



House of Commons

Work and Pensions Committee

**Department for Work
and Pensions
Management of
Information
Technology Projects:
Making IT Deliver for
DWP Customers**

Third Report of Session 2003–04

Volume I



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Report, together with formal minutes

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The Work and Pensions Committee

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Highlights

- The DWP is undertaking a massive modernisation programme, which depends upon IT projects being implemented successfully, while at the same time there is widespread concern about the number of inadequate IT systems across the public sector.
- Although there is a vast amount of information on best practice, there is only patchy compliance. Openness and accountability are vital tools in ensuring compliance with best practice. DWP should be significantly more open about its IT projects.
- OGC has had an important influence on best practice, particularly since the introduction of its Gateway Reviews. However, too many of its recommendations are optional. It needs greater powers to enforce best practice, and should insist on greater transparency.
- We consider there is scope to simplify social security policy, to make it easier to understand and deliver. Nevertheless, we recognise that questions of fairness and equity may limit the potential for extensive change.
- Despite some signs that aspects of its service are improving, the performance of CSA's IT programme and new telephone system remain unacceptable.
- The new child support policy is a good example of a simplified policy, but Parliament was not fully informed that this simplified scheme would be delivered via a complex IT programme requiring profound business transformation.

1 Introduction

1. Much of modern life is dependent upon IT systems reliably processing vast amounts of data speedily without major incident.¹ When they work, reliable and stable IT systems can deliver new services and efficiencies to the benefit of all. But too often, the actual experience can be the very opposite of that. Defective IT systems can cause serious problems and distress to thousands of people. These problems are compounded when IT failures involve the delivery of crucial public services, especially, as in the case of the Department for Work and Pensions (DWP), where IT programmes directly affect people who are in low-income households and claiming benefits and paying or receiving child maintenance. Defective IT systems may result in: a DWP customer discovering that a regular benefit has been reduced only after the payment is received; thousands of non-resident parents making the wrong maintenance payments; and failure to calculate entitlement properly when people apply for benefit. Customers' telephone calls may go unanswered, or are finally put through to a member of staff who has no knowledge at all of the particular case and, because of faulty IT technology, is unable to access any relevant files electronically. It is a lucky caller who gets put through to somebody that can actually retrieve the relevant files onto their screen, and extract the necessary information before the computer screen crashes.² Defective IT can also have an adverse effect on staff morale and turnover, which is especially damaging in an organisation, such as DWP, that already suffers from high levels of absenteeism and staff turnover compared with some other Government departments and the private sector.³

2. Defective IT systems are found in the private and public sectors and are a world-wide phenomenon.⁴ According to research produced by the Standish Group, one of the most widely publicised surveys into the problem of inadequate IT across all sectors throughout the world, some 16% of IT projects succeed in terms of coming on-stream on time, to budget and to specification.⁵ We heard that for larger projects, costing over £10m, success rates are even lower.⁶ With such high failure rates, the full extent of the public expenditure costs of defective IT should not be under estimated. DWP has some of the largest IT systems in the world – 35 major systems, 26 million customers and approximately £100 billion paid out annually in benefits.⁷ DWP's spending on administration was £6.35 billion

1 IT system is used to describe IT (hardware) and IS (software)

2 Ev 119

3 For example, see *Analysis of sickness absence in the civil service*, tables A and F, published by Aon Ltd.

4 Examples of defective IT systems in the private sector, such as the London Stock Exchange's Taurus computer project, are described in *Crash: ten easy ways to avoid a computer disaster*, by Tony Collins and David Bicknell.

5 The Standish Group survey was quoted by a number of witnesses. For example, Submissions from DWP (Ev 103-4), Mr Hasted (Ev 111) and OGC (Ev 128). For purposes of the Standish study, projects were classified into three resolution types: Resolution Type 1, or project success: The project is completed on-time and on-budget, with all features and functions as initially specified. Resolution Type 2, or project challenged: The project is completed and operational but over-budget, over the time estimate, and offers fewer features and functions than originally specified. Resolution Type 3, or project impaired: The project is cancelled at some point during the development cycle. Overall, the success rate was only 16.2%, while challenged projects accounted for 52.7%, and impaired (cancelled) for 31.1%. Source: www.standishgroup.com. A more recent study, commissioned by Computer Weekly and conducted by Templeton College Oxford, found that one in ten IT projects was abandoned, 75% were challenged (projects defined as completed and operational, but over budget, time and/or lacking critical features), and around 15% were successful (defined as completed on time and on budget, with all features and functions as originally specified). See Ev 128.

6 For example, see OGC (Ev 128)

7 Ev 104

in 2003/4, but since 2001 the Department has spent some £4.25 billion on IT projects, comprising £2 billion allocated in each of the 2000 and 2002 spending reviews and some £250 million for the Jobcentre Plus roll-out.⁸ If these spending levels continue, the 2004 Comprehensive Spending Review may add another £2 billion.

3. DWP's modernisation programme is one of the largest programmes of its kind in Europe and will have a major effect on the lives of its 26 million customers. In many ways, successful IT programmes are central to the Department's efforts to improve its quality of service delivery and counter fraud and errors⁹ The 1999 White Paper: *Modernising Government* envisaged an increasing level of information exchange between Departments – and particularly those providing linked services.¹⁰ According to DWP, the aims of its modernisation programme are to:

- "deliver key welfare reform initiatives, including Pension Credit, New Tax Credits, Child Support Reforms, Payment Modernisation and Welfare to Work;
- establish a customer-orientated business approach including new organisations, joined-up services, call and contact centres, personal advisers and improvements in accuracy and service; and
- improve efficiency, including reductions in fraud and error by modernising IT and reducing reliance on clerical processes."

4. The results of its modernisation programme should include "new products such as Pension Credit and New Tax Credits, and better, more efficient and customer-focused services."¹¹ The modernisation of the Employment Service and introduction of pension credit were cited as examples of the way IT-enabled change could be successfully accomplished.¹² Clearly, DWP's modernisation programme is about more than simply providing frontline staff with new computers; it involves enabling DWP's businesses to become more customer-focused, while driving out inefficiencies.¹³ A common theme running through much of our evidence was that a successful modernisation programme requires a fundamental transformation of an organisation, including the way that its business is conducted and organised.

5. We launched our inquiry in November 2003 with the following terms of reference: "to examine the DWP's management of information technology (IT) projects. " We decided to conduct our inquiry in two parts: firstly, to examine the principles of best practice in the area of procurement and administration of IT projects, which included the specific questions that we set out in our press release;¹⁴ and secondly to examine the extent to

8 Q 307

9 DWP's Departmental Report, 2004, Cm 6221, Figure 25 lists the Department's current major programmes and projects that are based predominantly on IT change, with details on schedules, budgets and achievements to date.

10 *Modernising Government*, March 1999, Cm 4310

11 DWP's Departmental Report, 2004, Cm 6221 and see also Q 500

12 Q 316 and Q 497

13 Q 268. DWP's various businesses, comprise the Child Support Agency, Jobcentre Plus, The Pension Service, the Appeals Service, and the Disability and Carers service and corporate support services

14 The questions in our press release were: 1)Should policy be simplified prior to drawing up an IT specification? Does this happen in practice? 2)Do bespoke IT systems ever work successfully? 3)Is there an effective competitive process in the awarding of IT contracts with DWP?4)Does a genuine transfer of risk occur between DWP and its suppliers,

which the elements of best practice have been applied in the case of the Child Support Agency (CSA). Our acknowledgements and thanks are set out in annex one. Our focus during this inquiry has been on DWP's administration of IT systems, but throughout we have also been conscious that IT failures are more likely to receive media attention than the numerous IT successes, especially if the failures are large public sector projects. We also note that IT programmes may perform satisfactorily, but fall short of expectations that may have been set unreasonably high.

6. Successful IT delivers real benefits. Effective IT can assess a customer's eligibility for all benefits and services while also supporting the necessary transactions in a speedy and accurate manner. Effective IT could allow customers to contact DWP once, for all their personal records to be updated, and effective IT can produce savings that can be used to raise benefits, allow staff to be redeployed from data processing to case management or to reduce public expenditure. Overall, successful IT can improve the quality of services while reducing unnecessary public expenditure lost through inefficiencies, fraud and errors. The vision of using effective IT accurately and speedily to process data to the benefit of customers, taxpayers and staff is a prize that is clearly worth pursuing.

2 Elements of best practice

7. A number of Government, industry and academic inquiries have presented a wide range of information on best practice – for example, "*Improving the delivery of Government IT projects*";¹⁵ "*Successful IT: Modernising Government in action*";¹⁶ "*Getting IT right for Government*";¹⁷ "*Government IT projects*";¹⁸ and "*The Challenges of Complex IT Projects*."¹⁹ Many of our witnesses gave us strong and consistent evidence on ways to improve IT project management within Government. We agree with the general principles set out in these studies and in the written and oral evidence. This report does not attempt to be a manual on best practice, but rather to identify a number of key areas where we consider there is scope to improve the administration of IT in the DWP, and potentially more widely across government.

8. The record on IT by DWP and its predecessor, the Department of Social Security, has been lamentable, with some high profile failures (e.g. NIRS2 and the Benefit Payment Card project).²⁰ The Department has recently produced an updated IS/IT strategy that aligns its procurement policies more closely to existing best practice, for example requiring a direct link between projects and necessary business outcomes, favouring Commercial-Off-The-

especially in the case of administering benefits? 5) Does commercial confidentiality unnecessarily obscure proper transparency and accountability? See *Making IT deliver for DWP customers*, November 2003.

15 Public Accounts Committee, First Report of 1999-2000, *Improving the Delivery of Government IT Projects*, January 2000.

16 *Successful IT: Modernising Government in action*, Cabinet Office May 2000

17 *Getting IT right for Government: a review of public sector IT projects*, Intellect

18 *Government IT projects*, Parliamentary Office of Science and Technology (POST), July 2003.

19 *The Challenges of Complex IT Projects*, The report of a working group from the Royal Academy of Engineering and the British Computer Society.

20 The failings of these projects were set out in studies by NAO/PAC. For example, see Public Accounts Committee, Third Report 2001-02, *The cancellation of the benefit payment card.*, HC 258, 6 December 2001 and NAO report: NIRS 2: *Contract extension* HC 355 2001/02. See also Ev 117. Q 322, Q 392

Shelf (COTS) products over bespoke systems and small scale projects over larger projects.²¹ Mr Tom Warsop of EDS and other witnesses gave us evidence that the performance by Department, agencies and suppliers had improved significantly over the last eighteen months or so.²² Despite this, there is still considerable room for improvement. In this Section we consider seven areas of best practice that we consider particularly pertinent for DWP :

- Simplifying policy so it can be more easily delivered
- Unrealistic deadlines
- Need for early discussions to avoid unworkable projects
- Staffing and managing the cultural changes needed to introduce new ways of working
- COTS vs. bespoke IT systems
- Breaking large IT changes down into a number of smaller projects
- Strong contingency planning, for when things go wrong, including abandoning failing projects.

Simplifying policy

9. Much of DWP's business is highly complex and involves a dense set of interrelationships that need to be fully understood, with or without the aid of sophisticated IT systems. In our call for evidence, we asked witnesses to consider the scope for simplifying social security policy with the aim of improving service delivery. There was broad agreement throughout the evidence in favour of the case for simplifying policy. DWP argued that the simplification "makes it easier for customers to understand policies and for staff to administer them correctly. There are also benefits in terms of reduced need to customise supporting technologies."²³ In line with this, the Department has made some attempts to simplify policy. In particular, the new scheme for child support is an example of simplified policy.

10. Some of our witnesses, however, pointed out that the scope for simplifying policy may be limited in some areas. Ms Jan Gower, of IBM, argued that, "The hypothesis that says if we simplify the policy the IT systems will be much simpler and therefore we will all get to a better answer more quickly is too simplistic."²⁴ Others pointed out that complex policies were sometimes needed to avoid creating rough justice and too many losers from policy changes, while also seeking to preserve protected rights for those affected by any changes in policies. This constraint was put to us very clearly by Ms Laura Martin from PCS, who considered that, "you have to make decisions about simplicity versus fairness versus

21 An example of a COTS package in the field of social security is Curam. See Ev 153

22 Q 466. See also Q 461. A list of witnesses is given at the end of this volume.

23 Ev 106

24 Q 239

equity."²⁵ It is also important to avoid social policy being determined according to what fits into the constraints of current, possibly defective, IT. This constraint on policy simplification is especially obvious when dealing with the most vulnerable people in society. The Secretary of State, the Rt. Hon. Andrew Smith MP, recognised the broad case for policy simplification, but also reasons why complexity was sometimes necessary. He said:

the fact that we have rule-governed systems in itself brings some complexity into play; the fact that we want to be sensitive to individual circumstances often makes things more complicated; the fact that people have complicated lives; the demands of fairness; requirements of cost effectiveness; how you deploy your resource so it helps those who most need help; the constraints of interaction with a variety of other systems, benefits, taxation and so on; minimising the losers when changes are made.²⁶

11. Mr John Wheatley, Citizens Advice, recognised that simplification may make delivery easier, but pointed out that there was,

a raft of case law clarifying what is meant by using a slotted spoon in the cooking test, for example, a whole host of Commission decisions which clarify further the regulations, and further regulations on the basis of Commission decisions which in the Department's view go against the original policy intention.²⁷

He argued that any attempt at simplification would also result in a range of clarifying case law.

12. An illustration of policy simplification is the Government's child support reform. For example, under the old (complicated) arrangements, a maintenance assessment involved eight separate steps, and 39 lines of financial calculation, whereas the new arrangements are based around a simple formula, and involve only three steps and eight lines of calculation.²⁸ Where complexities arise under the new simplified system, these are mainly associated with transitional arrangements, when moving existing cases from the old scheme to the new scheme and Child Maintenance Premium. We discuss the CSA, including its well publicised IT problems, in section five. But generally, in terms of simplification, the Secretary of State told us that where the CSA system was working, it was supported by clients, the public and staff.²⁹ PCS acknowledged that without a simplified policy, the difficulties at the CSA would be a lot worse.³⁰

13. Although we recognise that there are limits to simplification, we consider that there may be considerable potential for simplifying social security policy further in order to make it more comprehensible to staff and customers, but also to help to deliver policy objectives to be delivered more effectively and transparently. In our view, there is a case for

25 Q 241

26 Q 559

27 Q 457

28 Ev 193

29 Q 559

30 Q 420

exploring the possibilities of further policy simplification. **We recommend that the Department establishes a high level working group chaired by Ministers, comprising IT suppliers, social policy experts and other relevant parties, including representatives of client groups and front-line staff, to make recommendations on how policies can be simplified.**

14. The NAO and OGC should have a key role, contributing their expertise on best practice and lessons learned from previous IT failures. In our view, policy simplification has the potential to deliver significant savings in the costs of delivery, fraud and error. We believe that if these savings are clawed back in full by the Treasury, there will be little incentive for stakeholders to take part in the discussion and implementation. We therefore considered how the savings that are derived from a successful IT programmes should be allocated. It is our view that the majority should be used to raise benefits. **We recommend that the Government makes a commitment to transfer half of any savings into benefits with the balance being divided equally between better service delivery and public expenditure savings.**

Unrealistic deadlines

15. IT projects are notorious for running over time and cost and ending up with too little functionality. Despite this, Ministers seem to commit themselves to projects that are completely unworkable - because they are too complex, too expensive or just likely to take too long to deliver. Within the DWP, the 1998 Benefits Payment card project and the CSA reforms are two examples of this. Mr Tony Collins (Executive Editor, *Computer Weekly*) thought it was surprising, "that such large sums seem to be devoted to projects where the scale is enormous and where the risks are very high, where it is recognised that those risks are high, but the policy driving those decisions is such that the IT has to be implemented."³¹ Similarly, as Ms Sarah Arnott (*Computing*) told us, "the Inland Revenue's disastrous introduction of tax credits last year resulted from a commitment from a politician to a deadline that could only be met if all the system testing time was cut out of the development process."³² The result was a system that failed to pay tax credits to some people who were dependent on the income.

