The Welsh Government is making progress in developing a reliable asset register and has recently developed a policy for asset disposal and/or reuse

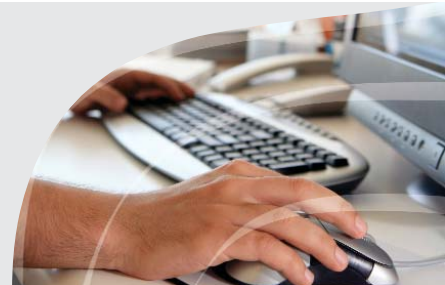
**2.19** The Welsh Government has approximately 17,500 ICT assets worth in total about £10 million. At the end of the previous ICT contract, ownership of all ICT assets passed to the Welsh Government but there was no complete asset register at that time. The Welsh Government raised this problem with Siemens in 2005 but a dispute over whether responsibility for creating the register lay with the Welsh Government or the supplier meant that little progress was made towards creating

**Figure 7 – Summary of Welsh Government's analysis of the benefits from the fourth phase of the Transformation project**

Benefit	Summary findings
Green Benefit	<ul style="list-style-type: none"> <li>• 12 per cent reduction in carbon footprint;</li> <li>• 10 per cent reduction in energy consumption; and</li> <li>• £4,961 per month saving on energy costs.</li> </ul>
Cost of providing ICT services through the Contract	<ul style="list-style-type: none"> <li>• The benefit, in terms of reduced costs, of providing ICT services through the Contract is difficult to analyse as there are no reliable baselines.</li> <li>• The Welsh Government is taking forward an analysis of costs avoided, such as non-payment of VAT on capital expenditure, and a reduction in annual replacement costs.</li> </ul>
Enabling flexible Working	<ul style="list-style-type: none"> <li>• Staff are able to access core software applications from any Welsh Government location.</li> </ul>
Enabling other corporate projects and strategic initiatives	<ul style="list-style-type: none"> <li>• The project has provided a standard ICT infrastructure that has simplified software development for other ICT projects, for example enabling the development of the electronic records and document management system.</li> </ul>

Source: Transformation Project Closure Report, Welsh Government, 2010

<sup>15</sup> Welsh Government Environmental Load Accumulation Model (ELAM) Generation Project: Determining the impact on the carbon load due to the implementation of the T4 Transformation Project.



an asset register. In 2007 the Welsh Government's Internal Audit Service reviewed the controls in place to determine if there was effective ICT asset management and contractual asset information, and concluded that Siemens was responsible for creating and maintaining an ICT asset register.

**2.20** A second internal audit report in September 2008 concluded that significant progress had been made towards establishing an ICT asset register from which proactive monitoring, analysis and reporting could be undertaken. However, as at July 2011, the Welsh Government still does not have a complete understanding of all the ICT assets it owns, as the register does not include peripheral items such as keyboards and mice. This is because the Welsh Government and Siemens have implemented an electronic system that tracks only those ICT assets that are connected to the network and which are subject to depreciation.

**2.21** The 2007 report by the Welsh Government's Internal Audit Service also raised concerns that the Welsh Government did not have a systematic means of disposing of unwanted ICT assets and had a tendency to buy new equipment rather than consider reusing existing assets, and that some divisions were storing ICT assets rather than make them available for use elsewhere. The Welsh Government estimates that increasing the lifespan of each asset by two years would result in a one-off saving of £100,000 in procurement costs, and promoting the reuse of IT assets is one of the cost saving actions currently being undertaken by the Welsh Government. A contract for the disposal of ICT assets was signed in January 2009, and an asset disposal and re-use policy has been in place since September 2010.

## **Core ICT services provided under the Contract have improved, as has the relationship between the Welsh Government and the supplier**

**Service standards under the Contract have been mostly achieved, although the Welsh Government has not sought to revise service standards so that they match modern commercial practice**

**2.22** The standards for core ICT services that the Welsh Government and National Assembly for Wales can expect to receive are set out in the Contract. Service standards cover service availability, answering and dealing with service requests and the time taken by helpdesk services to rectify problems. Penalties, in the form of service credits are applied if the service provided fails to meet the standards (**Box 6**). The number of service credits is regarded as a reliable indicator of the overall standard of service received under the Contract. Initially the Welsh Government's Commercial and Contracts Unit<sup>16</sup> reported monthly on ICT performance to the Head of the Merlin Management Board, who was the senior responsible owner for the Contract. Since July 2007, core ICT service performance has been reported to the Director of ICT and Contract Services who produces a weekly service summary report for the Permanent Secretary.

<sup>16</sup> The Welsh Government's Commercial and Contracts Unit ensures that the Contract is managed efficiently, effectively and economically. The Unit is also responsible for ensuring that all ICT expenditure is properly accounted for, tracked and reported against. It also provides consultation and advice on ICT procurements, commercial support to ICT projects and services and benchmarking of ICT services.

### Box 6 – Penalties for poor ICT performance are in the form of service credits paid to the Welsh Government

Service credits are incurred when levels of service availability and the quality of helpdesk services fall below contractual standards. The number of service credits incurred for any incident depends on the severity of the incident and the number of users affected. For example, a 'level 1' incident, such as the failure of email affecting more than 1000 users, will incur more service credits than a 'level 5' incident, such as the failure of one PC:

- **Service availability** - a single 'level 1' incident will result in between 10 and 40 credits depending on its severity; and
- **Helpdesk services** - the number of service credits will depend on the total number of incidents/problems and the total number of helpdesk requests.

The value of a single credit is calculated using a complex formula, which includes the contractor's declared percentage yearly profit for providing ICT services and the annual service charge. The total number of service credits is calculated each month. It is converted into a monetary value and the amount paid by the contractor to the Welsh Government.

*Source: Merlin Services Agreement between the National Assembly for Wales and Siemens Business Services, Schedule 3, Authority Requirements, 2006*

**2.23** The number of service credits fell each year between 2005-06 and 2008-09, despite the increasing number of users, Welsh Government locations, servers and telephony. The number of service credits increased in 2009-10 because of several major incidents: in July 2009 3,000 user accounts were accidentally deleted, and problems with the Welsh Government's main data storage system affected access to ICT systems for up to four days. In 2010-11 the number of service credits reduced significantly (**Figure 8**).

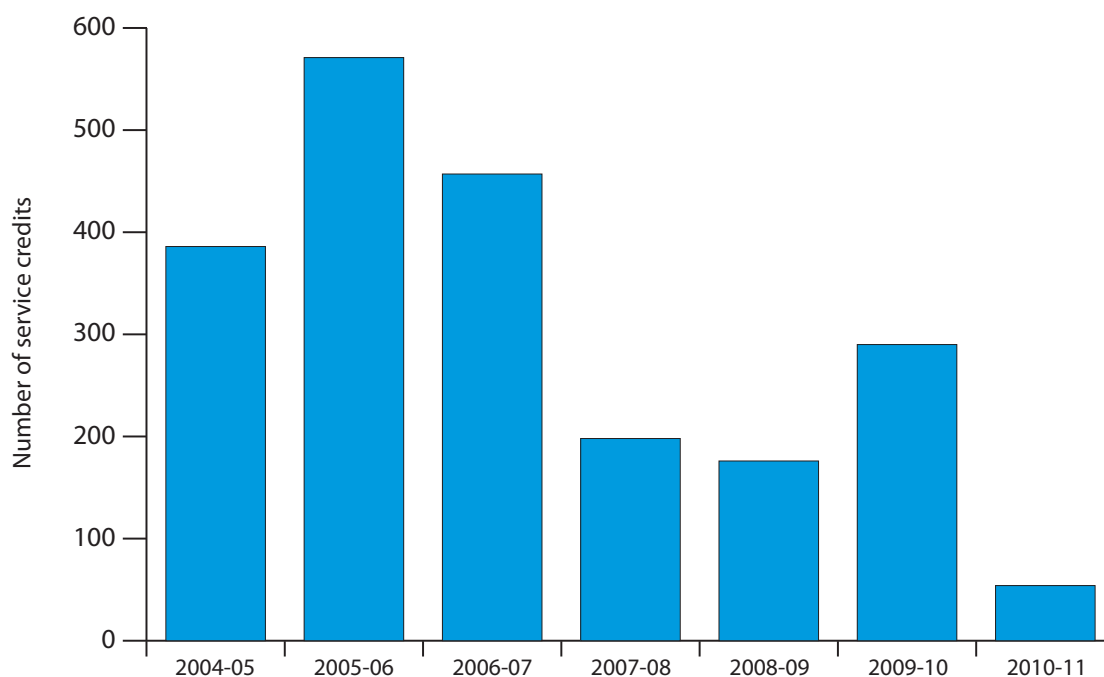
**2.24** In setting contractual standards, organisations should aim to achieve an acceptable balance between the benefit of having high standards of service and the cost of achieving them. The standards set out in the Merlin contract were in line with industry norms when the Contract was signed in 2004. For example, one service standard is that ICT services should be available at least 99.5 per cent of the time between 7.00am and 7.00pm, Monday to Friday. Users can access ICT services outside of these hours but Siemens does not guarantee that the service will be available. However, in 2010 standard commercial practice is to set targets on the basis of systems being available 24 hours, seven days a week. In our 2006 report we reported that new performance targets were being developed which would better reflect the quality of service as well as quantity. However, since then no new or revised targets have been introduced into the Contract.

### Relationships between the Welsh Government and Siemens have improved since 2006 and are now working well for the provision of core ICT services

**2.25** From the outset of the procurement, the Welsh Government's vision was to develop a partnership through which ICT could be used to facilitate and enhance business change. The advantages of an effective partnership were seen as improving efficiency, gaining better value for money from commercial activities and delivering improved success from programmes and projects.