16. In a large department such as DWP, Ministers clearly depend upon civil servants to keep them fully informed about particular projects. We heard from the Secretary of State that he holds monthly meetings with his Permanent Secretary and Chief Information Officer, which gives him the opportunity to provide political leadership and accountability, and to ask challenging questions.³³ The Secretary of State stressed that he did not try to micro-manage everything, but instead ensured that the right structures and teams were in place.³⁴ Sir Peter Gershon CBE, Chief Executive, Office of Government Commerce (OGC) told us that Ministers were provided with a 'checklist', to help them ask the right sorts of questions at the start of projects, such as whether there was sufficient interaction with industry. Ministers are also under a Cabinet direction that, "no government initiative

31 Q 190

32 Ev156

33 Q 556

34 Q 556

(including legislation) dependent on new IT [is] to be announced before analysis of risks and implementation options has been undertaken." ³⁵ Nevertheless, we have yet to see extensive evidence of brave decisions by Ministers to re-focus or delay projects at an early stage. We suspect that too often civil servants may find it extremely difficult to say 'no' to Ministers, or if they do, may only do so when it is too late. Indeed, we heard that "repeatedly, common sense and sound principles are ditched for 'short term' gain and political expediency." ³⁶

17. There is widespread recognition that unrealistic deadlines can damage the reputations of Ministers and IT suppliers. Unrealistic deadlines also increase the risk that suppliers and departments will collude to reduce the scope of the project. In the case of CSA, the Minister told us that he would not commit himself to a specific date for conversion of old cases to the new scheme because of doubts over the reliability of the IT programme. He said that conversion would only happen when he was absolutely certain that the new system was working properly. He told us:

We maintain the maximum pressure to achieve progress as effectively as we can, but we do not allow ourselves to be seduced into giving a date which might, for the sorts of reasons you have been talking about, turn out to be undeliverable. ³⁷

18. While there is evidence that the Department has learned the lesson of not setting unrealistic deadlines, **we recommend that DWP sets and publicly justifies more realistic deadlines than hitherto has been the case.**

Early discussions

19. One theme running through the evidence is that there are limits to what technology can achieve; limits that officials and Ministers do not always fully appreciate. According to Nick Kalisperas (Intellect), ³⁸ "the weakness fundamentally is a lack of communication with suppliers at early stages of procurement, to understand fully what the capacity and capability of the market is and what solutions it can realistically deliver." ³⁹ We recognise the obvious need to bring together technically minded people, business managers and policy advisers within some forum early in the life of the project. We see that IT suppliers may act as a valuable source of advice on what is technically feasible and what is not. Mr Derek Ward summarised the pressure that Ministers may be under when he told us:

Historically, I think there may have been a problem. From where I sit, the problem comes down to this: that we are expecting as a society at all levels more and more functionality. We need it to be faster. We want it tomorrow and we want it to cost less. ⁴⁰

35 Ev 129

36 Letter provided by *Computer Weekly* from a civil servant (name and address withheld).

37 Q 557

38 Intellect is a IT trade body representing 1,000 companies in the Information Technology, Telecommunications and Electronics Industries in the UK.

39 Q 97

40 Q 240

20. Early contacts may avoid the problem of policy makers over-specifying the project too early. We were told that the more successful projects, such as the Inland Revenue's self – assessment programme, were more likely to have brought suppliers and officials together early in the life of the project.⁴¹ EDS told us that one of the first things they try to do early in the life of a project is to form a core team, which they seek to keep together for as long as possible, which ideally is matched up and co-located with a team from the customer side.⁴² We heard a number of examples of how early discussions could be beneficial. Ms Sheelagh Whittaker (EDS) provided an example of the Inland Revenue being persuaded to adopt a paper-based system instead of an unnecessary IT-enabled solution for its Stamp Duty operations.⁴³ Tom Warsop (EDS) pointed out that one initial option for the customer management system within Jobcentre Plus was that it would be a bespoke application and development, but a COTS package was recommended when it was discovered that the COTS package could perform most of what Jobcentre Plus wanted to do, and could be modified to meet their needs. Mr John Corneille (IBM) told us: "very rarely is there a dialogue early in that process such that the suppliers can offer an opinion. I cannot remember a case when a Minister has approached us and said "I am thinking this needs to be delivered on this timescale, what do you think?"⁴⁴

21. In the case of DWP's business, one reason IT suppliers need to be involved early on in the process is to give them ample time to understand fully the complexity of DWP's operations. We heard that there was a "growing maturity both on the industry side and on the Department side in terms of engaging earlier."⁴⁵ One downside of early and detailed consultations, however, is that the process may be prolonged, at least during the initial stages. This delay may be offset by time saved later in the process. In the final analysis, if there are no offsetting savings in time, a longer feasibility phase is likely to be a small price to pay for an increased chance of success. We heard that there was really no better way to try to ensure future success than for the DWP to engage with suppliers early in the process and for there to be an atmosphere that allowed open and honest communication, including telling Ministers when something was unrealistic.⁴⁶

22. While we endorse the principle that early discussions can be beneficial, we remain sceptical that industry will be totally candid when there are expensive contracts at stake. Mr Avi Silverman (Kable Ltd) argued that, "the endemic problem is that suppliers say at the beginning that they can deliver something but it is questionable whether they can deliver it."⁴⁷ Tony Collins drew similar conclusions, "Do not expect suppliers to always tell the whole truth. Those suppliers that do, suspect they will not win the contract. In the UK civil service, and particularly among IT suppliers, criticism is associated wrongly with disaffection. Until optimism is checked by realism and scepticism, and constructive criticism is encouraged, we should expect project failures to continue."⁴⁸ On the other

41 Q 482

42 Q 496

43 Q 479

44 Q 273

45 Q 240

46 Q 300

47 Q 185

48 Ev 143

hand, it was suggested to us that no supplier would deliberately take on a project they knew could not be delivered, because the risks of public failure were so high.⁴⁹

23. Early involvement by suppliers is also no guarantee of success. For example, EDS was fully involved in the consultation on the CSA reform and the decisions on timing, but that did not prevent the system from being delivered late and with poor functionality. According to a press report in *Computer Weekly*, while the Department is justified in blaming EDS for some technical shortcomings, it should take some responsibility itself for its own poor planning of the project, which, according to *Computer Weekly*, resulted in some 2,500 change requests being made to the CS2 system.⁵⁰ In this example, early involvement of the parties seemed to have been less effective than we would have hoped.

24. In general, the Department and suppliers should be fully open and honest while not compromising the competitive procurement processes. We heard that partnership agreements that have been entered into on a competitive basis could offer some means of getting the best of both these worlds. The welcome re-establishment of DWP's in-house expertise should also play an important role in supporting these early discussions. We heard from Intellect about their Concept Viability Service, which aims to help public sector clients consult the market by use of anonymous comments from individual companies and giving departments a view from across the industry. We welcome this facility, and we will watch with interest to see whether it increases the success rate of projects. **We recommend the introduction of an independent, publicly available, continuing assessment of Concept Viability for all major IT projects as they are developed by the Department.**

25. In our view, there is some evidence that the Department has learned the lesson that technical realities should be taken into account early in the process, and that deadlines should not be unrealistic. But more needs to be accomplished, especially in terms of bringing other stakeholders, including staff and user groups on board. **We recommend that well before any contracts are signed, IT programmes should involve key stakeholders in the analysis of how business processes will be changed.**

26. We also consider that Parliament should be better informed about implications for IT when new policies and legislation are introduced. **We recommend that, as formal evidence to Parliament, the Department should present an implementation assessment for each major IT project.** We envisage that such an IT Implementation Assessment (ITIA) would be similar to a Regulatory Impact Assessment (RIA) that is currently required. An ITIA should set out in some detail the Government's justification for embarking on the IT programme, including purpose, timings, costs, IT requirements and major risks.

Staffing issues

In-house expertise

27. DWP needs a pool of staff with skills in IT, contract negotiation and project management. Sir Peter Gershon told us that in terms of its scale and complexity, DWP's

49 Ev 151

50 "CSA holds back £1m a month from EDS in systems dispute", *Computer Weekly*, 4 May 2004

modernisation programme is unique within Whitehall. But what was less evident throughout our inquiry was DWP's in-house capacity to manage the major modernisation task - or at least to audit the IT suppliers who manage the IT programmes. Arguably more important than individual directors is the existence of sufficient numbers of suitably trained staff. PCS pointed out that the Information Technology Services Agency (ITSA) originally provided the in-house expertise for DWP until it was outsourced with the transfer of staff to EDS, under a PFI deal, which effectively meant that people who had close oversight of design and development within the Department were no longer directly available to the Department.⁵¹ Mr John Cross (DWP) said the transfer was part of an outsourcing agenda, which,

industry did as well; it rather tended to tip its IT organisation in its entirety over the wall to its supplier, if I can use that phrase. I think both private industry as well as DWP has learned that that is actually quite dangerous, because you lose your internal capacity to manage your elements of the risk as well as the relationship with the supplier, both of which are key levers.⁵²

28. Inevitably with a depleted pool of in-house skilled IT staff, the department, as John Cross acknowledged, became more reliant on its IT suppliers. Over recent years, the Department decided to establish its own in-house IT project expertise and has subsequently appointed some senior people.⁵³

29. We heard from Avi Silverman that government public sector IT project managers were not available in sufficient number at the level needed.⁵⁴ There was some evidence that on "the bigger, more high profile programmes which are starting now, there are more and more examples of specialists being brought in from the private sector who have experience of running big IT programmes. This seems to be a trend. It is probably rather expensive for departments to do."⁵⁵

30. We welcome the Department's decision to establish its in-house IT project expertise, its efforts to recruit suitably qualified people at all levels and its interest in reducing the proportion of people it has in management, design and control positions who are currently sourced through the contract market. However, as noted above, we are concerned that there is not a suitably trained cadre of IT staff within DWP and that the task of recruiting and retaining such people will become increasingly difficult as private sector demand for people with IT project skills recovers.

31. Rightly or wrongly, there has been a suspicion that without its own in-house expertise, the Department has not always been able to deal with IT suppliers as they should. In our view, the decision to shed its skilled IT staff undermined DWP's ability to monitor or assess the work of its IT suppliers. As John Cross told us, the DWP could not reasonably duplicate the resources of EDS, but more in-house expertise would put the Department in

51 Ev 120

52 Q 327

53 On 7 May 2004, DWP announced the appointment of Joe Harley as Programme and Systems Delivery (PSD) Group Director and Chief Information Officer.

54 Q 220

55 Q 221

a better position to assess the performance of the IT suppliers. In terms of discharging these auditing and reviewing functions, the in-house unit needs to be well staffed with people possessing a range of skills – auditing, project management, and technical. **We recommend that the Department recruits sufficient numbers of skilled project managers with knowledge of IT projects to negotiate contracts and to monitor their IT suppliers effectively.**

32. We further recommend that the Department enters into urgent discussions with the OGC, the Royal Academy of Engineering, British Computer Society and Intellect to agree a set of recognised professional qualifications for IT project management.

Cultural change

33. The culture of an organisation is an important determinant of success for major IT programmes, especially in an organisation that is undergoing a fundamental transformation. Sir Peter Gershon explained, "Culture is clearly an issue with some of the systems that DWP has sought to introduce. If you take the system that is being rolled out through Jobcentre Plus, clearly there have been some very important issues to deal with in terms of staff reaction to that new way of delivering the Jobcentre service in terms of having a screenless environment."⁵⁶ As Kevin Saunders (SchlumbergerSema) explained, "changing that size of organisation is extremely difficult and particularly changing it all at the same time is even more so." Jan Gower argued that the management drive for culture change was greater in the private sector, because business survival acted as an incentive.⁵⁷

34. The experts we heard from agreed that staff, work culture and how management handled change were all as important as technical issues in determining the success of an IT programme. Dr Joe McDonagh of Trinity College Dublin explained that, "No more than 20/25% of an IT project spend will be absorbed by technical change considerations while the remaining 75/80% will be absorbed by strategic, social, and political aspects of change."⁵⁸ Sarah Arnott argued that, "Merely trying to computerise existing paper processes is a recipe for disaster, as is allocating insufficient time and effort to the views and needs of the staff who will ultimately use the new systems."⁵⁹ Professor Jim Norton has suggested that 50% of an IT programme should go on training, explaining to staff and budgeting for the fall in productivity while the new system is bedded in.⁶⁰ According to Sarah Arnott, this does not seem to generally happen in the public sector. Laura Martin (PCS) argued that staff were not given sufficient training in depth to allow them to understand how their work and the IT system fit into the wider picture.⁶¹ The quality of staff is the key resource, especially when DWP is seeking to develop a sharper customer focus. We heard evidence of a lack of training and support, especially in the case of the CSA.⁶² The Secretary of State

56 Q 4

57 Q 267

58 EV 165

59 Ev 156

60 Professor Jim Norton, former director at the Cabinet and author of the "Ecommerce@its best" report,

61 Q 400

62 For example, see Q 399, Q 516 and Q 595

told us that achieving the culture shift is in no small part dependent on getting the IT and the operating systems right. In oral evidence, Sir Peter Gershon said:

Culture is important and it is subsumed in that list of eight common causes [of project failure] under the heading of lack of effective engagement with stakeholders because the stakeholders include potentially for a project the public, the people who have to operate the new system to deliver the service to the public as well as top management, Parliament, the supplier. They are all stakeholders in the project and if they are not all bought in to the aims and objectives of a project, which may include process and cultural change, then there is likely to be a significant risk of failure and even though the project could in any sense of the word be a success in technical terms, it would not be a success in how that technology related to the organisation.⁶³

35. The CS2 system and the need for cultural change within the CSA was an example raised by a number of our witnesses. The CSA's Chief Executive told us that at least part of the difficulty at the CSA was the culture change required to move from dealing with paper claims, forms and letters to working over the telephone.⁶⁴ EDS told us the whole Child Support Reform programme, including business process redesign, culture change and IT, "has been much, much more complicated than any of the stakeholders understood when we first entered into this process."⁶⁵ *Computer Weekly* thought that the CSA had focused too much on the technology rather than the organisational, managerial and cultural changes.⁶⁶ We agree.

36. The CSA's chief executive and the Secretary of State both paid tribute to the staff for their efforts in handling the difficulties of summer 2003. Clearly, without the dedication of the CSA staff, the situation would have been much worse. Nevertheless, although extra training and support were put in place eventually, these weaknesses should have been identified and addressed much earlier. It is clear that issues around culture, staff training and working patterns were not given enough attention by departmental managers. Change management, including training and involving staff, have been recognised as crucial to successful IT for many years, so it is unacceptable that these issues were not given sufficient priority in the CS2 programme, until some time after the problems emerged. **We recommend that a far higher priority is attached by Ministers to committing time and resources to managing the cultural aspects of major IT programmes.**

Involving and gaining the support of staff

37. Apart from having sufficient numbers of suitably qualified IT project managers, it is our view that one of the key factors determining the success of an IT programme is the way in which front-line staff are involved in the development and implementation of IT systems at an early stage. Staff, especially those delivering front-line services, should have part ownership in delivering a successful IT programme. For example, in oral evidence, Sir Peter Gershon said that 'if staff are not brought into new ways of working, new processes,

63 Q 2

64 Q 595

65 Q 511

66 Ev 139

new ways of delivering benefits to the population, however successful the technology is, the systems will not be successful'.⁶⁷ We agree. The Parliamentary Office of Science and Technology set out four reasons for this: to ensure that systems deliver what staff need; to learn from current best practice and past mistakes; to provide leadership on the front line; and to encourage 'buy-in' and overcome scepticism caused by previous failures.⁶⁸

38. In our view, staff in all areas of an organisation, from the front-line to policy development, may have important insights into the way IT can be improved. After all, DWP's analysis of lessons learned from Gateway Reviews pointed to increasing awareness of the role frontline staff can play, with lessons including: research into customer and staff attitudes at the start; monitoring actual customer and staff behaviour very closely in the early days; and getting daily reports on what is happening.⁶⁹ Front-line staff who work day to day on the IT systems know their good and bad points. Similarly, policy staff know about the policy intent behind the IT, which can often be lost in the rush to implementation. Laura Martin of PCS told us, "We are not brought in as early as we would like. We think we have a lot to offer in terms of our members working in those areas and knowing exactly what the pressure points in the system are."⁷⁰ In general, she explained, they only get to look at new systems at the pilot stage, once the software has been written and when it is too late to make suggestions.⁷¹ Citizens Advice was also keen to be involved at an early stage, where it thought staff could contribute practical experience.⁷² Tony Collins pointed out that a lack of consultation with end users had been a common factor in projects like Libra, the Criminal Records Bureau and introduction of Tax Credits.⁷³ According to OGC, a saddening 43% of Gateway Reviews found a need for better involvement of key stakeholders.⁷⁴ In particular, users of IT services needed to be consulted to ensure that projects met their requirements effectively. *Computer Weekly* also warned that,

End-users must buy into the project. If a system is imposed on end-users the risk of failure is greatly increased. Departments sometimes think they have buy-in of end-users whereas they may have the support of groups of end-users who are so familiar with the project that they have emotional equity in its success and cease to be objective.⁷⁵

39. Laura Martin made an important point about staff and stakeholder expectations:

When you bring in a new IT system, great claims are made for it, that it will be better than what went before, and so because more is expected of it and more work is taken

67 See General Lessons Learned from DWP OGC Gateway Reviews in Ev 220

68 See, *New NHS IT*, Parliamentary Office of Science and Technology, POSTnote 214, February 2004

69 Ev 220

70 Q 395. There are 6 different OGC Gateway Reviews these are: Gate 0 – confirm strategic assessment; Gate 1 – confirm business justification; Gate 2 – confirm procurement method; Gate 3 – confirm investment decision; Gate 4 – confirm readiness for service; and Gate 5 – confirm in-service benefits. A traffic light system is applied at each level. Further details are set out in Ev 232-3

71 Q 396

72 Q 433

73 Q 208

74 Ev 237

75 Ev 144

up on the IT side rather than in other areas of work, that means that if it fails, that failure impacts that much more on the public. That is the problem. Some cranky old systems that we might have had for years have done what we expected of them because what we expected of them was not really very much.⁷⁶

40. One of the easiest methods of getting staff on board to support IT systems and programmes is to include them as partners in the planning stages and to keep them informed with accurate and timely information about systems. We are concerned that DWP staff at the frontline and stakeholders generally do not seem to be involved in project planning or know much of what is going on about recovery plans or how to deal with contingencies. This is illustrated by the problems in the CSA with the CS2 system.

41. Staff need to be trained to deal with contingencies, before things go wrong, so that any disruption to the service is minimised. In the case of CSA, major support and training seemed to be mobilised only after the position had become untenable. **We recommend that in drawing up IT programmes, the Department consults fully with its staff and the responses of those consultations be included in the ITIA that we recommended earlier.**

Commercially-off-the-shelf (COTS) vs bespoke

42. Historically, social security IT systems have tended to be bespoke or, at worst, heavily customised versions of commercial off the shelf products. We have heard a number of reasons why bespoke systems were likely to be used, including the large size of the systems to deal with the complexity of the various benefit schemes and the long-standing difficulty of finding suitable off-the-shelf products. EDS gave us examples of bespoke systems succeeding – for example, within DWP they pointed to Pension Credit, Jobpoints and the Digital Office Infrastructure and outside DWP to Self-Assessment (Inland Revenue) and the Post Office Card Account (Royal Mail) as successful IT programmes. But generally, bespoke systems tended to come with a high risk of failure. EDS and Sir Peter Gershon (OGC) accepted that bespoke projects come with increased risk.⁷⁷ As IBM told us, bespoke systems carry significant risk because they are often unique implementations with no prior experience to be drawn upon.⁷⁸ Defining the requirements for a bespoke system while avoiding numerous changes to the specification can be very difficult to achieve. PCS considered that DWP should use COTS products wherever possible, but pointed out that DWP's largest projects will probably need bespoke development, and that these large projects were "the most likely to go wrong dramatically and publicly."⁷⁹ COTS products have a further benefit; the intellectual property does not always lie with the current contractor, so the Department has more flexibility to change suppliers if necessary. DWP accepted that bespoke systems were higher risk and can be more difficult to manage.⁸⁰ In addition, it argued that the time taken to develop bespoke systems from scratch can result in the business outcomes changing and outstripping the pace of a project. COTS also

76 Q 389

77 Q 39

78 Ev 149

79 Ev 120

80 Ev 105

allowed the Department to continue using its legacy systems for longer and usually produced earlier business benefits than waiting for a bespoke system to be developed.

43. Nevertheless, COTS packages are not a miracle cure. A number of our witnesses, including the Department, pointed out the need to amend working practices if COTS products are to be used to best effect.⁸¹ Computer Science Corporation (CSC) contended that bespoke systems do work, but had the major disadvantage of allowing the computerisation of all the bad aspects of existing processes.⁸² *Computer Weekly* argued that, "large-scale tailoring of tried and tested packages can prove as risky to implement as custom-built software, particularly if the original software has been written for mainly overseas clients. It appears to be more sensible to simplify working practices to suit the software, rather than change the software to suit working practices."⁸³ Jan Gower (IBM) told us that COTS products required people to think through the changes in the business processes much earlier. Gartner, an independent research organisation, agreed that departments will need to change their ways of working if they are to use COTS software; "failure to make this change will almost inevitably result in a failure to meet the aims and objectives of the project."⁸⁴ The British Computer Society argued that, "whereas people might be quite prepared to adapt their processes to suit a new building or other physical constraints, they will invariably request changes to be made to software, rather than modifying their processes to fit an off-the-shelf software package."⁸⁵ IBM considered that, "The difficulty of getting a business ready for a new way of working should not be underestimated."⁸⁶

44. Integrating COTS packages with each other and with the Department's legacy systems can also create problems. Given the diversity of the Department's needs, a single COTS product is unlikely to meet the needs for a large project. Therefore, in practice, a number of COTS packages will need to be combined together with the necessary interfaces, which produces additional complexity and risk. Indeed, the RAEng calls integration "a serious technical problem."⁸⁷ It is likely that integration of systems will be a key challenge for the Department's new strategy.

45. We heard evidence on the importance of case-by-case decisions about whether to use a bespoke or COTS product. Nick Kalisperas argued that it was important that individual customers come to their own procurement decisions and are not driven by what is fashionable at that time.⁸⁸ In written evidence, Gartner considered that the needs of the business should drive the selection, rather than follow a "blind strategy of bespoke or

81 For example, see Q1, Ev 107, Ev 140-1 and Ev 149

82 Ev 101

83 Ev 140

84 Ev 134

85 Ev 122

86 Ev 150

87 Ev 150 (IBM); *The challenges of complex IT: The report of a working group from The Royal Academy of Engineering and The British Computer Society*, p30, April 2004

88 Q 104

COTS".⁸⁹ According to Michael Hartley (Gartner) the biggest challenge is a lack of an overall strategy for assessing whether to adopt a bespoke or off-the-shelf solution.⁹⁰

46. Although there may be times when the requirements for new IT applications may involve some new software, the presumption nowadays should firmly be in favour of COTS rather than bespoke. This preference for COTS is reflected in the DWP's recently revised IS/IT strategy. As the Secretary of State reminded us, it was difficult until recently to get COTS software that would meet all the needs of the Department's current systems, including the heavily customised software. Nowadays the increasing availability of best of breed COTS packages will help the Department's modernisation programme by allowing it to take advantage of tried and tested software. We welcome the presumption in the DWP's revised IS/IT strategy in favour of COTS products wherever possible. However, we are concerned that, given the Department's known weaknesses on cultural issues, it may not be able to make the necessary organisational changes to benefit fully from COTS packages. Without this, the Department runs the risk of requesting so many changes that some of the benefits of the COTS approach are lost, and it ends up with the worst of all possible worlds: an inappropriate, heavily customised COTS package. **We recommend that the Department spends a significant proportion, at least 20%, of the budget of any major IT project on examining its business processes and putting the necessary organisational systems in place before new computer systems are introduced.**⁹¹ There is evidence that DWP has learned the lesson on the relative merits of COTS versus bespoke in respect of new projects. The exception is CS2, which is based largely on bespoke software with elements of commercially off the shelf (COTS). In written evidence, DWP pointed out that subsequent reviews of CS2 have not challenged that approach.⁹²

Breaking projects into smaller chunks

47. There is a wealth of evidence to show that short, cheap IT projects are more likely to be successful than long, expensive ones.⁹³ Mr Edward Hasted suggested to us that, "it is unknown for large projects (>\$10m) to be delivered "successfully".⁹⁴ CSC argued that neither suppliers nor customers should commit to a project that does not produce an assessable business result within six months and every six months thereafter until the project is complete. Small projects also have the benefit of allowing Small and Medium Enterprises (SMEs) to bid, and so encourage innovation.⁹⁵

48. DWP's updated IS/IT strategy states that its IT projects should be smaller than in the past, normally being delivered within 18 months. We welcome the commitment in the Department's IS/IT plan to smaller projects. Kevin Bone told us that the DWP now aims to, "break projects down into more manageable sizes, deliver them in small phases and,

89 Ev 139

90 Q 105

91 See para. 34

92 Ev 194

93 For example, see Cuthbertson and Sauer, *The State of IT Project Management in the UK 2002 - 2003*, Computer Weekly Website, 2003

94 Ev 111

95 Q 111

wherever possible, use packages in delivering the solution. " ⁹⁶ John Cross illustrated the point when he told us that the Child Support Reform project produced 60 million lines of code, but such a large programme would nowadays be broken down into smaller components.⁹⁷ However, as with COTS products, smaller projects bring their own concerns. DWP has a huge number of clients, and its projects tend to be large. It will take a substantial effort to break these large projects down into smaller parts, and to manage the large number of resulting projects and their interfaces. We will be interested to see how successful the Department is in its ambitions in this area.

49. As regards managing risks, we recognise that the roles of the Senior Responsible Owner (SRO) in the Department and the Senior Responsible Industry Executive (SRIE) in industry are crucial. We understand there have been moves towards providing joint training for SROs and SRIEs, reflecting the increasing importance of these roles. However, we believe that much more needs to be done if Parliament is to be assured that best efforts are being made to put proper risk management in place. Overall, there is evidence that the Department has learned some welcome but overdue lessons about managing risks, most noticeably in breaking projects into smaller chunks, and moving away from PFI.

Contingency plans, including abandonment

50. All well-planned and managed projects need real contingency plans. Given that so many Government IT projects are not completely successful, contingency planning must be an integral part of any project management process. All too often, however, contingency planning seems to be a neglected side of the planning process in the public sector. Tony Collins told us that he would "welcome a NASA-like mindset of planning at every stage for a possible catastrophic failure."⁹⁸ Professor Collins (BCS) explained that, in one of his private sector projects, 15% of the time was spent on working out what the backup plan would be to get on track if halfway through, the project went pear shaped. ⁹⁹ Jan Gower agreed on the importance of contingency planning and that it should not be seen as a sign of failure.¹⁰⁰ Tony Collins argued that in his experience, government tended to do things "virtually according to the book, right up to the point where things start to go wrong. It is at that point that some of the best practice goes out of the window. " ¹⁰¹

51. In our view, there seems to be little evidence that the Government has taken contingency planning seriously. For example, in the introduction of Child and Working Tax Credits, the system was unable to deal with the volume of claims that needed to be processed, and the Inland Revenue was reduced to paying claims manually. The level of contingency planning was so weak that there was no facility for putting manual payments into the computer system, so claimants were overpaid and then at some unknown date would be expected to re-juggle their household budgets when overpayments were clawed

96 Q 338

97 Q 376

98 Ev 143

99 Q 179

100 Q 291

101 Q 225

back.¹⁰² Clearly, such a practice increases the risk that some of the most vulnerable people in our society could fall below the poverty level simply through the vagaries of a defective IT system. We were pleased to hear Sir Peter Gershon admit that, after the Tax Credits fiasco, the Gateway process now has a much more rigorous examination of proven fall-back arrangements and contingencies.¹⁰³ However, we are more than a little surprised that such an examination has taken so long to be put into place.

52. We also heard about the NIRS2 programme, where the Department was so confident of success that it turned the old computer system off at the time that it switched on the new one, with the result that no back-up information was available: yet another example of inadequate contingency planning.¹⁰⁴ There also seems to have been a similar failure of contingency planning in the implementation of CS2. PCS gave evidence that initial staff training often did not cover how the system worked in reality.¹⁰⁵ PCS also argued that the total costs of the problems, such as overpayments and administering the claw-backs should fall on the supplier.¹⁰⁶ **We recommend that mechanisms for identifying and allocating costs associated with system failure, including compensation to customers, should be identified before contracts are signed and included in contingency plans.**

53. We are aware that contingency planning runs the risk of being seen to plan for failure, but given the low success rate of IT projects, we consider planning for contingencies is an essential part of risk management. **We recommend that detailed information about how risks are to be managed in major IT projects should be made available to Parliament before contracts are signed.** We describe the importance of publishing business cases in section four .

54. We are also concerned about the lack of support for Departments when systems do go wrong. We recognise OGC plays an extremely useful role in monitoring the procurement process, but once IT systems go 'live' there seems to be an unwritten assumption that everything is fine. As we have seen with numerous projects, it is often at this point that serious problems come to light. We acknowledge that involvement by OGC after the system goes live is not currently within its remit. Nevertheless, troubleshooting to get the system back on track is a very specialist skill, and we think there is a role for some central support to be given to Departments in this area. Within a short time, we would expect OGC to be able to help departments by drawing on its accumulated stock of knowledge about managing troublesome IT projects after they had gone live. **We recommend that Government expands the remit of the OGC to include continuing support for Departments after IT systems go live.**

55. As a special case example relating to contingency planning, we note that currently most people who are on Income Support have not migrated on to the new tax credits system and that DWP and the Inland Revenue are in talks about preparing for the migration. **We recommend that when replying to this report, DWP describes the contingency plans that it and the Inland Revenue have in place to: a) avoid a replication of some of the**

102 Q 75 See also Committee of Public Accounts, Fourteenth Report of Session 2003-04, *Inland Revenue: tax credits*. HC 89

103 Q 74

104 Q 393 and Ev 117

105 Q389 and Q398

106 Ev 117

problems we have witnessed with tax credits; and b) support people on income support in the event that problems do occur.