**Figure 8 – From 2005-06 the number of service credits fell each year until 2009-10**



Source: Wales Audit Office analysis of Welsh Government data

- 2.26** Our 2006 report identified the risk that the relationship may deteriorate both between the Welsh Government and the Alliance and between the partners within the Alliance. Subsequently, the relationship between the Welsh Government and Siemens was tested by the difficulties experienced in delivering the Transformation project and by organisational and other changes within the Welsh Government.
- 2.27** Part of the remit of the Merlin Review Team when it was established in May 2006 was to identify and tackle the sources of tension within the partnership. Members of the Team worked with Siemens and other Alliance members to identify sources of conflict and help build a more effective relationship. The main conflict areas were identified as:
- a** the Welsh Government's inability to act as an intelligent customer for ICT services;
  - b** little evidence of a true partnership operating between the Welsh Government and the Alliance; and
  - c** Siemens' failure to fully utilise the skills of the other Alliance organisations.
- 2.28** The review identified the performance management mechanism used to incentivise the supplier over the life of the Contract as not being fit for purpose, as it neither supported the relationship between the Welsh Government and Siemens nor informed effective decision making. The Contract had included a 'relationship status index' which summarised performance data and information about the relationship between

the Alliance and Welsh Government. Following the review, the index was abandoned in July 2006 and the Welsh Government is now using only the Office of Government Commerce's Common Assessment Framework (Box 7), which it had been using alongside the index since January 2006. The Framework provides a means for the Welsh Government to engage with and manage its relationship with Siemens and other members of the Alliance. Use of the Common Assessment Framework has provided a more robust basis for the Welsh Government's assessments of the Alliance and its performance, and also for capturing Siemens' view of the Welsh Government's performance as a contracting partner. Scores under the Common Assessment Framework show that the relationship is steadily improving, from an overall assessment of 'poor' in the first half of 2006 to 'good' in February 2010<sup>17</sup>.

**Box 7 – The Office of Government Commerce's Common Assessment Framework is used to assess the performance of Siemens and other members of the Alliance**

In 2006, the Cabinet Office and the Office of Government Commerce launched the Common Assessment Framework for the annual assessment of supplier performance on major central government ICT projects. The first Framework report was published by the Office of Government Commerce in December 2006.

Suppliers are assessed against 10 performance criteria including cost, technical performance and relationships. Suppliers are also given an overall assessment that is not criteria based. The Common Assessment Framework also gives suppliers the ability to comment on the performance of each Department as a contracting partner, and therefore provides information about the working relationship with each Department as well as the performance of UK Government as a whole.

Source: *ICT Common Assessment Framework CAF6 Report, Office of Government Commerce, 2009*

## **Assembly Members and the Assembly Commission have generally received reliable core ICT services under the Contract and the Assembly Commission is preparing options for future service delivery**

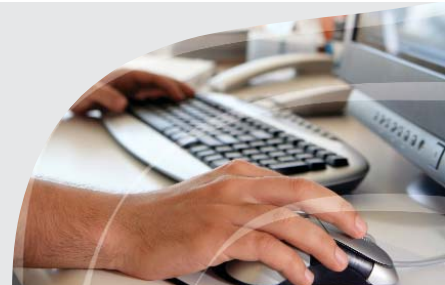
**Assembly Members and the Assembly Commission have generally been satisfied with core ICT services, although areas of dissatisfaction remain**

**2.29** Core ICT services received under the Contract by the National Assembly for Wales and the Assembly Commission are governed by a Memorandum of Understanding with the Welsh Government. National Assembly for Wales and Assembly Commission requirements differ from those of the Welsh Government, in particular in their use of remote working and internet and social networking. Service standards also differ. Overall, services to Assembly Members and officials in the Assembly Commission (formerly the Assembly Parliamentary Service) have experienced fewer difficulties than those to the Welsh Government, in part because Assembly Members and officials were prioritised in the Transformation project and received upgraded and modernised core ICT services in 2006.

**2.30** Assembly Commission officials told us that, with the exception of the operational problems experienced in 2009 (paragraph 2.2 and 2.3), Assembly Members' and officials' satisfaction with ICT services has remained at acceptable levels when assessed through the Welsh Government's annual ICT Services Benchmarking and User Satisfaction Surveys. However, a number of areas of concern were identified:

<sup>17</sup> Common Assessment Framework scores are regarded as 'commercial-in-confidence'.





- a Assembly Commission officials told us that they consider the Contract to be Welsh Government led and that they found it difficult to get changes that reflect the Commission's requirements and priorities. Officials believe that their influence is limited because the Assembly Commission's charge for ICT services represents less than five per cent of total expenditure under the Contract.
- b Assembly Members have consistently expressed their concern about the problems they were experiencing with remote access.
- c There were more minor failings in 2010, which Siemens and the Assembly Commission agree are likely to be a result of aging equipment. The Assembly Commission upgraded its equipment in Summer 2010 and the number of failings has reduced.

**The Assembly Commission has developed a project to improve ICT services for Members and staff and is reviewing its costs under the Contract**

**2.31** Since separation of the National Assembly of Wales from the Welsh Government in 2006, the Assembly Commission has significantly expanded its in-house ICT capability. In July 2008 the Assembly Commission established an independent review, involving both internal and external stakeholders, of all the technology used to support its business, including the services provided to Members, staff and the public. The review aimed to provide the Commission with proposals to take forward its technology to enhance and widen engagement with the public, and to improve the way in which Members can be

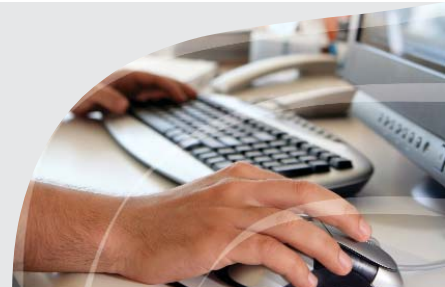
supported in their roles. The review identified that the highest priority for Assembly Members was to be able to access ICT systems from wherever they are working. Most Members felt that they had insufficient access from their homes or constituency offices to enable them to use the systems effectively.

**2.32** In June 2009, the Assembly Commission agreed that the Assembly's ICT network should be unified so that Members and Assembly staff could have a common system which is separate from the Welsh Government's network. Previously, the Assembly Members had a separate network from officials in the Welsh Government and the Assembly Commission. The unified ICT system would be upgraded and modernised, with security and resilience to failure improved. The project to create the unified ICT system was completed by Siemens in October 2010 at a cost of £4.3 million. This is an increase from the estimated cost in June 2009 of £2.7 million, the majority of which is due to underestimating the cost of hardware by Siemens, and improving business continuity by introducing a second data centre. The development of the unified system should make it easier for the Assembly Commission to independently consider its options for future ICT services at the end of the Contract in 2014. The Assembly Commission intends to carry out a full analysis of its costs under the Contract to consider if they represent good value for money. For this purpose, it is seeking to gain clarity and detail from both Siemens and the Welsh Government on its proportion of the total costs under the Contract.

## The Welsh Government and the Assembly Commission need to manage key risks in procuring core ICT services following expiry of the Contract in 2014

- 2.33** The Contract runs until 2014, with an option to extend for a further five years. Procuring the Contract took more than two years and the preceding contract for ICT services had to be extended to allow the procurement to be concluded satisfactorily. This suggests that both the Welsh Government and the Assembly Commission need to start their successor procurement projects soon if either one or both decide to exit from the Contract in 2014. The assessment of requirements should take account of all ICT requirements, not simply those currently provided under the Contract.
- 2.34** The Assembly Commission is exploring four options: continuation of shared services with the Welsh Government; sharing services in partnership with other UK legislatures; its own outsourced contract; or bringing ICT services in-house. In the meantime, work is ongoing to improve and separate the Assembly Commission's infrastructure from that of the Welsh Government to enable the Commission to exit the Contract at a time of its choosing. Separation will increase the options available to the Assembly Commission, including the options of tendering for new ICT services separately or in conjunction with other bodies.





## Part 3 – ICT projects delivered under the Contract have brought benefits but their value for money is uncertain

- 3.1** In 2004, PA Consulting, an Alliance member, was commissioned to identify priority areas for ICT-enabled business change. In May 2005, the Welsh Government agreed the first instalment of ten ICT projects across the Welsh Government (the Foundation projects – [Appendix 3](#)).
- 3.2** To March 2011 the Welsh Government had spent £156 million under the Contract on ICT projects. This represents expenditure on the Transformation project, and support for the ten Foundation projects and nearly 60 other ICT projects.
- 3.3** This part of the report focuses primarily on the Welsh Government's management of the original ten Foundation projects, and their costs and benefits. Together, these projects or their successors have accounted for some £70 million of the total expenditure on all ICT projects to March 2011.

### The Welsh Government has developed its approach to managing ICT projects since the Contract began in 2004

- 3.4** The priority areas identified by PA Consulting were for the Merlin Programme, which formed part of the Welsh Government's approach to implementing change and was focused on ICT-enabled business change. In autumn 2004, the Welsh Government decided that the Contract should provide a supply framework through which ICT projects could be delivered to support the delivery of the Merlin Programme.

- 3.5** In 2005, the Welsh Government agreed the first instalment of ten ICT projects, together known as the Foundation projects, which were part of the Merlin Programme. The programme and other aspects of Merlin provision were initially managed by the Merlin Management Board ([Box 8](#)), but, following the broadening of the Welsh Government's change agenda in 2006, governance structures were reconfigured in early 2007.

#### Box 8 – Functions of the Merlin Management Board

The functions of the Merlin Management Board were to:

- make decisions on new and approved ICT projects, and as necessary review decisions made by senior responsible owners running ICT projects;
- act as a Programme Board for ICT projects;
- manage the overall budget for investment in ICT projects;
- resolve project, commercial or contractual issues and escalate as appropriate;
- track and review costs and delivery of ICT project benefits;
- receive and monitor lessons learnt from projects, to be applied across the wider programme; and
- oversee the coherence of projects within the Merlin Programme to deliver the overall programme of change.

*Source: Welsh Government terms of reference for the Merlin Management Board, May 2005*

- 3.6** In 2006, the Welsh Government expanded its role and functions, following the mergers into it of the WGSBs. This, alongside other factors, such as the separation of the National Assembly for Wales from the Welsh Government, prompted the Welsh Government to revise its approach to business change and to review delivery

arrangements. The Welsh Government replaced the Merlin Programme with a new strategic agenda and redesigned the scale, nature and governance of change projects to align them with the new agenda. Change projects, including many non-ICT projects, were aligned into programmes as part of the (then) Business Development Portfolio, which subsequently evolved into the Enabling Government Portfolio. Not all of the ICT projects in the Enabling Government Portfolio are delivered through the Contract.

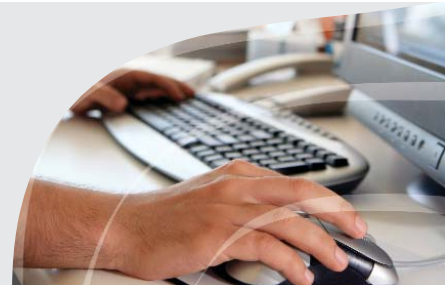
- 3.7** Apart from the Requests for Information Tracking and Information Security projects, which had been completed, all Foundation projects were taken forward into the Enabling Government Portfolio in 2007-08. For example, the Electronic Records and Document Management System project transferred into the Enabling Government Portfolio as part of the Knowledge Management Programme<sup>18</sup>. And the Customer Relationship Management project transferred into the Enabling Government Portfolio as part of the Customer Services Improvement Programme, which in 2010-11 was renamed the Improving our Relations Programme. The Foundation projects were included within the Enabling Government Portfolio alongside newly identified ICT projects and non-ICT projects as part of a planned £40 million investment over three years.
- 3.8** The Enabling Government Portfolio resulted in a change in governance for its component projects, including ICT projects delivered through the Contract. The Welsh Government designed the new governance arrangements to provide increased transparency, more of a focus on strategic objectives, better co-ordination and integration of change activity, and increased potential for shared learning.

**3.9** Within the Enabling Government Portfolio governance framework, project managers are required to provide monthly reports on project costs, staffing levels, benefits and progress against key milestones to project boards (where they exist) and programme boards. However, the Welsh Government's ability to monitor the progress of the Foundation projects has been hampered by its inadequate reporting of progress against key milestones, and project closure documents do not always set out clearly how projects have progressed against original schedules and costs. For example:

- a** project closure documents relating to the Welsh European Funding Office's Grant Management and Payment System project do not indicate when the project, which restarted in July 2007, was scheduled to be completed; and
- b** project closure documents on the Human Resource Information System project do not conclude on whether or not the project was completed to the planned budget and timetable.

**3.10** The Welsh Government's ICT Strategy for 2008-2011 formalised additional governance over ICT projects (including ICT projects falling outside the Enabling Government Portfolio and projects which are not delivered through the Contract) with the establishment of an ICT Strategic Design Authority and an ICT Programmes Board. The Strategic Design Authority assesses the technical robustness of projects and their alignment with the ICT Strategy, both prior to funding approval and prior to projects becoming fully operational. Projects are also assessed by an ICT Programmes Board to ensure that they are subject to best practice ICT project management.

<sup>18</sup> The Electronic Records and Document Management System project has been renamed i-share within the 2010-11 Enabling Government Portfolio.



## Some of the initial Foundation projects experienced problems in their delivery

- 3.11** Five of the original 10 Foundation projects have now been completed (Figure 9). Two of the completed projects (Requests for Information Tracking and Information Security) were delivered to estimated time and cost, with the other three projects costing more and/or taking longer to deliver than anticipated in their original business cases:
- a** The Welsh European Funding Office Grant Management and Payment System project was delayed by more than a year. The final cost to implement the system was £18.1 million<sup>19</sup>, more than twice the original estimate (Case Study 1).
  - b** The Welsh Government Internet project was delivered within the original budget, but failed to deliver some elements to the planned timescale and, subsequently, the Welsh Government procured its internet services outside the Contract (Case Study 2).
  - c** The Shared Services HR Systems Phase 2 project had two strands: HR Information System and HR Information Technology. Key aspects of the HR Information System (for example, to allow staff to update their own HR records and to enable managers to better manage sickness absence) were not completed within the agreed timetable. The final cost of the HR Information Technology strand was almost 19 per cent more than the original budget of £403,000. The final project closure document does not contain information on the costs of the Information System strand.
- 3.12** The Welsh Government stopped two of the ten Foundation projects, Integrated Planning and Budgeting (stopped January 2007) and Management Information Systems (stopped July 2008), during their development. The projects were stopped because the Welsh Government decided to incorporate their objectives into the emerging Information to Deliver Excellence, Accountability and Success programme<sup>20</sup> which was delivered using services provided outside the Contract. Of the remaining three projects:
- a** The Electronic Records and Document Management System project was provisionally planned to be completed in 2010, depending on the availability of funding. Subsequently, funding restrictions, due to the need to balance competing priorities, led to a decision to develop this project in phases. Full roll out is now scheduled for March 2012, although the Welsh Government is confident that it will be delivered earlier, by December 2011. The Welsh Government has revised downwards its expectations of the financial benefits which it could achieve through this project, in order to focus the project on enabling compliance with the recommendations of an audit conducted by The National Archives in 2007. The Welsh Government made this decision following consultation with project managers of similar projects delivered by UK Government departments. Nevertheless, the project is delivering annual financial savings of £500,000, although initial estimates made in the foundation phase of the project had projected annual savings of £1.8 million.

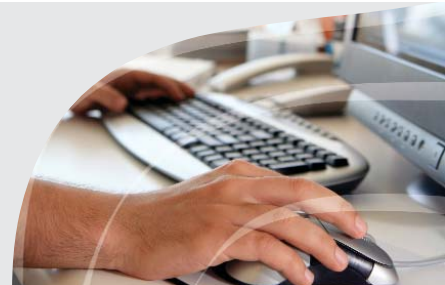
<sup>19</sup> This included £6.1 million European Union structural funds technical assistance money.

<sup>20</sup> The Information to Deliver Excellence, Accountability and Success programme sought to improve the quality and consistency of management information and to change the way in which the Welsh Government manages resource allocation and business planning. The project was closed in December 2010 and taken forward by various Welsh Government divisions and departments as part of 'business as usual'.

**Figure 9 – Half of the Foundation projects have been completed**

Project	Current status
Request for information tracking	Completed
Welsh European Funding Office Grant Management and Payment system	Completed
Shared Services HR Systems Phase 2	Completed
Welsh Government Internet	Completed
Information Security	Completed
Integrated Planning and Budgeting	Project objectives incorporated into the Information to Deliver Excellence, Accountability and Success programme, delivered through the Enabling Government Enabling Government Portfolio.
Management Information Systems	Initial phases of the project have been complete. Project objectives for subsequent phases have been incorporated into the Information to Deliver Excellence, Accountability and Success programme, delivered through the Enabling Government Portfolio.
Enabling Applications Infrastructure	Partially delivered through two separate projects under the Enabling Government Portfolio with other parts re-scoped or closed.
Electronic Records and Documents Management System	On-going delivery through the Enabling Government Portfolio and due for completion in March 2012. Timetable re-phased to reflect the availability of funding.
Customer Relationship Management	Jointly funded through the Enabling Government Portfolio and the Department for Economy and Transport. Due for completion October 2011. Concept and timetable significantly rescoped.

Source: Wales Audit Office analysis of Welsh Government project documents



## Case Study 1 – The Welsh European Funding Office Grant Management and Payment System project

### Project objectives

The key objective of this project was to deliver an IT solution that would enable the Welsh Government to manage the allocation and ongoing administration of European Union structural funds<sup>21</sup> in a way fully compliant with European Commission regulations. The project aimed to produce a fully computerised process for managing European Structural Fund grants from 'cradle to grave', including electronic payments and electronic document management. It was to be the first process in the Welsh Government to operate a fully online service.

### Time delays

The project began in August 2005 and was due to be completed by March 2007 ready for the launch of the 2007-2013 programmes. The project was very slow to start and in February 2007, the Alliance informed the Welsh Government that the project was significantly behind schedule and would require between 4,770 and 8,270 additional days to complete (over the agreed budget of 1,230 days). The increase was due to a number of factors including designing a system in parallel to negotiating programmes with the European Commission, getting clarity from Welsh European Funding Office on what it wanted the system to do and a lack of capacity to take on the important intelligent customer role. In response the Welsh Government placed the project on 'pause and review'. Work on the project, with a reduced scope and a revised budget, restarted in July 2007.

In August 2007, in response to further concerns about the cost and timeliness of delivery, the Welsh Government appointed its own project manager with relevant technical expertise.

The system went live in June 2008. As a consequence of the delays, the Welsh European Funding Office decided to upgrade the legacy database it used for 2000-06 European Union structural funds as a fall back solution, but it saw only very limited use.