56. One aspect of contingency planning involves deciding when to abandon a project. Planning for the possible abandonment of a project should not be perceived as a sign that the project is expected to fail. We heard from a number of witnesses that projects are rarely abandoned - more often they are restructured to meet different requirements.¹⁰⁷ *Computer Weekly* suggested to us that,

If a department has a "win at all costs" approach, discourages open discussion of problems, and categorises potentially serious problems as teething, it may fail to ask itself critical questions at the start of a project and during the design, test and implementation phases. Some of these questions are: "Is this project feasible? Should we cancel it? Should we scale it back and deliver half of the software's original features which will still give us 80% of the benefits? Should we halt work or delay implementation while we extend testing or commission an independent analysis? In our experience these questions may sometimes not be asked in earnest until it is too late and serious problems have become all too evident."¹⁰⁸

57. We asked witnesses about the difficulty deciding if and when projects should be abandoned. Tony Collins told us that, "There are two factors to consider. One, is the system retrievable? The other is that organisational problems are so profound that they were used as an excuse in order to cancel the project. You cannot make a judgment unless you have had an audit of the system done... It is very difficult to tell clear early warning signs of a system that may have problems but may well be salvable."¹⁰⁹

58. EDS told us that there were rules of thumb to consider: for example, "the words "fixed price" and "applications development" should never appear in the same sentence."¹¹⁰ We also heard that contracts could act as a barrier to abandoning or significantly altering a project. Kevin Saunders told us:

If you look at any large IT project anywhere, and that includes DWP, often they are characterised when there has been a difficulty by the sheer weight of changes that have been introduced for whatever reason and they may be very good reasons. Change requests are one of the things that we use sometimes to gauge whether things are in problems.¹¹¹

59. We have already noted that there are press reports that DWP requested 2,500 change requirements to CSA's computer programme, CS2.¹¹²

60. An independent review should help inform a decision about whether a project would more profitably be abandoned. Of course, every project plan should include criteria for

¹⁰⁷ Two examples of projects cancelled recently are Personal Details Re-platforming Project and Corporate Management Information Project, which were cancelled on the 17 March 2003. See Ev 232-3

¹⁰⁸ Ev 139

¹⁰⁹ Q 234

¹¹⁰ Q 505

¹¹¹ Q 296

¹¹² "CSA holds back £1m a month from EDS in systems dispute", *Computer Weekly*, 4 May 2004

abandoning a project, which should be assessed at regular intervals by independent experts. In particular, we are keen to encourage a climate where projects are abandoned at a relatively early stage, rather than continuing for many years at large cost in terms of expenditure and time and then abandoned at a later stage. Early OGC Gateway reviews aim to fulfil this role. We welcome this aim, but given the low number of projects abandoned early by DWP and the failure of some major projects, we are not yet convinced that OGC Gateway Reviews are able to provide the necessary assurance.

3 DWP and Suppliers

61. In this section we consider a number of issues concerning DWP's relationships with its IT suppliers, examining in particular the role of PFI, competition, innovation and accountability.

What was wrong with using PFI?

62. In July 2003, the government quietly reversed its policy on the use of the Private Finance Initiative (PFI) for new computerisation projects and concluded that there should be a "strong presumption against PFI for IT projects".¹¹³ Although PFI may have benefits for other capital projects, its use for IT contracts has created problems. We consider some of the major difficulties below.

Discouraged suppliers

63. We have established that PFI discouraged some large IT suppliers, such as IBM, from competing for the lead in IT business. IBM told us that they were discouraged by the long term nature of the deals and the unacceptable risk and reward profile of PFI deals. In written evidence, IBM stated:

The principal reason for this is that the asset is generally intellectual property and that this changes as projects progress. Taking a risk on tangible assets such as buildings which can have a predictable financial recovery stream is a great deal different from funding business processes which are the subject of both internal and external change. Essentially, it is difficult to manage the risks as a supplier when the control points (Governance and management systems) for managing risk are not with the supplier.¹¹⁴

Nick Kalisperas told us that within the IT industry PFI was never popular; "it was an ill-considered concept to apply to the IT industry."¹¹⁵

64. On the other hand, other contractors, such as EDS (with 85% of DWP's contracts) were not discouraged. Tom Warsop (EDS) told us:

113 Ev 129. In drawing up the replacement for PFI in IT projects, the OGC, amongst others, was consulted.

114 Ev 155

115 Q 128

PFI was very difficult and is very difficult, because we still have contracts that are under the PFI framework.....What we did was we put in very significant risk mitigation strategies, because we knew that there were unique risks because of PFI. So we put in risk mitigation strategies and, from a big picture perspective, I think it has worked out OK. We have certainly had some challenges.¹¹⁶

65. Since ending the presumption in favour of PFI for IT systems, more suppliers are likely to become interested in bidding for Government IT business. This applies both to large companies such as IBM, and smaller suppliers who were put off by PFI.

Not amenable to best practice

66. Another weakness of PFI was that it did not allow much opportunity for success. John Cross (DWP) told us that the way some deals were structured meant that,

the projects started out with their hands tied behind their back, in the knowledge of what we would regard as best practice. I think it is this notion that the risk is being transferred over to the supplier in a rather complete way, which is all right for "set piece" projects – you can build something like a bridge or a hospital in such clearer definitional terms. A systems project is a much more dynamic process, especially over a multiple year period.¹¹⁷

John Cross went on to say that IT projects "were not amenable to best practice."¹¹⁸ He added that this had since changed and that DWP was,

no longer operating within the PFI construct, the rules of the game of how you address best practice are all amenable to us now, and that is why I think the IS strategy we now have around us [...], certainly has all the major components of what I would expect to see in best practice, and gives me significant comfort..¹¹⁹

The illusion of risk transfer

67. Ms Whittaker (EDS) told us that "when projects do go wrong, usually it is attributable to two things. One is the management of risk on the project and the other is the governance structure. When we get those things right, we are successful. "¹²⁰

68. The Secretary of State told us that alongside the IS/IT structures, DWP has put in place "robust risk management processes."¹²¹ However, our evidence indicates that there is insufficient compliance with good practice, suggesting that management of risk and governance, especially project planning, are still under-developed. We are unable to know the extent of the problem within DWP because of non-publication of key documents, such as business cases and Gateway Reviews, which we discuss later. But on the basis that

116 Q 491

117 Q 318

118 Q 466

119 Q 320

120 Q 466

121 Q 569

adherence to best practice by departments remains patchy, we remain concerned that deals are being signed and projects are being managed that do not follow best practice.

69. The Treasury has had a long-standing requirement that PFI deals should involve a genuine transfer of risk.¹²² Identification of risk and its efficient management is something that runs through much of the evidence. However, identifying and transferring risk can create problems. A number of witnesses made the point that in addition to identifying the political and normal commercial risks, it was important that risks be transferred to the partners with the capability and authority to manage it.¹²³ But before this can happen, business requirements needed to be fully understood, agreed and priced accordingly. Tom Warsop (EDS) told us that departments cannot transfer all of the operational risk; they can transfer a certain amount of financial risk and certain other risk, but not operational risk.¹²⁴ Clearly, some risks cannot be transferred to the IT supplier, especially when systems involve social security benefits. According to Professor Collins, it is only the financial risk that is typically considered and transferred.¹²⁵ PCS said that it was not aware of the details of the contractual penalties that may be applied to EDS for the under-performance of CS2, but "from the outside it would appear that any risk transfer is purely financial."¹²⁶ Mr Michael Hartley told us that "in a lot of programmes the expectation is that if you apply some financial inducement to an organisation to take that risk on that they are also capable of managing, and I do not think that is always the case."¹²⁷ In the event of a failure of an IT supplier contracted to provide benefits, the DWP would have little alternative to intervening directly to absorb the risk (cost) itself by providing the service or bailing the supplier out. In this way, the transfer of such operational risks to the supplier would prove as illusory as the government seeking to transfer risk in, say, the civil nuclear industry; if the business goes belly up, the government has to intervene. Michael Hartley confirmed this when he told us that in the event of a failed IT system, the IT supplier would not be able to "get their calculators out and make decisions on how much somebody was going to be paid, that is very much the job of the CSA organisation and therefore there is a limit on the amount of risk that can be transferred."¹²⁸ In short, by forcing an inappropriate transfer of risk onto a supplier, DWP may find that business risks simply get bounced back to be absorbed by the department.

70. Nick Kalisperas (Intellect) told us that his members had indicated that the public sector is quite comfortable transferring risk to suppliers but, because of the political risks involved, is not as comfortable transferring control of projects to suppliers.¹²⁹

71. In written evidence, DWP identified key risks that relate to a project and those that are appropriate to be transferred to the supplier.¹³⁰ For example, DWP told us that it seeks to

122 For example, see: "More Private Finance Initiative: Deals Expected As Clarity Of Accounting Standards Is Resolved" - Alan Milburn, Press release, HM Treasury, 24 June 1999

123 For examples, EDS (Ev 95), Professor Collins (Q 130), Gartner (EV 135), and IBM (Ev 150-1)

124 Q 492

125 Qq 123-4

126 Ev 120 . This issue of imposing financial penalties in the case of CS2 is discussed in section six.

127 Q 126

128 Q 129

129 Q 127

130 Ev 108

achieve effective transfer of appropriate risks by contracting for outputs, not inputs; agreeing a firm/fixed price at the outset; linking payments to the quality of service received and making payments only when service is received. If delays have a material effect on the Department, then it may seek compensation/damages from suppliers, including the right to terminate for failure to deliver, or for continuously poor performance. DWP described how in 2002 it applied a new model of governance to its major IT projects to improve the management of risk through more robust accountability and stewardship. According to DWP, the governance model used encourages decision-making at the most appropriate levels and a gated review process. DWP also described the Departmental Change Board, chaired by the Permanent Secretary of the Department with Senior Responsible Owners, which has responsibility for reviewing the progress of the Department's "mission critical" IT programmes and authorising key milestones, such as the launch of new public services. EDS argued that, "in all cases, DWP retains overall accountability for business outcomes." Garter stated: "The risk transfer statements we have seen are those associated with delivery and operation of IT solutions and not the broader business solutions."¹³¹ EDS also pointed out that evaluation of risk was made more difficult when fixed price contracts and risk transfer required before the business specifications are understood and agreed.¹³² PCS expressed concern that, for the CSA reform, contractors faced insufficient incentives to improve their performance.¹³³

72. According to the Treasury, PFI was an unsuitable vehicle for IT projects for a number of reasons. The Treasury stated:

The concern raised by [...] research is that expectations in the IT industry and among public sector procurers are set too low. But more importantly it demonstrates that the qualitative differences between PFI in IT and PFI in other sectors have a significant impact on the way that IT PFI has been delivering. The difficulties with achieving appropriate risk transfer in IT PFI, because of the need for significantly greater flexibility than in other sectors, the high degree of integration into the other business operations of the procuring authority, and the lack of third party finance, mean that it may not be the appropriate value for money procurement route for IT.¹³⁴

73. Currently, there are no PFI projects within Jobcentre Plus.¹³⁵ We also heard that Pension Credit, which adheres to best practice principles throughout, is also not a PFI project. The Secretary of State told us:

Clearly there are important lessons to be learned from the earlier requirements that you should do everything by PFI if at all possible. We have learned from the experience, as indeed the Treasury guidance has informed us, that in IT cases that may not be appropriate, it may not be the best or even the most timely way, or the most cost-effective way of securing the services we want. Those lessons have been

131 Ev 135

132 Ev 97

133 Ev 121

134 "PFI: meeting the investment challenge", HM Treasury, July 2003

135 Q 322

learned and that is why we are applying a new framework for procurement for the future.¹³⁶

74. We welcome the Government's reversal of its policy, but are concerned that it has taken it so long to recognise the unsuitability of using PFI for IT projects, especially when it was well known that PFI was generally disliked by the IT industry. We are concerned that a number of important projects, such as CS2 and the pension forecasting project, remain as PFI projects, although in the latter case officials told us that it is now much closer to best practice.¹³⁷ In our view, the continuing existence of the remaining PFI IT projects suggests that the Department has only partially learnt the lessons about the unsuitability of PFI contracts. We are concerned that the PFI nature of the contracts continues to create a number of problems, including an ambiguous risk transfer and lack of incentives for suppliers. We appreciate that in some cases, a PFI deal can succeed. For example, we heard that the IT for Oyster cards, which is a PFI deal, on Transport for London is working very well.¹³⁸ However, the overwhelming evidence is that PFI is generally unsuitable for IT projects and that principle should apply to existing deals as well as new deals. **We recommend that the Government makes an early statement of policy on how it proposes to proceed with all IT projects that continue to operate under PFI rules.**

How competitive is the market?

75. In our call for evidence, we asked if there was an effective competitive process in the awarding of IT contracts by DWP. This question arises in the light of the degree to which Government IT business is concentrated in the hands of very few IT suppliers, and in the case of DWP, one dominant supplier: EDS. Although there is a large amount of sub-contracting of DWP contracts, we established that EDS had been awarded contracts to the value of some £4.5bn, or 85% of DWP IT business by value,¹³⁹ over 40% of which comprises continuing operational and service delivery functions.¹⁴⁰ Across central Government as a whole, EDS, which is ranked as the second largest IT supplier in the world, has captured 54% of the share of the central civil government IT services market. The following table provides the various rankings.

136 Q 558

137 Q 322

138 Q 491

139 Q 351

140 Ev 224

Table 1: Comparative ranking of major IT service companies in global and UK markets 2002–03

Rank	Company	Share of global IT services market %	Share of UK IT services market %	Rank in UK central civil government market for IT services	Share of central civil government IT services market%
1	IBM	7.0	11.2	14	Less than 1*
2	EDS	3.1	12.6	1	54
3	Accenture	2.0	6.3	6	2
4	HP	1.8	4.2	N/A	N/A
5	CSC	1.7	5.3	10	1
6	Cap Gemini Ernst & Young	1.2	4.0	N/A	N/A
7	Getronics	0.6	0.6	N/A	N/A
8	Atos Origin	0.4	0.8	N/A	N/A
9	Fujitsu Services	0.3	5.5	2	13
10	LogicaCMG	0.2	3.6	5	2

Source: *Increasing Competition and Improving Long-term Capacity Planning*, OGC, December 2003, page 15

76. The figures on market share clearly reveal an exceptionally high dependency by DWP on EDS. The 2003 study by the OGC which pointed out that only some of the world's largest IT companies have been active in the UK government market – with EDS a particularly prominent player - recommended that, "Departments should systematically pool market intelligence and share strategic information about future programmes and current projects, with a view to better understanding the totality of the public sector's likely demands on industry and the nature of the market necessary to meet those demands."¹⁴¹

77. In assessing how competitive the procurement process is, it is useful to briefly outline the relationships that DWP has with three consortia (Affinity, Arcway, and Accord) as well as the 10 year strategic partnership relationship (IT Partnership Agreement (ITPA)) with EDS.¹⁴² For the Employment Service, EDS was contracted to deliver all IT services, although it employed sub-contractors for some of them.¹⁴³ In an agreement signed in 2000 with the Affinity consortium, led by EDS, DSS agreed to the creation of a largely single-supplier environment, based on a partnering relationship.¹⁴⁴ The benefit of a partnering relationship is that it allows a closer relationship to develop between supplier and client throughout the life of the programme, which is expected to improve the chance of success when framing project specifications or resolving other issues, such as training.¹⁴⁵ By entering into consortia, IT suppliers provide sufficient capacity in a more managed fashion in order to deliver large government IT programmes. The potential advantage of consortia to the Department is that they are less risky than relying on a single contractor.¹⁴⁶ We heard

141 *Increasing Competition and Improving Long-term Capacity Planning*, December 2003

142 Details of the membership of the various consortia are set out in EV 197

143 EDS being required to obtain prior agreement to the appointment of sub-contractors.

144 Ev 158 Further details on consortia are in Ev 105

145 Ev 157-8. IBM identifies a number of strong advantages of close collaboration and partnering between departments and IT suppliers.