### Cost increases

The original estimate of the cost of developing the system to the stage where it would be ready for implementation was £7.7 million. This estimate was revised upwards on a number of occasions, with the project ultimately being delivered at a cost of £18.1 million. The project was co-financed by the European Structural Funds which contributed £6.1 million to the cost of the system. Although the Welsh Government has not provided a detailed cost breakdown of the increase in development costs, a lessons learned exercise identified a broad range of issues, including poor estimation in relation to such an ambitious project, scope creep, lack of technical expertise to act as the intelligent customer and a failure to engage key business users sufficiently early in the development of the project.

The Welsh European Funding Office has a fixed price contract with the Alliance of £7.4 million for ongoing support to the system over eight years. It has also incurred costs for licensing (£230,000 per year) and hardware and ICT infrastructure (£100,000 per year). The support contract has a built-in capacity to constantly update and upgrade the system at no extra cost. As a result all elements of the project that were de-scoped in 2007 have now been built into the system and significant new functionality has been added.

Despite the cost increases and delays in implementation, the project closure document noted that '... it should be recognised that the situation was ultimately turned around and the project delivered a robust solution that fully meets the requirements of the Welsh European Funding Office business, with the final phase, post July 2007, being delivered to time and within its revised budget'. Wales was also the first 'region', to get 'Full Assurance status' from the European Union on its payment systems, and the European Commission has identified the system as an example of good practice. The support contract has received both the National and European Outsourcing Association awards for 2010 for IT outsourcing project of the year.

The system is being used as a benchmark for all systems supporting the latest round of structural funding across the European Commission. It already meets the standards being set for post-2014 programmes, meaning that the Welsh European Funding Office expects to be able to use the system for a further eight years with limited additional investment required. Elements of the technology are also being reused in other Welsh Government projects relating to grants and online services.

Source: Welsh Government

<sup>21</sup> Between 2007 and 2013, the Welsh economy and people across Wales will see investment of around £3.8 billion (European Union funds of £1.9 billion matched) through the European Union Structural Funds programmes, aimed at creating jobs and boosting economic growth.



## Case Study 2 – There were significant difficulties in delivering the Welsh Government's Internet project

In 2006 the Welsh Government's role and functions expanded following the merger into it of several WGSBs. This necessitated a new Welsh Government website that included some content migrated from the sites of the merging WGSBs. A new website was launched on schedule in April 2006, but the Welsh Government claimed that the supplier had not provided key site functionality needed to support the migration of additional WGSB content. The disagreement led to a commercial dispute with the Alliance and delayed completion of the Internet project by 18 months. During this time the anticipated efficiencies from consolidating a number of different websites were not delivered.

In February 2008, the Welsh Government undertook a procurement exercise for its internet services outside the Merlin contract. The contract was awarded to Verizon who now provide the Welsh Government's internet services.

Source: Welsh Government

- b** The merger of the WGSBs into the Welsh Government compelled the Welsh Government to stop its original Customer Relationship Management project and to revise its scope, to take account of the requirements of the expanded organisation. It is being implemented as part of the Welsh Government's economic renewal programme and is due for completion in October/November 2011.
- c** The Enabling Applications Infrastructure project did not proceed as originally envisaged and the project was re-scoped under the Enabling Government Portfolio to become two separate projects (ICT Applications Strategy and ICT Applications – Planning for Business Delivery). The ICT Applications Strategy project was completed in January 2008, while the ICT Applications – Planning for Business Delivery project was further revised.

Although the latter project did not achieve all of its intended objectives, it did result in the establishment of the ICT Strategic Design Authority.

## The Welsh Government has not consistently managed some of the risks to value for money in delivering ICT projects

- 3.13** ICT projects can be inherently complex and risky, sometimes involving innovative and highly volatile technology. In recent years, the public sector in the UK has overseen a number of high profile and expensive ICT project failures<sup>22</sup>.
- 3.14** There are a number of inherent risks to achieving value for money from ICT projects delivered through the Merlin contract. If realised, the risks would also hamper the Welsh Government's ability to assess the Alliance's performance in delivering ICT projects. Our 2006 report identified significant risks associated with ICT projects delivered using services provided through the Contract:
  - a** a failure by the Welsh Government to realise anticipated benefits;
  - b** aggregate spend on the relevant ICT projects not being monitored effectively;
  - c** insufficient skills and capacity within the Welsh Government for it to act as an intelligent customer;
  - d** the extensive use of procurement on a 'times and materials' basis; and
  - e** working with a single supplier.

<sup>22</sup> The National Offender Management Information System, National Audit Office, March 2009; Delivering successful IT-enabled business change, National Audit Office, November 2006; Improving IT procurement: The impact of the Office of Government Commerce's initiatives on departments and suppliers in the delivery of major IT-enabled projects, National Audit Office, November 2004; New IT systems for Magistrates' Courts: the Libra project, National Audit Office, January 2003.



**Although some individual projects are delivering positive outcomes and the Welsh Government has sought to strengthen its arrangements for evaluating project benefits, financial benefits have not been consistently identified, collated and monitored**

**3.15** Benefits realisation should be an ongoing process that begins at an early stage of any programme or project. Programme and project managers must be clear about what they are trying to achieve and the expected benefits of achieving it, and put in place measures to assess the benefits that have been realised. Without clear evidence of benefits, the Welsh Government cannot assess value for money or the performance of the Alliance in delivering services in support of ICT projects.

**3.16** We found that even though all of the five completed Foundation projects had achieved some financial and non-financial benefits (Appendix 4), the Welsh Government's approach to the realisation of benefits, particularly financial benefits, is flawed in a number of ways:

- a** anticipated benefits had not been adequately articulated for some Foundation projects;
- b** the Welsh Government has not systematically monitored the benefits delivered by all the Foundation projects;
- c** the Welsh Government's monitoring of the financial benefits achieved by the Foundation projects has been hampered by inconsistent and incomplete data; and
- d** the way in which the Welsh Government records information on costs and benefits does not enable it to carry out an overall assessment of value for money from ICT projects supported through the Contract.

**3.17** These findings have been accepted by the Welsh Government. In December 2010, the Central Services Corporate Governance Committee received an update on the governance, benefits, risks and future plans of the Enabling Government Portfolio, which include a number of ICT projects supported by services provided through the Contract. The Committee concluded that even though some benefits had been delivered, they had been assessed on an inconsistent basis and recommended that how benefits are to be measured should be considered at the start of projects. The Committee was also informed that:

- a** programme managers had made only limited efforts to routinely engage with the business to identify the benefits realised;
- b** programme managers will need to improve the way in which they engage the business in agreeing expected benefits at the outset and throughout the life of a programme; and
- c** although programmes have yielded considerable financial benefits to the organisation, the Welsh Government has not managed to identify clearly what these are and where they have been realised<sup>23</sup>.

**Anticipated benefits had not been articulated for some Foundation projects**

**3.18** To evaluate the likely success of an ICT project and determine whether it should progress, the benefits the project is expected to achieve should be clearly articulated. We found that of the five Foundation projects that had not been completed, two of the projects had identified anticipated benefits, but three had not. However, of the five completed Foundation projects, we found that only one, Requests for Information Tracking, had not

<sup>23</sup> Enabling Government Portfolio, paper for the Welsh Government's Central Services Governance Committee, 7 December 2010.

adequately set out the expected level of financial and non financial benefits.

**3.19** For the remaining four completed projects, we were able to track the benefits achieved against the benefits originally anticipated. We found that all four projects had realised a large part of their anticipated benefits:

- a Wales European Funding Office Grant Management and Payment System** – since going live in June 2008, the system has realised just under half of the anticipated annual savings of £555,000. By building a specialised function into the system, the Welsh Government has made a further one-off saving of £330,000 by avoiding the need to renew licensed software. The system has enabled access to EU Structural Funds, improved the tracking of projects and reduced the time taken to process grant claims.
- b Shared Services HR Systems** – the anticipated financial benefits of £1 million over the life of the project and subsequent recurring savings were realised. The system has also improved absence management, performance management, organisational security and recruitment processes.
- c Welsh Government Internet** – the project was delivered in phases, the first three of which were delivered through the Contract. A number of financial benefits scenarios were devised ranging from one-off savings between £4.1 million and £5.2 million. However, the project delivered only £2.2 million savings between 2006-07 and 2011-12.
- d Information security** – there were no anticipated financial benefits from the project, but it did achieve its objective of

achieving compliance with international standards in respect of information security policies, practices and procedures.

### The Welsh Government has not systematically monitored the benefits delivered by all the Foundation projects

- 3.20** Office of Government Commerce good practice is to undertake a formal benefits realisation exercise as a key and final stage of the Office of Government Commerce Gateway Review process. This is typically carried out in the first six months of the project or programme being fully operational, and then repeated throughout the life of the project. Benefits realisation exercises were carried out for four of the five completed projects after they had become fully operational, although these were one-off exercises and have not been repeated since.
- 3.21** The Welsh Government did not undertake an adequate benefits realisation exercise for one completed Foundation project (Request for Information Tracking). Consequently, although the Welsh Government was confident that the Request for Information Tracking project had achieved its objectives and delivered considerable financial savings, it could not quantify the savings delivered by the project.
- 3.22** In line with Office of Government Commerce guidance, any project which has been the subject of significant expenditure and subsequently closes (even though it may not have been completed) should be subject, as part of a formal project closure process, to a benefits realisation exercise. Prior to integrating these projects into its Information to Deliver Excellence, Accountability and Success programme, the Welsh Government had spent £659,000 on the Management Information Systems project and Integrated Planning and Budgeting project. The Welsh



Government had not evaluated all of the benefits from these projects. Some of the benefits from the initial phase of the Management Information Systems project were subsequently identified by the Welsh Government during the course of this study (Box 9). The Welsh Government told us that work on the Integrated Planning and Budgeting Project was insufficiently advanced when it was put on hold to have delivered any benefits.

- 3.23** The Welsh Government's Human Resource Information Technology project aimed to produce an on-line recruitment system to help attract and retain top talent and increase the number of applicants from under-represented groups. However, due to a decline in recent years in the levels of external recruitment, there has been insufficient data with which to measure the success or otherwise of the project in meeting these objectives.

The Welsh Government has strengthened its arrangements for evaluating the financial benefits achieved by ICT projects, but much of the relevant data is inconsistent and incomplete

- 3.24** Following our 2006 report, the National Assembly's Public Accounts Committee recommended that the Welsh Government develop an approach to benefits realisation. The Welsh Government responded by developing its Benefits Management Framework in 2007 as part of the governance framework for the Enabling Government Portfolio. The governance framework aims to ensure that all change projects in the Enabling Government Portfolio clearly support the development of the Welsh Government's business goals and mitigate the risk that projects are technology, rather than business driven. The Enabling Government Portfolio governance framework therefore has a strong

### Box 9 – The benefits of the Management Information Systems project identified as part of this study

The Welsh Government told us that the Managing for Delivery workstream of its Information to Deliver Excellence, Accountability and Success programme had incorporated the people, ideas and process solutions developed as part of Management Information Systems Foundation project. For example, both the corporate and the departmental performance dashboards currently in use were originally developed as part of the Management Information Systems project.

The Welsh Government provided examples of the Management Information Systems project meeting its objective of improving performance by providing senior Welsh Government officials with more useful management information reports:

- Freedom of Information – in response to monitoring information, the Welsh Government Management Board decided to reduce the time limit for responding to Freedom of Information requests from 100 days to 80 days. The increased focus on Freedom of Information requests also meant that the number of late responses to requests significantly reduced from 34 in March 2007 to just two in March 2008.
- Inappropriate images – following the initial provision of data to its Management Board, the Welsh Government carried out a communications awareness campaign, outlining its zero tolerance policy. The Welsh Government reports that this has dramatically reduced the number of incidents involving inappropriate images.
- Correspondence – better quality management information improved the monitoring and reporting of progress in dealing with official correspondence, which is received and dispatched by officials on behalf of Ministers.

The Management Information System also gave the Management Board access to a greater range of data than previously, allowing for improved budgeting and workforce planning, for example on staff performance and recruitment statistics, which were not previously available.

Source: Welsh Government response to Wales Audit Office request



focus on realising benefits from projects and programmes:

- a** a key principle is that all project and programme decisions should focus on their impact in terms of intended benefits;
- b** each programme and project has a benefits plan identifying the anticipated benefits, including when and how benefits will be delivered and who is responsible for tracking their delivery; and
- c** each programme is led by a senior responsible owner with responsibility to ensure that it delivers the anticipated benefits.

**3.25** Since 2007-08, the Welsh Government has sought to centrally collate performance information on all projects within the Enabling Government portfolio, in terms of their costs and the achievement of anticipated benefits. In examining the Foundation projects which were incorporated into the Enabling Government framework, we found that the Welsh Government has encountered problems in collating and reporting project level benefits. This has hampered its ability to carry out robust cost/benefit analysis of each programme and project, and judge the performance of its suppliers in supporting the delivery of these projects:

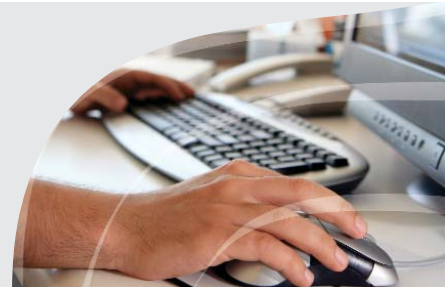
- a** In 2007-08, information was only collected on estimated financial benefits, with no assessment of what savings were actually achieved. The Welsh Government told us that during 2007-08, their focus was on compliance delivering benefits.

- b** From 2008-09, although project teams were required to report the in-year financial benefits actually achieved, we found that data was missing in respect of some projects. For example, we found no financial benefits data for 2008-09 in respect of the Human Resource Information System project and the Welsh European Funding Office Grant Management and Payment System project. Welsh Government officials told us that data was missing because project teams were not reporting the financial benefits achieved to the Enabling Government Portfolio Team, which was overseeing the collation process, rather than because the projects had not actually achieved any benefits.

**3.26** We also found discrepancies in the information provided to us on the progress of the Welsh Government's Internet project in delivering its financial benefits. Data provided directly by the Internet project team stated that the project had achieved £199,469 of financial benefits in 2009-10<sup>24</sup>, while the data held centrally by the Enabling Government Portfolio Team stated that the project had not delivered any of its target of £110,000 financial benefits for that year. Welsh Government officials told us that the discrepancy was because the Welsh Government did not have the resources to verify the level of savings claimed by the project team. For the Internet project there were also discrepancies between information on anticipated financial benefits, as well as on the actual benefits achieved, provided to us centrally from the Welsh Government's Enabling Government Portfolio Team and the project team.

<sup>24</sup> There were similar inconsistencies for the 2008-09 between the data held by the Enabling Government and Organisational Design team and the Internet project.





The way in which the Welsh Government records information on costs and benefits does not enable it to carry out an overall assessment of value for money from services in support of ICT projects procured under the Contract

**3.27** The Welsh Government has not carried out a cost/benefit analysis to assess the overall value for money achieved for the £156 million it has spent to date under the Contract on services in support of ICT projects. The way in which information is recorded would present the Welsh Government with significant difficulties in carrying out such an analysis:

- a** expenditure under the Contract, which is recorded on the Merlin procurement log, is not allocated to unique project identifiers;
- b** the information held by the Welsh Government on financial benefits is not robust; and
- c** while the Welsh Government has a central, albeit less than robust, record of the financial benefits achieved through the Enabling Government Portfolio, it does not have a central record of the financial benefits achieved by all projects which have procured services under the Contract, as many ICT projects do not fall within the Enabling Government Portfolio and, therefore, are not managed through the Enabling Government Portfolio governance framework.

**The Welsh Government no longer monitors and reports the aggregate spend under the Contract on ICT projects**

**3.28** At the outset of the Contract, the Merlin Management Board was established to monitor all aspects of the delivery of core ICT services and ICT projects delivered under the Contract. The Board was responsible for, amongst other things, monitoring the Merlin contract-related costs of ICT projects, and it received monthly reports on aggregate spend under the Contract. In July 2007, the Welsh Government introduced new governance arrangements for both core ICT services and ICT projects: the Merlin Management Board was abolished, accountability for core ICT services was allocated to the Director of ICT Services and Contract Management, and accountability for delivering individual ICT projects was re-confirmed as resting with the relevant sponsoring Welsh Government departments.

**3.29** Under these arrangements, no single Welsh Government official or body is responsible for monitoring the total spend on ICT projects supported by services delivered under the Contract, and information on ICT project spend under the Contract is not reported separately to the Welsh Government's Strategic Delivery and Performance Board or its Operations Group. The new arrangements have hampered the Welsh Government's ability to assess the Alliance's performance in supporting all ICT projects and the overall value for money of the Contract. While individual project managers maintain financial oversight of their individual project spend, the only central record of the costs of ICT project work carried out by the Alliance under the Contract is held by the Commercial and Contracts Unit in the Merlin procurement log<sup>25</sup>, but the procurement log is not designed

<sup>25</sup> The Merlin Procurement Log is the central record of expenditure on ICT projects through the Contract. It is maintained by the Commercial and Contracts Unit (CCU) who are responsible for creating the 'project service memoranda' (essentially mini-contracts) for project work with the Alliance.

to include management information on the cost and status of individual ICT projects.

**The Welsh Government has built its capacity to manage programmes and projects but cannot quantify the impact of this in terms of reduced expenditure on external support for ICT projects**

**3.30** One of the original aims of the Contract was to deliver skills transfer from the Alliance to Welsh Government staff. However, we have not been able to assess whether the Welsh Government has successfully achieved this aim by reducing its expenditure on external project level support<sup>26</sup>. This is because the Welsh Government's management information does not allow for the relevant data to be analysed on a year-by-year basis.

**3.31** During the procurement of the Contract, the Welsh Government recognised that it lacked skills in managing ICT programmes and projects. It aimed to build its capacity in this area by utilising opportunities to work alongside and in partnership with specialists from the Alliance. The Welsh Government envisaged that its officials would become more skilled programme or project managers by partnership working and that, in the longer term, the organisation would become self-sufficient in these skills.

**3.32** Our 2006 report found that the transfer of the relevant skills into the Welsh Government was taking place more slowly than had been anticipated, partly because of the high level of vacancies in the Welsh Government's Merlin Business Development Unit<sup>27</sup>. In its 2006 report the National Assembly's Public Accounts Committee recommended that the Welsh Government needed to build its

capacity and capability to deliver its Merlin-related business change activities by developing a group of trained project and programme managers<sup>28</sup>.