146 Ev 157

that the Department used organisations such as Gartner to help assess suppliers' proposals and the value for money of projects. Gartner told us that these assessments delivered three types of conclusion:

The supplier proposals are satisfactory and pass the procurement test;

The supplier proposals appear to have been overpriced and cannot be justified, areas of challenge have been provided to the Department and these have been used to assist them in their commercial negotiations; and

The supplier proposals appear to be overpriced and there may be a risk of failure to deliver.¹⁴⁷

78. EDS told us that the competitive environment for DWP work was "healthy and hungry," but accepted that the procurement processes could be improved by focusing on the total value for money rather than only lowest price.¹⁴⁸ Indeed, OGC guidance is very clear that this is the right approach, so we are concerned that DWP's main supplier sees the Department as focussed on lowest price.¹⁴⁹ IBM stated:

Our experience is that there is effective competition in the award of IT contracts with the DWP. Competition is achieved in the early stage, through the award of a framework contract after a competition. Subsequent to the award of the framework, individual contracts for the provision of specific services are issued to the supplier who was successful in winning the framework contract. We believe that the use of competition at the framework stages as opposed to at the stage of individual contract awards is effective since it reduces the time cost and financial cost of repeated, smaller competitions without removing the benefits of competition in ensuring value for money. It is important to note that the time and financial costs of competition fall on the Department as well as on suppliers.

The DWP has used third party expert organisations to undertake an independent review of value for money using benchmarking techniques at these stages and IBM believes this is appropriate.¹⁵⁰

79. In written evidence, Gartner concluded that the process is competitive to some extent, but recognised that "there are limitations on its effectiveness where a small number of suppliers have an almost monopolistic position in terms of knowledge of the existing IT environment and operational control of that environment."¹⁵¹ But Gartner also considered that, for long term partnerships, price competition was less important and the "lack of a strong competitive process should not be considered a failure."¹⁵² In oral evidence, Michael Hartley (Gartner) told us that the value for money question was about more than just price;

147 Ev 135

148 Ev 95

149 For example, see OGC's leaflet on Value for Money

150 Ev 150

151 Ev 135

152 Ev 135

it was also about being able to deliver the solution and working in a long term relationship where technical capability of organisations changes over time.¹⁵³ He added:

The organisation itself may change shape; its technical priorities may change; the needs of the organisation acquiring the technology will change; and therefore you have to have a degree of flexibility in the way that organisations are allowed to work to bring in new unique capability and to swap out certain capabilities.¹⁵⁴

80. In written evidence, Computer Sciences Corporation (CSC) made the point that all contracts let by DWP should be subject to public procurement rules.¹⁵⁵ It also argued that a supplier, such as EDS, which had been chosen to supply a significant proportion of the service should continue to be part of the procurement process. It stated that it would be unwise not to consider the dominant supplier in all procurements that might affect the scope of that service.¹⁵⁶ Some witnesses were less convinced about the degree of competition. PCS stated that the competitive process lacked commercial transparency and criticised the decision to award CS2 to Affinity/EDS as a result of an existing arrangement between the Department and Affinity.¹⁵⁷ The Treasury also pointed to the difficulty of substituting suppliers if a contractor failed to meet its obligations.¹⁵⁸ Avi Silverman (Kable Ltd) told us that the lack of competition allowed IT suppliers to have government officials "over a barrel."¹⁵⁹ However, it was recognised that departments faced a dilemma when wanting to exchange views with IT suppliers without providing them with an undue advantage.¹⁶⁰ In written evidence, Aqera, a software development company, criticised its lack of access to officials, despite its expertise in developing internet based software for pension forecasts and online retirement planning.¹⁶¹

81. Competition can also be affected by an incumbent supplier. CSC told us that the presence of an incumbent supplier tended to act as a barrier to entry, although large companies could overcome this by "building relationships over the long term and gradually eroding the likely (or actual) scope of the major supplier."¹⁶² Of course, this is likely to exclude small and medium sized suppliers who, unable to mobilise the time and money, would be effectively barred from competing against the dominant supplier.¹⁶³ CSC stated that it was not clear how DWP ensured that small-medium sized enterprises (SMEs) were included in procurement or whether DWP actively challenged their large suppliers to forge partnerships with smaller organisations.¹⁶⁴ **We recommend that the Department should**

153 Q 171

154 Q 171

155 Ev 101

156 Ev 101

157 Ev 120

158 See revised Treasury guidance on the delivery of IT contracts in the civil service: "*PFI Meeting the Investment Challenge*" July 2003

159 Q 211

160 Q 212

161 Ev 99-100

162 Ev 101

163 The Office of Fair Trading launched a study following recommendations from the Better Regulation Taskforce warning that smaller suppliers are being shut out of government procurement, including technology procurement.

164 Ev 102

by 1 April 2005 publish detailed plans on how it proposes to increase involvement of SMEs in the IT procurement process in future.

Is competition increasing?

82. Competition is increasing, not least because of the Government's decision to abandon PFI for IT projects. But there are ways in which the competitive process could be improved. Firstly, the number of supply routes could be increased. We were pleased to see that the Department has recently sought to do this. For example, in November 2003 the DWP advertised new framework deals with the aim of providing "additional supply routes, including re-letting existing contracts as they come to an end."¹⁶⁵ The potential gains from this approach are that it generates smaller discrete contracts, to the potential benefit of smaller businesses and reduces the dominance of the major IT supplier. The obvious potential problem for the Department, however, is the multiplicity of suppliers and projects and the pressure this places on the Department's in-house programme management team as they try to keep a handle on the projects, or the IT suppliers. Secondly, the procurement process should allow the dominant supplier to innovate or collaborate more with other suppliers in dealing with changing business needs. EDS told us that supplier lock-in should be avoided and that flexibility must be built into the contracting of large complex programmes. According to EDS, this flexibility would provide mechanisms for dealing with the inevitable changes in requirements.¹⁶⁶

83. Thirdly, competition could be improved by encouraging the number of bidders, especially from the SME sector, by offering financial assistance. As noted above, when contracts are up for renewal, the incumbent supplier is likely to be in a very strong position, especially when bidding costs are high. Sarah Arnott (*Computing*) told us that smaller businesses were prohibited by the high bidding costs from competing for contracts and added that "suppliers routinely spend millions of pounds and delegate hundreds of staff to work on major public sector bids, and the process often takes as long as two years to complete."¹⁶⁷ The high bidding costs associated with public sector contracts discourage suppliers from competing in re-tendering processes.¹⁶⁸ With such high costs, the public sector is disadvantaged compared with the private sector. We were told that there have been two notable examples (Inland Revenue and the Driver and Vehicle Licensing Agency) where an incumbent supplier of 10 years, in both examples EDS, had failed to win the competition. Sir Peter Gershon told us that the two cases showed that "where there have been re-competes, there is not a pattern that the incumbent wins."¹⁶⁹ He also pointed out that in the case of the Inland Revenue re-compete, it had to make a contribution of some £33 million towards the bidders' costs as a way of encouraging bidders, but in the context of total value for money this was apparently regarded by the Inland Revenue as justified.¹⁷⁰ We also heard that the Government was becoming more robust in writing into the deal the

¹⁶⁵ Ev 158

¹⁶⁶ Ev 96

¹⁶⁷ Ev 158

¹⁶⁸ According to Sarah Arnott, the DVLA accounts listed costs of £33m associated with changing suppliers.

¹⁶⁹ Q 55

¹⁷⁰ The Inland Revenue recently signed contracts with a new technology supplier, Cap Gemini Ernst & Young, in a ten year partnership. This partnership will replace their previous partnership with EDS/Accenture.

principle that: "if you do not do what you say you are going to do we are going to throw you out."¹⁷¹

84. We understand that the procurement process can be more streamlined, including using standardised basic terms and conditions across Whitehall, while also allowing individual departments to focus on those areas specific to their project.¹⁷² We understand that OGC is piloting a new procurement process which requires less information from suppliers at the pre-qualification stage.¹⁷³ We look forward to seeing how this streamlining develops.

85. Self-evidently, the Department's high dependency on one dominant supplier is unhealthy. We welcome the Department's attempts to diversify its range of IT suppliers. We expect to see competition for DWP contracts become more intense with the ending of PFI for IT projects and as the number of re-competes increases.. **We recommend that the DWP investigates ways of helping bidders with their tender costs incurred when competing for contracts.**

Is there scope for innovation?

86. One area where organisations may be able to make a mark in IT is by being innovative. During our inquiry we heard details of the pioneering work that Citizens Advice (CA) is undertaking to become an e-intermediary so that it can act as a trusted partner for using DWP's computer systems directly. CA told us that by providing secure direct access to DWP's systems, it would improve the support it could provide to its clients. CA also supplied us with details of an innovative system in Woking where it is working in partnership with the local authority as an e-intermediary.¹⁷⁴ We note that CA was awarded a £20 million grant to develop its role as an e-intermediary. In our view, it is important that DWP continues to support such innovative partnerships. **We recommend that the DWP actively explores using the services of organisations like the CA to improve the delivery of services.**

87. For too long, full accessibility for disabled users has been a neglected area of the design and implementation of IT programmes. In written evidence, the Royal National Institute of the Blind (RNIB) emphasised the importance of specifying accessibility criteria in project design so that disabled staff and users could benefit from IT programmes.¹⁷⁵ RNIB made the point that, "most IT project managers, procurers, developers and contractors have little awareness of the importance of accessibility to software users, whether disabled or not."¹⁷⁶ RNIB stated that as an employer and service provider, the DWP is

"in danger of failing to meet its duties under the Disability Discrimination Act and needs to look carefully at how it administers IT projects in the future particularly with reference to; the views of the DWP Accessibility Solutions Team regarding new standards based on ISO/TS16071; the E-Envoy's Web guidelines; future guidance

171 Q 214

172 Ev 158. We understand that the government and industry are consulting on the first draft clauses.

173 Ev 158

174 Q 460

175 Ev 162

176 Ev 163

from the OGC relating to implementation of the EU Public Procurement Directive; and the likely introduction and enactment of a Disability Bill containing provisions for a duty on public authorities to eliminate discrimination against disabled people and to promote equality of opportunity.¹⁷⁷

88. We call upon the Department to set out how it will ensure that its IT projects are fully in line with the highest standards of accessibility and to provide reassurance that it will fully meet its duties under the Disability Discrimination Act.

89. We also received some material on Cùram, a successful commercial off-the-shelf piece of software that is used in social security systems in a number of countries. Cùram has been developed by an Irish SME.¹⁷⁸ Members of the sub-committee were invited to attend a demonstration of Cùram at the IBM offices in London. The demonstration was helpful in illustrating some of the benefits that such software offered to departments over a bespoke system: it is tried and tested; has scalability, which means that it is sufficiently flexible to be expanded to include a range of functions; and, perhaps, most importantly, it allows departments to switch IT suppliers if necessary without wasting the investment already committed to the bespoke software. A specific example of this increased flexibility was demonstrated when the DWP decided to appoint IBM as a major contractor for building the CMS project within Jobcentre Plus while EDS help the Department with testing and implementing.¹⁷⁹ This example provides some basis for optimism. In addition, we are hopeful that the revised IS/IT strategy should encourage more use of COTS software and should lead to greater opportunities for SMEs to become involved.

Is there proper accountability?

90. In our call for evidence, we asked whether commercial confidentiality was, at times, used unnecessarily to obscure proper transparency and accountability. We received some interesting responses. Written submissions generally interpreted commercial confidentiality in two ways. DWP interpreted the term widely to mean the public release of information and stated that the key test in determining whether information should be publicly disclosed was the possible effect publication might have on the "Department's ability to compete in business or negotiate its contracts effectively in future."¹⁸⁰ In PCS's view, more information, such as the cost of the contract and penalties for delay, should be put into the public domain.¹⁸¹ We agree. **We recommend that more information, such as the cost of the contract and penalties for delay, should be put into the public domain.** As PCS told us: "There appears to be a lack of accountability for EDS, despite the large amounts of public money that they are receiving from the taxpayer."¹⁸² Suppliers, on the other hand, discussed confidentiality in terms of the relationship between themselves and the Department. For example, IBM said that sensitive information such as that relating to its internal cost and therefore internal margin (profit) was necessary for the organisation to

177 Ev 164

178 Cùram is the Irish Gaelic for "care and protection".

179 Q 372

180 DWP also commented that its contracts protected from public disclosure the Supplier's Intellectual Property Rights.

181 Ev 121

182 Ev 120

monitor its internal efficiency, but not required to measure the effectiveness with which it delivers the external contract to its client and so should not be disclosed.¹⁸³ CSC stated that commercial confidentiality was normally a legislative or regulatory matter and that suppliers would not be allowed to share certain information with customers, although it did recognise that a fair contract should allow sharing of information under some circumstances, such as for auditing purposes.¹⁸⁴ In written evidence, EDS stated:

Commercial confidentiality has its place. That said, relationships are built on trust, with common objectives, and do rely on transparency to ensure progress and continued constructive intent. Within sensible commercial parameters, transparency should be maintained to the greatest possible extent on highly complex programmes such as those undertaken by the DWP.¹⁸⁵

91. Gartner also focused on confidentiality between the Department and suppliers, saying "commercial confidentiality exists in many guises in the relationships between the Department and its suppliers. There is a tendency on the part of many suppliers to use the term as a means of limiting the exposure to the Department of the true nature of many aspects of their relationship, including: costs of resources provided by the suppliers, numbers of resources deployed by the suppliers; and internal processes employed by the suppliers."¹⁸⁶

92. We mainly consider the release of information to Parliament and into the public domain. We recognise that IT suppliers may be very sensitive about disclosing certain information about internal costs and profit data. However, in our view there is a great deal of other information concerning service delivery and reliability that is not directly commercially sensitive, but which would help Parliamentarians to ensure that public funds are well spent and projects are managed effectively. It is the lack of this information that is of most concern to us. We heard a number of examples of commercial confidentiality used to deny legitimate inquiry. For example, Avi Silverman told us that the specification for integrated care records for the NHS IT programme was not published on the grounds of commercial confidentiality with the suppliers. He added, however, that when it was eventually published "there was nothing in that specification that was commercially confidential, that you could possibly say was commercially sensitive. There was a lot in it about the programme that they were going to do and a lot of detail about their ideas for care records, which you could say are in the public interest."¹⁸⁷ Tony Collins, (*Computer Weekly*), told us that whereas departments and IT suppliers could be very open with each other, they were unduly secretive when dealing with the media.¹⁸⁸ He told us he had had difficulties obtaining information from CSA. He said:

183 Ev 152

184 Ev 102

185 Ev 95

186 Ev 135

187 Ev 162

188 Ev 142

I have quoted to them things that have been in the public domain which your committee has discussed with them and I have asked them, "Is that still the case? " They have quoted commercial confidentiality back at me.¹⁸⁹

93. Sarah Arnott, also told us that sometimes commercial confidentiality was used to prevent crucial information from being put into the public domain and "was certainly used as a smokescreen at times."¹⁹⁰ We agree. She said that in the case of an IT contract that had recently been signed that had "blatantly ignored a whole raft of best practice, " commercial confidentiality had made it difficult to find out from official sources whether the reports were true.¹⁹¹ The lack of proper Parliamentary scrutiny was demonstrated by the problem we had during the course of this inquiry. We made a number of requests to the Department for documents relating to CSA, such as the contract, OGC reviews, recovery plan and a review of the recovery plan by Gartner. We were disappointed that our requests were refused or, as in the case of the CSA contract, such documents were provided with so much black-lining, as to be incomprehensible. Of course, we understand the need to protect genuine "commercial confidentiality" in the narrowest sense, but we felt that on occasions the secretive approach adopted by the Department and the Government, in the form of the OGC, had little to do with commercial confidentiality and more to do with departments using it as an excuse to withhold information that rightly belonged in the public domain, but which might embarrass the Department if released publicly. In our view, the lack of parliamentary accountability is part of the reason for the relatively high number of defective IT projects.