**3.33** Since then, the Welsh Government has strengthened its arrangements for supporting the delivery of programmes and projects by:

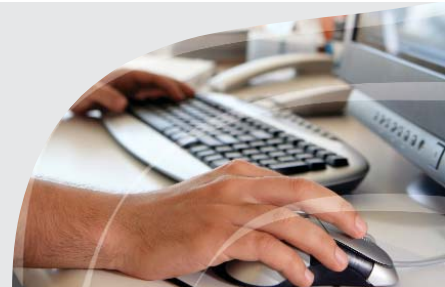
- a Taking a greater lead in analysing business needs and managing its change programmes.** Up until 2006-07, the Welsh Government's Merlin Business Development Unit was partly staffed by Alliance consultants. Since then the expanded business change agenda has been led by Welsh Government officials, who initially drew on support from the Alliance as required (Figure 13).
- b Creating a professional group of programme and project managers.** In July 2008, the Welsh Government appointed a Head of Profession for Project and Programme Management<sup>29</sup>. It also created a pool of project management experts available to all areas of the Welsh Government requiring specialist project managers. The pool included experienced staff from the merged WGSBs.
- c Reviewing the support available to its most senior staff who act as senior responsible owners for business change projects and programmes.** In March 2009, the Welsh Government conducted a skills survey of the Operations Teams that support each Director General, to identify if appropriate project and programme management skills were

<sup>26</sup> *The Merlin contract – Enabling the National Assembly to change its business processes through ICT*, Auditor General for Wales, March 2006. Figure 6 and Paragraph 2.38.

<sup>27</sup> *The Merlin contract – Enabling the National Assembly to change its business processes through ICT*, Auditor General for Wales, March 2006. Paragraph 2.38.

<sup>28</sup> *The Merlin Contract – Enabling the National Assembly to change its business processes through ICT*, National Assembly for Wales, Audit Committee Report (2) 06-06 September 2006.

<sup>29</sup> There are 23 'professional' groups within the UK civil service, from vets to communications. Each has a Head of Profession whose role includes setting professional standards and developing performance management arrangements for assessing professional competence.



available. The survey found that project and programme management skills were not considered to be a core requirement for Operations Teams. From May 2010, the Welsh Government began to establish a project and programme management centre of excellence, the functions of which would include providing expert support to Operations Team staff.

**3.34** As a result of this activity, the Welsh Government envisaged that it would become less dependent on Alliance support as the Contract progressed and that expenditure on consultancy support would reduce. However, the Welsh Government has not been monitoring, over time, spend on Alliance support under the Contract. While there is evidence that the Welsh Government's central business change operations no longer rely on the Alliance (**Box 10**), Alliance staff have been extensively used as consultants on individual ICT projects.

**The Welsh Government is managing effectively some of the risks associated with services in support of ICT projects procured on a 'time and materials' basis**

**3.35** We found that two-thirds of expenditure on ICT projects procured under the Contract was incurred on a 'time and materials' basis, whereby payments are based on the number of hours worked (**Figure 10**). To March 2010 the total value of 'time and materials' work paid under the Contract was £81.3 million (excluding expenses and VAT).

**Box 10 – External support under the Contract to the Welsh Government's central business change staff has reduced over time**

Since the Contract began in April 2004, the Welsh Government has had staff dedicated to developing and delivering aspects of its business change agenda. Initially the Welsh Government's Merlin Business Development Unit was established to:

- provide strategic direction to the ICT-enabled change agenda through business analysis; and
- develop and support the delivery of the Foundation projects.

Welsh Government officials in the Merlin Business Development Unit worked alongside consultants from PA Consulting to develop and support the delivery of the Foundation projects, an arrangement that allowed Welsh Government officials to learn from the consultants. Between 2004 and 2007, the total cost of Alliance staff to support the Merlin Business Development Unit was £4.3 million. The most significant involvement of PA Consulting staff was during 2006-07, when six consultants (full time equivalents) supported the Merlin Business Development Unit.

Certain strategic functions of the Merlin Business Development Unit are now delivered as part of a wider change remit by the Enabling Government team. Under these arrangements, the Welsh Government does not draw on the support of PA Consulting.

*Source: Welsh Government*

**3.36** 'Time and materials' based contracts do not include an additional premium for the contractor accepting some of the project delivery risks, and can be cheaper than comparable fixed price contracts. However, they usually do not directly encourage the contractor to be efficient, and the customer needs to rigorously monitor the work carried out by the contractor to gain assurance that the contractor is using efficient methods and effective cost controls.

**3.37** The risks are particularly high with the use of consultancy services where there is a tendency to use time and materials contracts. Expenditure on consultants by the Welsh Government accounts for nine per cent of external resource spend under the contract, 81 per cent of which were through time and materials contracts. The National Audit Office found that UK government departments were not ‘smart customers’ of consultants because of the extensive use of time and materials contracts, not clearly defining the service required from suppliers, not assessing benefits and not holding suppliers to account<sup>30</sup>.

**3.38** To manage the risks associated with projects procured on a time and materials basis, the Welsh Government has made the achievement of desired outcomes a condition of such contracts. For high risk time and materials projects, it has also included defect

warranty clauses. However, we found that 70 per cent of the projects that were being delivered under the Contract on a ‘time and materials’ basis had no estimate of costs at their outset. For those ICT projects that had an original estimate of costs, the estimate as at April 2010 exceeded the original estimate in 23 per cent of cases.

**3.39** The design and implementation of the Welsh European Funding Office Grant Management and Payment System project, the largest of the ICT projects supported by services provided under the Contract, were delivered through six time and materials contracts. The Welsh Government acknowledges that it had not robustly monitored the contracts, and in February 2007 it was unaware that the project required between 4,770 and 8,270 additional days more than the agreed budget of 1,230 days to deliver (**Case Study 1**).

**Figure 10 – The majority of ICT projects work has been procured on the basis of time worked<sup>1</sup>**

Contract type	Number of contracts	Current value (Excluding expenses and VAT) (£ million, at 31 March 2010)	% Total value
Time and materials	311	81.3	61
Fixed price	72	45.8	34
Combination of fixed price and time and materials	25	6.9	5
<b>Total</b>	<b>408</b>	<b>134</b>	<b>100</b>

**Note**

<sup>1</sup> Excludes 56 project service memoranda which were subsequently cancelled. These memoranda had an original value of £24.7 million, of which £2.1 million had been spent when they were cancelled (excluding expenses and VAT).

Source: Wales Audit Office analysis of Welsh Government Procurement Log, 31 March 2010

<sup>30</sup> Central government’s use of consultants and interims, National Audit Office, October 2010.



### **The Welsh Government has used provisions in the Contract to mitigate some of the risks of working with a single supplier**

**3.40** The Contract does not restrict the Welsh Government to using only the services of the Alliance. It also includes the provision that the Welsh Government can market test any ICT project with a value of more than £500,000<sup>31</sup>. The purpose of this provision is to help ensure value for money for its ICT project work delivered under the Contract. The Welsh Government has used this provision to explore and market test opportunities to procure certain business change activities and ICT projects outside the Contract (Case Studies 2 and 3).

### **Case Study 3 – The Welsh Government explored the potential of procuring services to support the Customer Relationship Management project outside the Contract**

The revised Customer Relationship Management project is designed to support the delivery of what is currently known as the Welsh Government's Flexible Support for Business service, although this service is currently undergoing a rebranding exercise. The Welsh Government decided to conduct a market test exercise for the development of the project. The Welsh Government informed Siemens of its intentions and invited Siemens to bid. Five bidders responded to the Invitation to Tender. Siemens won the contract, after scoring highest against the selection criteria.

*Source: Welsh Government*

<sup>31</sup> Projects are not considered suitable for market testing if they are so closely linked to the core ICT infrastructure that another supplier could not reasonably supply the service or product.



## Appendix 1 – Our methods

- 1 This follow-on study originates from a commitment made by the National Assembly for Wales Public Accounts Committee in April 2006 to report on the progress made by the Welsh Government in delivering the intended benefits of the Contract<sup>32</sup>.

### Literature review

- 2 In developing the study we examined two key Welsh Government reports on the Merlin contract: Report of the Merlin Review Team report (July 2006) and the Merlin Task and Finish Group's report (May 2008). We also reviewed the Welsh Government's ICT Strategy 2008-11 (January 2008), tracked the development of the Assembly Commission's i-change programme and examined relevant external and internal audit reports (Box 11).

### Analysing the costs of the Contract

- 3 The Welsh Government had budgeted to spend £220 million over the ten-year life of the Contract from 1 April 2004 to 31 March 2014. We used data provided by the Welsh Government's Commercial and Contracts Unit to track across time actual (i.e. invoiced) spend and committed expenditure on ICT core services, ICT projects and 'other' goods and services to 21 March 2010<sup>33</sup>.

#### Box 11 – Recent reports by other UK Audit organisations

In 2006, the National Audit Office reported a review of 24 successful ICT enabled change projects within the UK and internationally. This aimed to dispel the myth that successful government ICT projects were the result of good luck, rather than sound judgement. The report identified three principles underpinning success: ensuring senior level engagement; acting as an intelligent client and focussing on benefits realisation. The report also identified ten activities key to successful delivery.

In 2010, the National Audit Office reported on central government's use of consultants and interims. It found that consultancy costs fell between 2006-07 and 2007-08, and have since remained stable. The fall was attributed to improving the accuracy of recording expenditure on consultants rather than a real reduction in reliance on consultants. Relevant findings were:

- departments lacked basic information such as the amount of expenditure by type of consultancy service;
- the majority of contracts are based on the time worked by a consultant on a project rather than a fixed price or payments related to outcomes;
- departments do not adequately assess any benefits realised, and do not seek to link any benefits to the consultancy services procured; and
- departments rely most frequently on consultancy for programme and project management and IT, and demand for these two types of consultancy services had increased since the previous NAO report in 2005.

- 4 We examined the results of all the Welsh Government's annual benchmarking exercises from the start of the contract, which compares ICT service costs under the Contract with costs incurred by a range of similar organisations.

<sup>32</sup> In April 2006 National Assembly for Wales Public Accounts Committee considered the effectiveness of the Merlin Contract in providing ICT and business change within the National Assembly for Wales, following the earlier publication of a report by the Wales Audit Office. The Committee made recommendations for the future management of the Contract and for procuring subsequent ICT contracts. The Committee noted that it was too soon to assess the impact of the new contract and said that it expected to return to the issue in the future.

<sup>33</sup> The 'other' category comprises software (including licences), hardware, components and training, that fall outside the Welsh Government's main categories of spend on core ICT services and ICT projects.



- 5 **Appendix 3** includes details of the estimated and final costs of the ten Foundation projects that we examined in detail.

## Analysing the performance of core ICT services and ICT projects

- 6 We examined the performance both of the core ICT services delivered under the Contract (**Part 2** of the report) and the delivery of the ten Foundation projects (**Part 3**). In assessing the performance of core ICT services we analysed whether the Contract was meeting agreed service standards indicated by the level of service credits incurred. Where performance falls below the agreed standard a financial penalty (or service credit) is imposed upon the Alliance. Industry standard practice is that the level of service credits is a reliable means for assessing the performance of the contract in delivering against service standards.
- 7 In analysing the performance of ICT services we also examined:
- a user satisfaction survey results for Welsh Government and Assembly Commission users, including Assembly Members;
  - b Office of Government Commerce common assessment framework reports; and
  - c information on ICT industry norms (for example, on availability figures).
- 8 For the Transformation project we reviewed relevant project documents (for example, the strategic business case and project closure report) and carried out interviews with Welsh Government officials responsible for the project.

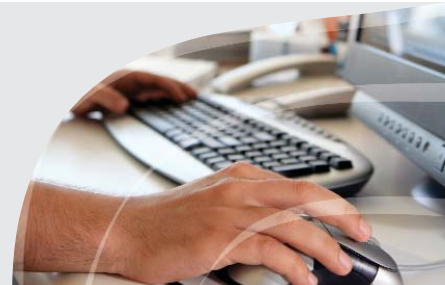
- 9 In assessing the performance of ICT projects we looked at whether projects were delivering their intended benefits and whether they had been completed to agreed costs and within agreed timetables. We focussed predominantly, but not exclusively, upon the ten Foundation projects and examined project documents, including business cases, project initiation plans, project closure reports and benefits realisation papers. Where appropriate, we interviewed Welsh Government officials working on the projects. We also analysed data on the level of financial benefits achieved across the whole of the Welsh Government's Enabling Government Portfolio of business change projects, as provided by the Welsh Government's Enabling Government Portfolio Team.

## Review of the Welsh Government's procedures for managing and delivering ICT services and ICT projects

- 10 We reviewed the Welsh Government's general approach to the management of both core ICT services and ICT projects under the Contract. We also looked more broadly at the Welsh Government's arrangements for delivering Enabling Government Portfolio ICT projects, some of which are not delivered through the Contract. We interviewed Welsh Government officials responsible for managing the Merlin contract or for managing ICT services more broadly. These included the Head of the Corporate Services, the Head of ICT Services (who is currently the Senior Responsible Owner for the Contract), the Head of the Project and Programme Management and Resourcing Division and staff in the Commercial and Contracts Unit.

We also interviewed those officials involved with delivering and monitoring the Enabling Government Portfolio. In the Assembly Commission, we interviewed the Deputy Clerk to the Assembly and the Head ICT services.

- 11 We also obtained evidence from the Alliance, including the Siemens Information Services Account Director and representatives from PA Consulting and Cap Gemini.



## Appendix 2 – Timeline of events outlined in report

Date		Event
2004	January	Merlin contract between 'the Alliance' (led by Siemens) and the National Assembly for Wales signed.
	April	Service delivery starts.
	December	Investment Board established to make investment decisions in respect of Welsh Government corporate change projects that bid for corporate funding, whether or not they included an ICT element.
2005	May	Welsh Government agrees first wave of ICT projects to be supported through the Contract – Foundation projects.
	June	Original deadline for completion of Transformation project as stated in the Contract.
	July	Transformation project paused and revised timetable developed with a targeted completion date of September 2006.
2006	February	Siemens-led review of technical design of Transformation project.
	April	Merger of four large and a number of other smaller WGSBs into the Welsh Government.
	May	Second pausing of the Transformation project.
	July	Report from the Merlin Review Team recommending better programme management and control.
2007	March	Establishment of a Task and Finish Group to assess options for the Transformation project.
	April	New governance arrangements for Merlin projects, including replacement of Merlin Management Board in July.
	May	Legal separation of the Assembly Parliamentary Service from the Welsh Government and subsequent creation of the Assembly Commission.
	July	Welsh Government creates post and appoints Director of ICT and Contract Services.

Date		Event
2008	January	Publication of Welsh Government's ICT Strategy 2008-2011.
	May	Task and Finish Group final report.
	July	Completion of third phase of the Transformation project.
	September	Start of fourth phase of Transformation project to rollout new ICT infrastructure.
2010	April	Completion of fourth phase of the Transformation project.
	April	Siemens withdraw from negotiations over a new pricing model.

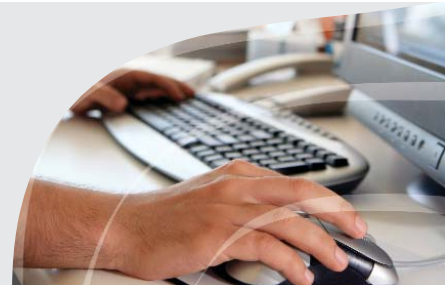




## Appendix 3 – Summary of the 10 Foundation projects

Project	Description and objectives	Timescale and current status	Cost
Request for Information Tracking	The Request for Information Tracking System replaced numerous systems with one intranet-based record of freedom of information requests, which everyone involved could access, update and extract management information from.	Project closed as completed in January 2006, following a scheduled phased roll out between 14 November 2005 and 19 December 2005. Subsequently enhanced in 2007 and 2008 to rectify problems which came to light and to respond to emerging requirements.	Final project cost was £173,000 against an original budget of £135,000.
Welsh European Funding Office (Grant Management and Payment System)	This project was to enhance and upgrade the existing grants administration systems and processes, to improve the system's functionality and to ensure compliance with European Commission regulations.	Project closed as completed in June 2008. The final phase of the project was delivered to schedule. However the timescales for completion were revised on numerous occasions and the project was originally scheduled for completion in March 2007.	Final project costs were £18.06 million. The final phase of the project (post May 2007) was delivered to budget. However, the budget was revised upwards on numerous occasions. The budget in the original business case was £7.72 million.
Shared Services HR Information Systems Phase 2	The objectives of this project were to consolidate HR information systems, implement and on-line recruitment system and migration of sponsored bodies HR records. These objectives were agreed in May 2005 and taken forward through two projects: the HR Information System project and the HR Information Technology project (also known as Online Recruitment Management System).	Last action required under the HR Information System project completed in December 2008. But key aspects of the project were not completed to the agreed timetable. The HR Information Technology project was closed as completed in October 2006, in line with agreed timetable for delivery.	Project closure documentation for HR Information System project does not identify if completed to the agreed budget. HR Information Technology project costs were £478,786, against an estimated budget of £403,000.
Assembly Internet	The objectives of this project were to be delivered through a number of phases. Stages 1 to 3 were to develop a new website, search engine, content management system and to migrate the websites of the merging ASPBs. The final stage 4 was to further enhance the functionality and content of the site.	Project now closed as phase 4 completed to schedule in February 2009. However, a commercial dispute delayed completion of several aspects of phase 3 of the project by 18 months.	Total project costs were £4.64 million, against estimated budget of £5.46 million (phase 4 of the project was delivered outside the Contract for £799,000 against an estimated budget of £805,000).

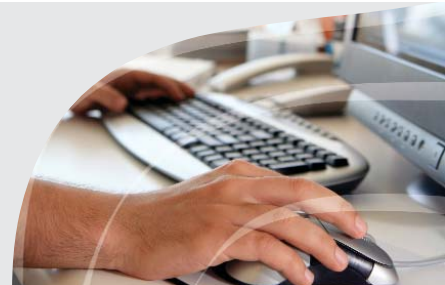
Project	Description and objectives	Timescale and current status	Cost
Information Security	The main objectives of the information security project were to agree updated security policies, practices and procedures and to achieve Certification against International Standard ISO BS7799.	Project now closed as completed to schedule in March 2007.	Total project cost £244,000 against an authorised estimated budget of £500,000 (remaining budget returned to the Enabling Government Portfolio team).
Integrated planning and budgeting	To deliver an IT solution to support a streamlined planning and budgeting cycle. In January 2007, the Welsh Government's Management Board decided to stop work on this project, and build the project objectives into its Information to Deliver Excellence, Accountability and Success (Managing for Delivery) programme.	Project stopped January 2007.	Project costs were £297,249, against an agreed budget of £293,000.
Management Information Systems	To provide members of the Welsh Government Management Board with summary information about HR, payroll and finance to support effective decision making. In July 2008, the Welsh Government decided to stop work on this project and build its objectives into the Information to Deliver Excellence, Accountability and Success (Managing for Delivery) programme.	This project was managed in defined phases. The initial phases delivered the expected staged improvements before the project was put on hold in July 2008.	Project costs were £362,000, against an agreed budget of £785,000.
Enabling Applications infrastructure	The objectives of this project were to provide a technology governance framework, and to develop elements of functionality common across a number of projects including: model office; search engine and a secure development engine. The Welsh Government has completed related work under two projects: the ICT Applications Strategy Project and the ICT Applications – Planning for Business Delivery project. The objectives of the latter project were to establish the mechanisms for delivering ICT applications both corporately and departmentally. However, pilot work led the Welsh Government to revise the scope of the project and acknowledge that, before it could establish mechanisms for delivering ICT applications, it had first to identify officials within each Director General area with responsibility for making ICT decisions.	ICT strategy project delivered ICT strategy in January 2008. ICT Applications – Planning for Business Delivery Project now closed, following a decision to identify an 'ICT Lead' within every Director General area.	The Welsh Government has been unable to provide us with information on the costs of this project.