94. During the course of our inquiry we were struck by how open IT suppliers seemed prepared to be in contrast with the tendency of officials to invoke commercial confidentiality. We have heard a lot of evidence justifying commercial confidentiality, most of it from Government departments. But in oral evidence, the Secretary of State made an offer of the categories of information that he thought (a) could be disclosed in public, (b) could be shown in private to the committee and (c) would not be in the public interest to divulge at all.¹⁹² For example, he said that he would be happy to publish the following information: material on suppliers chosen; the amount paid to date to a particular supplier under a particular contract; the amount paid out to a company as a whole across a number of contracts; the broad outline of provisions in contracts; the fact that the contracts have either led to a reduced payment or withholding of payments; an outline of the circumstances where those reductions might be applied, the types of circumstances where termination might be considered, and the types of circumstances where compensation to DWP might be considered. The information that he said he would make available to the Committee, sometimes under restrictive terms if aspects related to commercially sensitive matters, included: the overall value and time period of the contract; the details of service levels which are agreed and required; the proportion of payments withheld and that they have been withheld; amounts paid to DWP on account of supplier non-performance. The Secretary of State said that the following items were unlikely to be published: unacceptable suppliers; the level of acceptable fault; financial model and operational capacity models and

189 Q 196

190 Q 201

191 Q 197-9

192 Q 580

correspondence relating to alleged breaches or possible litigation.¹⁹³The details are set out in a memorandum.¹⁹⁴

95. The Secretary of State also said that it would be helpful if the Department and the Committee could develop a joint approach to this issue. We welcome this offer from the Secretary of State, which we understand is the first time a government Minister has set out formal proposals for making information on IT contracts publicly available.¹⁹⁵ We too are interested in developing a mutually acceptable protocol for the exchange of information that respects genuine commercial confidentiality while at the same time allowing Parliament to scrutinise the executive effectively. We acknowledge that the range of information on offer would represent an increase compared with what is currently available to Parliament, and in that sense it is a good starting point. We expect that guidelines will need to be produced by OGC in collaboration with bodies such as Intellect. **We welcome the offer to develop a set of guidelines to cover increased access to information on IT contracts and agree that the proposals put forward by the Secretary of State do provide the basis for further consideration.**

96. In the next section we consider some options for increasing the success rate of IT projects, focussing in particular on the need to make them more open and accountable.

4 Possible ways of improving success

Bridging the gap between best practice and the rest

97. As noted above, there is a large amount of guidance on best practice and reports from various organisations, including National Audit Office / Public Accounts Committee (NAO/PAC). And yet, we continue to find major IT projects failing at an alarming rate and often for the same or similar reasons.¹⁹⁶ The number of poorly managed IT development projects has been a major concern of Parliament for a number of years, as evidenced by the reports issued by the NAO into defective IT programmes.¹⁹⁷ For example, the cancellation of the Benefits Payment Card in May 1999, is estimated to have cost "over £1 billion in lost fraud savings, nugatory expenditure and write-down of assets and costs" and is thought to rank "as one of the biggest IT failures in the public sector".¹⁹⁸ Edward Hasted estimated that with an annual spend of £29 billion on IT development the UK will be wasting in the order of £10 billion per year on failed projects, with more than £5 billion on additional funding to finish those that have become "challenged" projects.¹⁹⁹ The NAO report on *Tackling Benefit Fraud*, stated that the DWP's current IT systems were a constraint on

193 Q 580

194 Ev 233-4

195 "Minister opens up on contracts", *Computer Weekly*, 27 Tuesday April 2004

196 Q 184

197 References are set out in annex two

198 The Cancellation of the Benefits Payment Card Project, HC 857 1999-2000, 18 August 2000.

199 Ev 111

managing fraud and errors.²⁰⁰ A summary of the points raised in recent NAO/PAC reports about DWP IT related problems are listed below:²⁰¹

System development

- Delay in releasing new systems (for example NIRS2) due to a large number of outstanding technical and functional issues

Customer Service

- Customers needing to provide personal details more than once for different benefits
- Length of time taken to respond to calls in call centres and lack of assurance about the quality of advice given
- Inability of staff to access letters on benefit decisions to discuss outcomes with staff
- Poor quality of computer generated customer letters and inability to amend easily
- Poor quality of address records held by DWP
- Difficulties with monitoring complaints

Information management

- Benefit customer data held on over 20 separate systems
- IT systems and standards not compatible with other departments and private firms
- Lack of secure e-mail facility

Fraud and error management

- Problems with staff accessing guidance electronically
- Inability of benefit decision-makers to access information in one place
- Inability to detect inconsistent and erroneous information on benefit applications where: customers have provided different details about themselves for each benefit claimed; or,
- have failed to disclose receipt of other benefits

98. We acknowledge, as the Secretary of State told us, that best practice evolves over time and that there is no fixed canon,²⁰² but equally we recognise that there is sufficient understanding of the key success factors to be able to identify the characteristics of good practice that should be evident in the planning and management of all IT projects. In short, there is a vast amount of guidance available on good practice, but scant evidence that such

200 Thirty-First report of the Committee of Public Accounts, *Tackling Benefit Fraud*, HC 488, 2002-03

201 A full list of references is given in annex 2.

202 Q 564

guidance is being followed comprehensively across the public sector. A number of major IT programmes that are defective, such as CS2, which we examine in detail in section five, were agreed some years ago, but there is also anecdotal evidence that best practice is still not being complied with. For example Sarah Arnott referred to a deal that was signed even though only one supplier was left in the bidding, contrary to principles of best practice.²⁰³ She added that it was difficult to find out from official sources whether the rumours were true because of claims about commercial confidentiality.²⁰⁴ Tony Collins told us that the problem with IT failures was not a shortage of best practice, but the lack of adherence to best practice.²⁰⁵ Sir Peter Gershon alluded to this lack of adherence with regard to project planning in a speech in 2003.²⁰⁶ He said:

... there are still far too many projects and programmes reviewed by Gateway teams where, frankly, project planning is little better than something on the back of a cigarette packet ...

Sir Peter went on to say:

... and there is still the odd occasion where a project knows where it is today, it has a 'go live' date, but it suddenly does not have any credible plan as to how it gets from here to the 'go live' date and ... there is no excuse there because there are ... very well proven techniques out there that we simply just need to get on and import ... without debate.

99. Although these comments underline the good work of OGC in identifying such breaches, it also reveals the worrying failure of departments to comply with best practice from the outset. This lack of adherence to the basic tenets of good practice contrasts with the repeated reassurances that departments often give to Parliament that they have learned from past mistakes. Sir Peter Gershon provided the following list of the most common causes of project failures.

List of common causes of project failure as identified by National Audit Office/Office of Government Commerce²⁰⁷

1. Lack of clear link between the project and the organisation's key strategic priorities, including agreed measures of success.
2. Lack of clear senior management and Ministerial ownership and leadership.
3. Lack of effective engagement with stakeholders.
4. Lack of skills and proven approach to project management and risk management.
5. Lack of understanding of and contact with the supply industry at senior levels in the organisation.
6. Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits).

203 Qq 197-9

204 Q 199

205 Ev 143

206 23 October 2003, see OGC website

207 See Ev 131

7. Too little attention to breaking development and implementation into manageable steps.
8. Inadequate resources and skills to deliver the total delivery portfolio.

100. As Sir Peter pointed out, the usefulness of such a list depends on organisations having adequate mechanisms in place to detect these weaknesses at an early stage of a project that allows corrective action to be taken.²⁰⁸ Nick Kalisperas (Intellect) told us that Intellect had worked with OGC to develop codes of best practice for suppliers and for all parties involved in government procurement. The supplier code would:

assist suppliers to understand better the challenges of working in public sector markets and establish a clear set of standards that public sector clients can now expect from their suppliers. It will emphasise the need for suppliers to adopt high standards of professionalism and corporate capability.²⁰⁹

101. Tony Collins told us that, "The Gateway Reviews are one of the best developments that we have seen in government for many years."²¹⁰ DWP argued that Gateway Reviews provided a useful sounding board for issues, and could give leverage to get key decisions made.²¹¹ Sarah Arnott was less certain about the value of the OGC's measures:

Some of the mechanisms that have been put in place by the OGC such as the Gateway Review process and the senior responsible owner and senior industry executive positions potentially go a long way to addressing some of the concerns. It is difficult to tell how far they will go because only programmes which are in procurement now or just finishing procurement now have been through those mechanisms from the very beginning. Only with the success or failure of these will we be able to see how effective the OGC measures have been. It is difficult to tell at this stage.²¹²

102. In late 2003, the Cabinet agreed six mandatory actions intended to improve the success rate of government IT projects. Sir Peter Gershon informed us that, apart from these actions, none of OGC's guidance is mandatory.²¹³ We recognise Sir Peter's argument about the delicate balance to be drawn between central guidance and decentralisation, and about the difficulties of encouraging departments to follow the spirit rather than the letter of guidance. Nevertheless, we note that the Royal Academy of Engineering suggested recently that, "There is an exceptionally large discrepancy between best practice and common practice in IT and software engineering."²¹⁴ This remains true in the public sector as well as the private sector.

208 Q 7

209 Ev 132

210 Q 184

211 Ev 223

212 Q 184

213 Q 95

214 *The challenges of complex IT: The report of a working group from The Royal Academy of Engineering and The British Computer Society*, p17, April 2004

103. *Computer Weekly* pointed out that, "Gateway Reviews are invaluable but departments do not have to act on them."²¹⁵ We also heard evidence that OGC should be given more power to enforce its recommendations. In oral evidence, Sarah Arnott told us:

As far as the Gateway Review process goes, that should possibly be made mandatory and OGC should be given more power to enforce their recommendations.²¹⁶

104. Indeed, the Secretary of State also felt there was a case for stronger powers, suggesting that, "departments and projects either ought to conform to the OGC advice, or be able to satisfy the OGC that they have some alternative which is securing the same ends in as effective a way."²¹⁷ **We further recommend that the powers available to the OGC are strengthened: (i) to impose the recommendations made by Gateway Reviews; (ii) to ensure that departments follow the guidance; and (iii) to allow the OGC to police compliance with mandatory actions.**

105. Below we consider further suggestions for improving the success rate of IT projects.

Legislating for compliance with best practice

106. Tony Collins presented a strong case for following the US example and putting compliance with best practice onto a statutory basis. He said that in the US, this requirement was given legal effect by the 1996 Clinger-Cohen Act. This stipulates, amongst other things, that the Director of the Office of Management and Budget provides information, advice and assistance regarding the use of best practices and that US government information technology procurement be operated in the same way as an efficient and profitable business would be operated.²¹⁸ Tony Collins told us that the Clinger-Cohen Act requires public bodies to look at revising business processes before IT projects are implemented.²¹⁹ He contrasted that practice with the case of a major NHS programme where discussion about changing business processes followed the awarding of the contracts.²²⁰

107. A number of other witnesses argued against providing a statutory basis for best practice. Derek Ward (SchlumbergerSema) told us that:

I think it takes us into a real minefield. I think the striving for best practice and being able to demonstrate that consistent improvement is probably more important than trying to mandate some base level of it.²²¹

Tom Warsop (EDS) told us that to lay down a specific best practice and expect that to be adhered to for ever it would not be the right thing to do, "because it will change, it will improve, over time, and I would not want to restrict all of our abilities to use the current

²¹⁵ Ev 143

²¹⁶ Q 216

²¹⁷ Q 575

²¹⁸ Clinger-Cohen Act (The Information Technology Management Reform Act of 1996)

²¹⁹ Q 209

²²⁰ Q 208

²²¹ Q 242

best practice.²²² Kevin Saunders (SchlumbergerSema) had no fundamental objection to the principle of making good practice more mandatory, but emphasised the importance of departments and Senior Responsible Officers (SROs) having the authority to make decisions.²²³ He also cautioned against imposing an overly onerous or legalistic regime.²²⁴ John Corneille (IBM) also emphasised the need for best practice to be applied in a sensible way by experienced people. He said that there were previous examples in Government when methodologies were mandated that had been applied too literally rather than applied with experience.²²⁵ Sarah Arnott questioned whether it was possible to enforce cultural change via legislation alone and pointed out a number of reasons why the introduction of legislation to enforce compliance with best practice would be impractical, such as who would define best practice, how would it be able to evolve over time while retaining some semblance of usefulness in the short term and who would be prosecuted in cases of breaches. She argued that given that Ministers were unlikely to be prosecuted for such breaches, the weight of prosecutions was likely to fall on either unelected civil servants or the IT suppliers with the inevitable consequence of leading suppliers not to bid for such contracts or to bid only at impossibly high prices.²²⁶ She said that:

to simply write current concepts of best practice into legislation gives no greater guarantee of success than the existing mechanisms developed by the OGC without imposing an impractical sanction.²²⁷

108. Sir Peter Gershon questioned whether the Clinger-Cohen Act had had any marked effect on the success rate of projects.²²⁸ Another witness echoed this doubt :

While Clinger-Cohen has led to some improvements strengthening accountability and promoting awareness of how IT projects should be run, the system has flaws. This week, federal officials gave evidence to Congress revealing that, eight years since the act was first introduced, many agencies do not meet its requirements. They do not meet basic guidelines and some don't even have a fully qualified project manager at the helm. The Office of Management and Budget, which is the White House body in charge of federal IT, is taking a close look at \$22bn worth of IT projects that are showing weaknesses in complying with Clinger-Cohen.

Few in the UK would dispute that there is a need for further change in the way the government carries out its IT projects, but a knee jerk call for legislation is not needed. Lessons can be learned from the US, but a sober assessment of the effect legislation has had on its IT would go a long way.²²⁹

222 Q 469

223 Q 284

224 Q 241

225 Q 243

226 Ev 159

227 Ev 159

228 Speech and comments made by Sir Peter Gershon, at Intellect Groups Dinner, 15 March 2004

229 Source: Kable's *Government Computing*: "IT legislation: handle with care", 5 March 2004

109. Sarah Arnott also warned against under-estimating the marked differences between the legal systems in the UK and the US.²³⁰ On balance, given the dynamic processes involved, we are not convinced that a statutory basis is currently required in order to increase compliance. However, **we recommend that the Government invites the OGC to undertake and complete a review by 1 July 2005 into the likely effect of implementing the Clinger-Cohen statutory framework in the UK.**

Publishing OGC Gateway Reviews

110. The Office of Government Commerce (OGC) was established in 2000, as an Office of the Treasury. It works with government to improve procurement and project/programme management, and with suppliers, to make the government marketplace more efficient and attractive to business. In its first three years, OGC claims to have delivered value for money gains of £1.6billion.²³¹ OGC has a number of key roles in relation to Government projects: running the OGC Gateway Review process for procurement projects in civil central government; helping departments to establish programme and project centres of excellence; and publishing guidance on best practice.

111. In a Gateway Review, an independent review team of experienced project leaders examines the project at up to six key decision points, from initial outline of the project to going live, in order to provide assurance that it can move to the next stage. There is no minimum financial threshold for reviews. The need for a review depends on the risk associated with the project. Review teams have access to all the stakeholders in a project and, for high risk projects, Ministers and Permanent Secretaries are always interviewed. All DWP's recent major IT projects should have been through Gateway Reviews. The review reports are not in the public domain on the grounds that this secrecy ensures an open and honest exchange between the review and project teams. Recommendations are not compulsory. Responsibility for action lies with the project team, but failure to address problem areas is thought to make it more difficult for projects to pass the following review. At each review, projects are given red, amber or green status:

- Red – to achieve success the project should take remedial action immediately.
- Amber – the project should go forward with actions on recommendations to be carried out before the next OGC Gateway Review.
- Green – the project is on target to succeed but may benefit from the uptake of the recommendations.

112. OGC also helps departments to establish programme and project centres of excellence with the overall aim of producing a two to three fold increase in the success of central government projects within three years. The centres have three key roles: reporting to the management board on key programmes and projects; sharing information and lessons learned with Whitehall and other departments; and providing support to help programmes and projects with the right expertise when they need it. As regards publishing guidance on

230 Ev 159

231 *Government tops £1.6 billion and exceeds its Value For Money target*, OGC Press Release, 10 December 2003; *Improving Procurement: Progress by the Office of Government Commerce in improving departments capability to procure cost-effectively*, Report by the Comptroller and Auditor General, HC 361-I, 361-II, 12 March 2004

best practice in procurement, OGC has published over 2,000 pages of advice and guidance much of which is consolidated into a 'Successful Delivery Toolkit' available on the internet.²³²

113. One suggestion for increasing accountability and, through that, the success rate of IT programmes would be for these Gateway Reviews to be published. Under present arrangements, the reviews are highly confidential, despite the sums of public spending involved and the effect that inadequate IT is clearly having on constituents and public policy generally. In fact, the OGC reports are considered so sensitive that only two copies of each review are printed: the Review Team Leader (RTL) delivers one copy of the report to the designated Senior Responsible Officer (SRO) working within the relevant department, who is likely to be at Director level, and the second copy is sent to OGC in order for it to identify and disseminate generic lessons learned.²³³ As the only recipient of all OGC Gateway Reviews carried out across central government, OGC is in a unique position to monitor the performance of major IT systems. The Government's argument for not publishing Gateway Reviews is that the review process would be weakened. The OGC makes the point on its website:

An OGC Gateway Review is conducted on a confidential basis for the SRO and ownership of the report rests with the SRO. This approach promotes an open and honest exchange between the programme/project and review teams delivering maximum added value.

114. Essentially, it is alleged that publication of the Gateway Reviews would result in staff becoming less frank with reviewers on the grounds that their comments would be published and their identity known. We recognise that one danger of publishing OGC Gateway Reviews is that two versions of each Gateway Review could be produced: one, as usual, for the SRO and OGC and a filleted version for general publication.

115. When initially asked, John Cross, (then) DWP's interim CIO, told us that he could not see why a gateway could not be published.²³⁴ But he later added:

The only interesting thing one would just have to think about is the issue of behaviours. A point which to us seems to be important is that there is an extremely open and honest culture within the organisation about declaring these needs openly. Sometimes organisations clam up if they feel there is a threat hanging around. I have come from organisations where the history was that you did not like to ever declare that anything was wrong because you thought that was a weakness, whereas actually, it ought to be a weakness if you do not declare that things are wrong. I am more concerned that we drive out an increasingly open awareness and ability for people to be able to say what they like about these things, because ultimately that is the only way. My one real worry is that if people became too concerned about the publicity over their declaration of concerns or issues, that this might dampen them. That would be my one counter to the question "Why wouldn't you?" It seems to me, in a

232 *Making a Difference: Reducing Bureaucracy in Central Civil Government Procurement* – a joint report from the Regulatory Impact Unit's Public Sector Team and the Office of Government Commerce, December 2003

233 Ownership of the report rests with the Senior Responsible Officer (SRO).

234 Q 340

sense, obvious, but on the other hand, you just have to worry a little about whether it drives the right behaviours in the lower levels of the organisation.²³⁵

116. There was some support for this argument from Sarah Arnott, who also suggested a middle way through. She told us:

However, for the Gateway process to work effectively it is necessary for it to remain confidential. The review process relies on absolute honesty on both sides, an openness which would be seriously compromised if the reports were to be subject to public scrutiny. The most advisable course would be a middle ground – the review process made mandatory, with more power to enforce the recommendations, and a published statement of some kind signed off by both parties to ensure the process has been undertaken with due diligence without publicising the details of the discussions.²³⁶

117. However, DWP was not even willing to consider publishing a summary version of Gateway Reviews. Its policy was put forward in written evidence:

It is not our policy to disclose Office of Government Commerce (OGC) review reports because to do so would impair the value added by the review process. That added value relies on a frank approach in which participants can have confidence in the confidentiality of the process. This applies irrespective of whether the assurance review is conducted by OGC, another outside organisation or internally, and irrespective of whether publication would be immediate or at some point in the future. The Department's policy is in line with OGC guidance on disclosure. It is not within the gift of the Department unilaterally to reverse that policy without review and debate of the policy led by OGC and across Departments.²³⁷

118. We note that OGC guidance does not provide for a blanket refusal to publish Gateway Reviews.²³⁸ OGC guidance suggests that publication of reviews should be determined on the merits of each case. We asked the Department how Parliament could exercise its legitimate duty of scrutiny of the Department and its Agencies when the Department refused to publish any of the many reviews into projects, such as CSA. In response the Department defended the Government's decision not to publish Gateway Reviews and pointed out that the NAO had a clear responsibility to scrutinise the Department and that "a review of the Child Support Reform programme will almost certainly take place when implementation is complete."²³⁹ We acknowledge the excellent work of the NAO. Indeed, in this report we have referred to some of the problems caused by defective IT that have been identified in successive NAO and PAC reports.²⁴⁰ The NAO, as the guardian of the public purse, discharges its responsibility in a highly effective manner. However, and this is not a criticism of its skill and dedication, the NAO tends to undertake post evaluations on projects as part of its value for money studies or as an audit. Although its reports are

235 Q 341

236 Ev 160

237 Ev 234

238 See Guidance on disclosure, OGC website

239 Ev 235

240 See annex two

presented to Parliament and published, they are generally historic, whereas we believe major IT projects should also be subject to close scrutiny during their development. Current projects need to be subject to current scrutiny. Parliament and the public should not be required to wait years after the planning decisions were made or problems emerged before they can get a detailed account of what has gone wrong. Parliament requires the opportunity to scrutinise such projects armed with relevant detailed information. The NAO produces 60 reviews per year and cannot fulfil the necessary scrutiny process unaided.

119. It was noticeable from the evidence that a number of other witnesses supported the case for OGC Gateway Reviews being published.²⁴¹ During oral evidence sessions, a number of major IT suppliers said that they would welcome publication of OGC Gateway Reviews, or had no problem with publication,²⁴² provided all major IT projects were treated equally.²⁴³ For example, Kevin Saunders said that SchlumbergerSema would be happy for them to be published. He added:

I cannot see any problem that we would have with them being published, providing there is a clear understanding of the framework, obviously. I think the reviews would have to be perhaps even more tightly controlled in terms of the management and input to them but I cannot see why we would have a problem with publication because we have been through them, we know how they work and they make key decisions.²⁴⁴

120. We found it refreshing that major IT suppliers should be content for the reviews to be published. We welcome this approach. It struck us as very odd that of all the stakeholders, DWP should be the one which clings most enthusiastically to commercial confidentiality to justify non-disclosure of crucial information, even to Parliament. We were surprised also that there is little central guidance to departments for dealing with those circumstances when the commercial IT suppliers are content for information to be made available and departments cling to commercial confidentiality. As regards damaging the review process, Tony Collins made the valid point that perhaps the reviewers are too close. He told us:

If Gateway Reviewers believe the quality and rigour of their advice and work would suffer if their reviews were published, we would question whether they are too culturally close to those they are reviewing and therefore perhaps not be sufficiently independent and objective to reach the tough conclusions that Gateway Reviews sometimes demand.²⁴⁵

121. We are not convinced that the Gateway Review process is so fragile that the current levels of secrecy are necessary. We are genuinely sympathetic to any reasonable argument that justifies some material to be excluded from the published version of a Gateway Review, but in our view, the Government's objection to publishing Gateway Reviews is

241 For example major IT suppliers and Tony Collins.

242 For example, Qq 248-56 and Q 486

243 Q 254

244 Q 248

245 Ev 144

based on an untested assertion that publication would invalidate the review process. Publication of inspections and reviews is a widespread feature of public life nowadays and there is no reason why a major public IT projects costing millions of pounds, should not be subject to the same open scrutiny that applies in other areas of public life. This is especially true when the projects in question have such a long history of poor service. **We recommend that the Government should publish Gateway Reviews with appropriate safeguards or failing that to set out how Parliament otherwise can be provided with the level of information it needs in order to scrutinise adequately questions of value for money from major IT contracts.** In written evidence, DWP said that:

It is not within the gift of the Department unilaterally to reverse [OGC policy on disclosure] without review and debate of the policy led by OGC and across Departments.²⁴⁶

122. We recognise that, in effect, the Gateway Reviews are work-in-progress documents, which deal with a range of aspects in a project and that it may be too early to judge the full effect of the gateway process since few cases have been through the whole gated system. We also recognise that Gateway Reviews have a very limited shelf life and are likely to provide very limited information to Parliament, and that publication of Gateway Reviews may risk the review process. On the other hand, Parliament needs to be kept informed about these important areas of policy. If the present system is unequal to the task, then further measures are necessary. Below we consider the case for the Department publishing the business case of each project before considering the role of independent audits.²⁴⁷

123. In short, we believe that more openness is needed and in our view one way to achieve this would be to give parliamentary committees greater access to Gateway Reviews. **In the event that the case against full publication of Gateway Reviews can be substantiated, we call upon the Department to provide a summary document of each review within 6 weeks of the review being completed.** We consider that by providing more information to Parliament, Ministers and officials will be under corresponding pressure to be kept fully informed about projects.

124. It should be noted that departments also operate a less formal system of internal Gateway Reviews. In the case of DWP, these examine twenty to thirty areas for each project, rating them red, amber or green. Mr Martin Bellamy of the DWP told us that the internal Gateway Reviews were generally speedy and informal and involved the parties in straight talking, which he said could be quite constructive. His concern was that publication of the internal Gateway Reviews would prolong the process and make it more formal and less helpful to managers.²⁴⁸

Publishing business cases

125. One of the best ways of putting key information about an IT project into the public domain is for departments to publish the Outline Business Case (OBC) and Full Business

²⁴⁶ Ev 228

²⁴⁷ Amongst other things, a Business Case sets out the scoping, planning and procurement phases of the project. Annex five describes the various elements that comprise the Strategic Outline Case (SOC), the Outline Business case (OBC) and the Full Business Case (FBC).

²⁴⁸ Q 341

Case (FBC) for each major IT project.²⁴⁹ The OBC contains important information, including the economic case (value for money and economic benefits for the UK), financial case (the effect on an organisation's cash flow and balance sheet), and the management case (covering governance, management of risk and realisations of benefits with a special section on contingency planning). The Full Business Case (FBC) contains further details about the project, including the procurement strategy.

126. It is important to note that the process for producing OBC and FBC is a different process from that which applies to Gateway Reviews. Gateway Reviews are concerned with quality assurance, whereas OBC and FBC cover a range of issues including economic, managerial and financial arguments for the project that are of interest to Parliament. However, both OGC Gateway Reviews and business case models are linked. For example the OBC covers similar material as Gateways one and two whereas the FBC ties in with Gateways three to five.²⁵⁰

127. The advantage of publishing the OBC and FBC for each project is that they would, at an early phase, provide Parliament with most of the necessary information with which to assess the outcomes of the IT programmes and business transformation, while still protecting the Gateway Review process. It also places the onus on the Department rather than commercial organisations to provide the project planning. Joe Flanagan, who is a leading exponent of business case models, told us:

Properly prepared, these demonstrate that IT investments have been well scoped and planned; offer optimum value for money (£); are commercially viable; affordable and achievable. In other words, they contain 80% of the information requested by some commentators of current practice."²⁵¹

128. Interestingly, it seems that a number of the major projects that are currently attracting critical questions, such as the CSA's CS2 computer programme and telephony system, have not had their business cases published. Indeed, DWP told us that it does not publish any business cases nor the supporting documentation on the grounds that they tend to be couched in highly technical and detailed terms and contain information that could, if published, damage the Department's onward programme of competitive supply.²⁵² In short, the familiar claims of commercial confidentiality. It is on this basis that the Department has withheld publication of the OBC and FBC for CS2 and the CSA's new telephony system. When we asked OGC for its policy on publishing business cases it replied:

OGC does not recommend routine publication of OBCs or FBCs. Departments need to consider each request for disclosure on an individual basis in line with their legal obligations and any appropriate guidance. Once the Freedom of Information Act

²⁴⁹ The Strategic Outline Case relates to the project at its infancy stage of development, so is only likely to provide a general description of the project. Further details are set out in annex five.

²⁵⁰ Ev 189. This shows that SOC maps directly onto OGC Gateway 0 (Business Fit) and OGC Gate 1 (Business Justification) whereas OBC covers OGC Gate 2 (Procurement Strategy). FBC maps directly onto OGC Gate 3 (Final Investment Decision), but also contains the criteria and arrangements for OGC Gateways 4 ("Go Live") and Gate 5 (Benefits Realisation).