Project	Description and objectives	Timescale and current status	Cost
Electronic Records and Documents Management System	The project aimed to develop and implement a single repository for creating, managing and storing electronic records and documents in a secure environment, which complies with statutory requirements and best practice standards and delivers significant business efficiency savings.	Originally planned in two phases, with full roll out scheduled for summer of 2010, subject to the availability of funding within these time-scales . Project was redesigned in March 2006: now three implementation phases, with full roll out in 2012. Phases 1 and 2 were completed to time.	Phase 1 and 2 costs were £3.71 million, against an estimated budget of £3.73 million). Estimated costs for phase 3 are £13.8 million over the period 2009 to 2012. Spend for 2009-10 was the full allocated budget of £3.8 million.
Customer Relationship Management System	The project was originally intended to harmonise processes, procedures and supporting hardware and software systems between a single area of the (then) Welsh Development Agency, namely its International Division, and the Welsh Government. However, in light of the merger of the Welsh Development Agency into the Welsh Government, the Welsh Government took the decision to stop the original project and redesign its scope. The objective of the redesigned project is to support the delivery of the Welsh Government's support for business services. The technology platform developed as part of this project was key to delivering the Welsh Government's business customer contact centre which opened in 2008.	Jointly funded through the Enabling Government Portfolio and Department for Economy and Transport. Due for completion October 2011.	Actual spend to March 2010 was £4.1 million against an agreed budget of £4.63 million. Budget for the final phase (to March 2011) is £1.81 million.

## Appendix 4 – Main benefits identified from the five completed Foundation projects

Project title	Financial benefits	Non-financial benefits
<b>Request for Information Tracking</b>	<p>The system for managing all aspects of freedom of information requests has been streamlined. The Welsh Government has reported that there have also been considerable savings in staff time, but it has not quantified these and translated them into cost savings. The Welsh Government reports that savings have been achieved through:</p> <ul style="list-style-type: none"> <li>• reductions in staff time to process Freedom of Information requests;</li> <li>• reductions in the cost of providing management information; and</li> <li>• identifying and not working on requests that exceeded published cost limits.</li> </ul>	<p>The original business case identified the following as the main non financial benefits:</p> <ul style="list-style-type: none"> <li>• maintaining the Welsh Government's reputation to be as open as possible;</li> <li>• better qualitative analysis of each request and response;</li> <li>• compliance with statutory timescales for dealing with Freedom of Information requests; and</li> <li>• helping the Welsh Government fulfil its relevant policy obligations.</li> </ul> <p>We have not found any evaluation of the extent to which these anticipated non-financial benefits have been delivered. However, the Welsh Government told us that the biggest single contribution of the project to business benefits is the shared central storage of information which allows single entry of data and analysis by many authorised users. It has reported a reduction in the amount of effort required for recording requests and responses and a significant reduction in the effort needed to achieve consistency. These improvements contribute to both the financial and non-financial benefits.</p>
<b>Shared Services HR Systems (Phase 2)</b> Delivered through two initiatives: HR Information Systems; and HR Information Technology (or Online Recruitment Management System)	<p>HR Information Systems project delivered cash savings and some staff savings:</p> <ul style="list-style-type: none"> <li>• Creating an accurate staff database enabled the Welsh Government to identify current ICT users and to stop making payments to its supplier of ICT services for 'ghost users' (ie, those who no longer work for the Welsh Government, but remained listed as an employee). This has resulted in savings of £150,000 per year;</li> <li>• The Welsh Government were able to reduce staff levels marginally by 0.5 of a full time post.</li> </ul> <p>The Welsh Government's Online Recruitment Management System delivered cash savings of £1 million a year, as a result of reduced advertising, staffing, stationery and accommodation costs.</p>	<p>The HR Information Systems project delivered the following non-financial benefits:</p> <ul style="list-style-type: none"> <li>• <b>Improved absence management:</b> the new system enables real time recording of sickness absence and easier analysis of data, thereby helping line managers deal with absence more effectively.</li> <li>• <b>Improved performance management:</b> Storing personal development reviews electronically enables better monitoring and enforcement of the performance management policy.</li> <li>• <b>Improved organisational security:</b> notifying security staff of starters and leavers automatically enables building passes to be activated and deactivated in a timely way.</li> </ul> <p>Benefits of the Online Recruitment Management System include: encouraging on-line recruitment; reduced data entry; electronic communication with applicants and the facility for interview panel members to sift applications online.</p>



Project title	Financial benefits	Non-financial benefits
<b>Welsh Government Internet</b>	The data on the financial benefits of the Internet project reported to us by different parts of the Welsh Government has been inconsistent. However, it was reported to the Welsh Government's Strategy Sub Committee that the project had realised financial savings of £2.2 million. The savings arise from use of a single internet service to develop and maintain websites, rather than outsourcing to third parties.	An independent review by external consultants found major improvements to the Welsh Government's internet site with improved presentation, content and management arrangements and better compliance with legislation.
<b>Information Security</b>	No financial benefits were anticipated.	The Welsh Government has achieved certification that its information security procedures meet international standards. However, a systematic assessment of the benefits secured by meeting this objective has not been carried out.
<b>Welsh European Funding Office Grant Management and Payment System</b>	<p>To date, the introduction of the new grant management and payment system has delivered the following financial benefits:</p> <p>Enabled access to EU structural funds: the Welsh Government told us that an improved system of grant management and payments was required to access approximately £1.9 billion of European Union funding for the deprived areas of Wales; a 2004 audit of the Welsh European Funding Office by the European Commission had identified deficiencies in the previous system.</p> <p>Reductions in staff levels: the number of staff processing grant payments has reduced from 20 to 12. However, annual financial savings have been less than half the expected £554,962 per year.</p> <p>Non-renewal of software licences: a one-off saving of £330,000 was achieved by not needing to renew software licences, as functions carried out by the software are built into the new grant management and payment system.</p> <p>Reduced notional interest payments: the new system may reduce the level of interest payments the Welsh Government is subject to, if there is a reduction between the time the Welsh Government pays grant recipients and when it is reimbursed by the European Commission. The extent of any savings will not be clear until after the current round of funding ends in 2013.</p> <p>Improved management of funds: improved tracking of projects receiving structural funds will allow unused funds to be re-allocated to other projects. The Welsh European Funding Office estimates that improved monitoring will reduce programme under-spend from three per cent under the 2000-06 programmes to one per cent under the current 2007-13 programme, resulting in an additional £30 million funding during 2006-13. The Welsh Government will not be in a position to verify this until the end of the current structural funds programme in 2013.</p>	<p>The Welsh European Funding Office's 2009 Customer Insight Survey asked grant recipients for their views on the new system. Respondents were overwhelmingly positive about the reduced time taken to process grant claims. They were less positive about some other aspects of the system, including difficulties in uploading documents to process their initial grant application.</p> <p>The new system has also delivered benefits for the Welsh Government. The Welsh Government told us that management information, which had previously taken a number of days to collate, is now available automatically. Furthermore, drawdown reports (requests from the Welsh Government to the European Commission for funds) are now automated, whereas they previously took ten staff-days to prepare. The Welsh Government also told us that the ease of accessing such management information has enabled it to better forecast spend and to be more transparent with key stakeholders.</p> <p>The system has helped to enhance the accessibility of the Welsh Government by widening the range of services available online to the public. The Welsh Government used the basic architecture of the new system to develop its Child Trust Fund IT system. In future, the Welsh Government has plans (under one of the Enabling Government programmes) to use the new system infrastructure to support other areas of Welsh Government business.</p>



## Appendix 5 – National Assembly for Wales Public Accounts Committee recommendations

### Recommendations from the Public Accounts Committee's 2006 report - The Merlin Contract - Enabling the National Assembly to change its business processes through ICT - relating to procurement

- 1 The procurement was delayed because the Welsh Government identified too late the need to procure additional specialist advice to negotiate a contract of this magnitude. **The Welsh Government should consider its need for external advisors early in the procurement process to avoid delays caused by appointing advisors by open competition midway through the procurement. To minimise the costs of such advisers, the Welsh Government should deploy a range of payment methods, such as daily rather than hourly rates for advice.**
- 2 The procurement programme board overseeing the Merlin procurement did not see sufficient financial information to enable them to monitor expenditure in detail on a routine basis. To enable more rigorous scrutiny of future procurement costs, **procurement teams should present quarterly financial data on individual components of major procurements to the procurement programme board.**
- 3 Users were not sufficiently involved in identifying their ICT requirements at the contract specification stage. **In preparing to replace Merlin, the Welsh Government should actively involve users in specifying ICT and business change requirements, for example through workshops, site visits and networks with relevant organisations, both public and private sector, to identify the potential to use ICT to deliver business change.**
- 4 The omissions of Gateway Reviews 0 and 2 reduced the degree of independent scrutiny of the Merlin procurement. **The Welsh Government should use all five Office of Government Commerce Gateway Reviews to bring independent review and assurance to each key stage of future major procurements.**
- 5 Although the Merlin procurement team took appropriate steps to manage the risk of negotiating with an incumbent supplier, Welsh Government officials will need to secure competition in future ICT procurements as SBS may have as much as 20 years' experience working in the National Assembly by the end of the Merlin contract. **Welsh Government officials should ensure they have sufficient time towards the end of Merlin to determine the procurement strategy for its replacement in the light of what is then known about handling procurements involving an incumbent supplier and the current market for the supply of the services they need.**