²⁵¹ Ev 187

²⁵² Ev 236

takes full effect in 2005, departments will be legally obliged to confirm to an applicant the existence of and disclose OBCs and FBCs, unless an exemption under the Act applies.²⁵³

129. DWP's routine refusal to publish OBC and FBC is contrary to this guidance, which calls for departments to determine disclosure on an individual basis. The Department's policy is also at odds with the practice of some other departments. For example, the Department of Health (DoH), another department with a major IT modernisation underway, has a policy to publish information on business cases for all major projects. The DoH states:

The Strategic Outline Case (SOC) is an extremely important document, and will arouse considerable public interest. ... all SOC's that are approved will be made publicly available by their respective Strategic Health Authorities in the same manner as OBCs and FBCs.²⁵⁴

We call upon the DWP to publish on its website the SOC, OBC and FBC for all its significant projects. We feel that publication should include, amongst other items, the supporting documentation, especially including that relating to the register of risks, how such risks are to be managed, the Department's contingency planning and how it proposes to realise the potential benefits. In our view, publication of OBC and the FBC would provide a strong disciplinary influence on departments to focus on the detailed planning of IT projects, especially at an early stage. Publication of the OBC and the FBC would provide Parliament and stakeholders generally with the necessary information with which to ensure that business managers are kept on their toes and would allow select committees such as ours to conduct detailed scrutiny into IT projects at any time during the project's life on the basis of detailed evidence. As the lead agency on procurement and the vehicle for disseminating best practice, we would hope OGC will be given a key role in monitoring the publication of OBC and FBC across Government. We also urge the Government to consider adding publication of the OBC and the FBC to OGC's list of mandatory actions that departments must follow. As formal evidence to Parliament, we believe that a summary of the Full Business Case should be included in the proposed IT Implementation Assessment (ITIA). **We recommend that the DWP publish strategic, outline and full business cases together with relevant supporting information.**

Publishing independent audits

130. During the course of our inquiry, Tony Collins made the case for IT projects to be subject to independent reviews. He suggested that the Arthur D Little audit of the (then) new air traffic control systems (New En Route Centre) at Swanwick in Hampshire was a good, but rare, example to follow. Although the audit was commissioned by the Government, the report was published by the Transport sub-Committee in 1998. The auditor, Arthur D Little, was appointed as a result of a competitive tender. Its report is generally viewed as providing a thorough analysis of the weaknesses in culture,

253 Ev 240

254 *The Strategic Outline Case (SOC), Guidance regarding 2004 prioritisation round*, 12 January 2004 Department of Health website. The policy does not seem to have been made retrospective to include the business cases for the NHS IT programme.

management and accountability that contributed to the project being delayed and over budget. In the event, the report was thought to have led to many changes in the way the NATS project was run while also strengthening the processes of parliamentary accountability. When the report by Arthur D Little was published in 1999, the air traffic control system at Swanwick was already about three years late; a situation not dissimilar to that facing CSA. The control system was originally due to go live in 1996, but eventually did so in January 2002. Although it is rare for a report like the Arthur D Little audit to come into the public domain, we consider that such an independent audit could provide us with a good model for scrutinising major IT projects that are facing severe problems. John Cross (DWP) told us:

They [independent reviews] certainly are commissioned, and in fact, my own view about that is that we ought to have more regular, light-touch, independent reviews commissioned as part of the project. My own view about assurance is that I like to see independent value judgments being made as you go down any particular major project route.²⁵⁵

131. Other witnesses were doubtful about the benefit of independent reviews. For example, EDS told us that they saw little benefit in having an independent review towards the completion of a system.²⁵⁶ Derek Ward (EDS) told us that it would be very difficult then for an independent body to get to grips with the risks and complexity and that a review at that stage is likely to be fairly shallow or trivial.²⁵⁷ He added: "What you really want is assurance that the process is being followed properly through at earlier stages in the project, that you are actually aimed in the right direction, rather than wait till you have arrived and say, "Is this where we wanted to go?"²⁵⁸

132. We do not accept that such reviews would necessarily be cursory and of limited use. In written evidence, Edward Hasted pointed out that although hundreds of reports and inquiries had been written on trying to improve the success rate of IT projects, they had had little success.²⁵⁹ He pointed out that compared with the low success rate of IT projects, such reports were published only infrequently. Edward Hasted recommended that reviews of all projects should be mandatory, irrespective of whether a project succeeded or failed: "if it failed we need to know what not to do. If it worked we need to find out why so we can repeat the success."²⁶⁰ We do not expect such auditing to pose a serious increase in the burden on project managers. But in cases where projects are in serious difficulty, it may be necessary to undertake in-depth reviews. The burden may be lightened if it is triggered by recommendations from the appropriate select committee or by some rule of thumb calculation, such as if a project is 20% over budget, 20% late or suffering significant loss of initial functionality. We consider that the case for independent audits, similar to the inquiry into NATS, is something that Parliament may wish to consider, if the Government does not provide Parliament with the necessary information.

255 Q 343

256 Q 484

257 Q 484

258 Q 484

259 Ev 111

260 Ev 112

Using the Freedom of Information Act (FOIA)

133. We asked some witnesses whether they were anticipating that the Freedom of Information Act (FOIA) would lead to more information being made available. In general, no witness thought FOIA would have any effect on the disclosure of information relating to IT projects. It was thought that exemptions would apply.²⁶¹ Equally, there was no evidence that FOIA was likely to put off suppliers from bidding for public sector contracts. Sheelagh Whittaker (EDS) told us that EDS was experienced in working under jurisdictions that operated freedom of information legislation and that the only test was to ensure that any claimed exceptions were genuinely commercial.²⁶²

134. Avi Silverman and Tony Collins cast doubt on departments being able to meet the terms of the FOIA in time.²⁶³ Tony Collins also thought that there were enough exclusion clauses in the Act for it to make little difference to journalists.²⁶⁴ The full provisions of the FOIA will start to come into effect in January 2005.²⁶⁵ As a minimum, the FOIA will require departments and other public bodies to set out their disclosure policy. It is likely that the Information Commissioner and his tribunal will be requested to consider a number of disclosure requests relating to the secretive contractual deals that exist between departments, such as DWP, and their suppliers. Although FOIA contains provisions for disclosure to be denied on grounds of commercial confidentiality, it is important to note that such exemptions are subject to a public interest override. It remains to be seen to what extent the implementation of the FOIA will remove the unnecessary use of commercial confidentiality to obscure contractual deals.

135. We recommend that the Department by 1 October 2004 sets out how it proposes to deal with requests for detailed information on publicly funded IT projects from members of the public or other interested commercial organisations under the provisions of the Freedom of Information Act that come into effect in January 2005.

5 Child Support Reform (CSR)

136. The first part of this report focused on elements of best practice and how compliance could be improved. That analysis has allowed us to set some benchmarks for comparing the way in which DWP administers its IT programmes. As a special case study, we decided to examine in detail the IT programme that underpins the Government's Child Support Reform. The Child Support Agency's (CSA's) IT programme is the obvious IT programme for us to consider in detail: it is crucially important, not least because it is a significant element of the DWP's modernisation programme and has received a large amount of critical attention inside and outside Parliament. As constituency Members, we have received numerous letters from CSA clients complaining about the poor service provided by the CSA over the years, with many complaints linked to problems with the Agency's IT

261 Q 219

262 Q 495

263 Q 193

264 Q 195

265 See: Child Support Agency (CSA): Delays in introducing the new child maintenance scheme Library Standard note (SN/SP2898)

programme. We have also heard from Citizens Advice of the sorts of problems being presented by CSA's clients that are caused by CSA's defective IT programme.²⁶⁶ Our inquiry will also serve as a platform for the Committee's inquiry into child support policy generally which was announced in May.²⁶⁷

Background

137. The Child Support Agency (CSA), which is an agency of the DWP, is responsible for running the child support system. CSA's "business is to assess, collect and pay child support maintenance, ensuring that parents who live apart meet their financial responsibilities to their children."²⁶⁸ The CSA employs over 12,000 staff and has a budget of £258 million for 2003/4. The CSA delivers its service through six main centres, 30 smaller offices dealing primarily with new applications and 71 local services bases supplying a face-to-face service. The CSA was established in 1993 and has had a troubled history.²⁶⁹

138. The Government announced the Child Support Reform programme in its White Paper "*A new contract for welfare: Children's rights and Parents' responsibilities*," which was published in July 1999.²⁷⁰ Child Support Reform (CSR) was intended to implement simplified rules relating to maintenance calculation, modernise the operational processes and introduce a new computer system in order to promote more accurate and timely maintenance assessments with improved payment compliance. The CSR programme is clearly an important part of the Government's strategy to reduce and eliminate child poverty and is very ambitious; it is intended to produce a "transformation of the existing CSA business processes and structures."²⁷¹ In its totality, the CSR programme includes the political decisions, legislative changes, the way the CSA is re-organised, and its links with other agencies, such as Jobcentre Plus and the Inland Revenue. One simple example of this proposed transformation is that the CSA moves from relying on a letter-based system to an IT and telephone-based system. A successful transformation depends upon a reliable and stable IT system, a sharper focus on serving the needs of customers, a changed work culture and a multi-skilled workforce that is supported by proper training.

139. The new computer, an end-to-end IT system known as CS2, and the accompanying new telephony system were intended to enable and support this transformation so that applications for calculating child maintenance could be more easily and speedily handled. CS2 involves "something like 60 million lines of computer code."²⁷² The CS2 contract was organised as a Private Finance Initiative (PFI) deal and, like the majority of large DWP's IT contracts, was won by EDS.²⁷³ Under the deal, the necessary information technology and

266 Q 430

267 Work and Pensions Committee, press release, 5 May 2004.

268 The CSA website: <http://www.csa.gov.uk/aboutus.asp>

269 For example, see '*Child Support in Action*' by G Davies and N Wikeley

270 The Child Support, Pensions and Social Security Act 2000 sets out the basic structure for the new scheme

271 See annex three

272 Q 376

273 CS2 was the first contract awarded for new application development and operations under the ACcess to CORporate Data (ACCORD) Framework.

telephony support is supplied by the private sector partner. Outline financial details of the CSR project are set out in the following table.

Table 2

Department for Work and Pensions Modernisation Programme						
Project	Start Date	Due End Date	Expected End Date	Planned Costs to date £m	Current Authorised Expenditure to date £m	Achievements To date
Child Support Reform	Sept 1999	March '04	Currently Under review	400	400	Since 3 March 2003, new Child Support claims have been calculated using the new rules and new IT.

Source: *Work and Pensions, Departmental Report, 2004.*

140. The total cost of the contract with EDS for the CS2 project, across its whole life, has been revised upwards and is currently estimated at £456 million.²⁷⁴ On 27 January 2003, the Secretary of State told the House that the Department had agreed an increase of around 7 per cent. in the value of the original contract, over the term of the project, bringing the total cost to some £456 million.²⁷⁵ Mr Chris Pond MP, Parliamentary Under-Secretary at DWP, added that the increase in the cost of the CS2 contract was agreed because the IT system had proved to be more complex than had been thought at the outset, something not uncommon in large scale IT projects.²⁷⁶

Problems of the CSA's IT programme

141. According to DWP, the child support reforms were intended to put the needs of children first by creating a system of child support that was easier to understand, administer and enforce; that would be more comprehensible to parents; and that would process maintenance calculations more quickly. The IT programme was based around simplified rules for calculating maintenance payments and the modernisation of operational processes. In the event, child support reform has failed to perform as planned and this has meant that thousands of CSA's customers and their children have suffered. According to Citizens Advice, the problems include:

people who are still on the old rules suffering from problems receiving payments, women in particular moving off income support having problems as well, delays in transferring people from the old rules to the new system and the problem when contacting the CSA the person at the other end of the phone (if the bureau can get

274 The planned and authorised resource cost of the CSR project mentioned in the Table 1 includes all costs, including CS2, associated with the Reform programme to March 2004. The figure of £456 million was given in Work and Pensions Committee, Minutes of Evidence, 2 July 2003, Q 15, and covers the EDS contract for CS2, which is payable from January 2003 until August 2010.

275 HC Deb 27 Jan 2003, col 569

276 HC Deb 20 Jan 2004, col 1177W

through in the first place) claims not to have access to the necessary information and can only give general advice.²⁷⁷

142. DWP acknowledges that the CSA's IT programme is defective. According to DWP:

Child Support Reform went live on 3 March 2003. Maintenance is now being calculated under the new rules for new cases and some old scheme cases that are linked to a new application. This was a large and very complex IT project and consequently there were a number of acknowledged defects when the system began to be used in earnest. Work is being taken forward to address these defects and ensure the stability of Child Support Reform to allow the transfer of old scheme cases to new rules.²⁷⁸

143. During the course of our inquiry, we have received evidence on a range of problems relating to the IT programme. For convenience, we have classified them into five groups:

- delay in the planned commencement of the new scheme of calculating child maintenance;
- delay in transferring onto the new arrangements cases already in the system or where child maintenance payments had been determined on the basis of the old scheme;
- the slow pace of processing new cases for calculating child maintenance;
- the problem of cases "stuck" in the CS2 system that are not being progressed; and
- a defective new telephony system that causes calls to be re-routed around the country.

The delay in the planned start of the system

144. Although the new scheme was introduced on 3 March 2003, its introduction was delayed for some two years. Our predecessor Committee reported on this in November 1999.²⁷⁹ The table below shows the missed deadlines for the commencement of the new scheme.

277 Q 430

278 Department for Work and Pensions, Departmental Report 2004

279 Tenth report of the Social Security Committee, *The 1999 Child Support White Paper*, HC 798 1998-9

Table 3: Changes to the planned commencement date of the new scheme²⁸⁰

Date of announcement	Form of announcement	Proposed start date of the new scheme for new clients
July 1998	Green Paper	"unlikely to be introduced before 2001"
July 1999	White Paper	"towards the end of 2001"
31 January 2000	Written Answer	April 2002
20 March 2002	Statement to the House	Indefinite postponement
27 January 2003	Statement to the House	3 March 2003

145. DWP told us that the implementation date of April 2002 was decided initially on the basis of an external review. But during late 2001, the CSA became increasingly concerned about EDS's ability to deliver to the announced timetable. Ministers finally took the decision to delay implementation indefinitely. In January 2003, the Secretary of State finally announced that the system would go live in March 2003, but on going live, the system failed to work satisfactorily. For going live, it was decided to let the computer system take on only new applications for fear that it might be overloaded if old cases - where maintenance payments had been calculated using the old formula - were processed at the same time. PCS told us that:

If CSA's original timetable for child support reforms (CSR) had gone according to plan, all existing CSA customers would have been migrated on to CS2 and had their cases converted onto the new, simpler formula by April 2003. The reason that this has not happened is entirely down to the shortcomings of CS2. If migration and conversion were now attempted, CS2 would not be able to sustain it.²⁸¹

Delay in converting old cases onto the new scheme

146. As a result of the decision not to transfer old cases onto the new scheme when the system went live in March 2003, 1,230,000 cases were left on CSCS for calculating child maintenance. In most of these cases, this means that non-resident parents are making larger payments compared with how they would have been assessed under the new rules. Conversely, once cases are on the new scheme, parents with care will receive less money, although the new scheme is expected to result in more children overall getting some maintenance, and more quickly than compared with the old scheme. The CSA has not managed to find a permanent solution to this problem, so migrating cases onto the new scheme cases requires a large amount of manual work to be performed, which represents a large drain on staff time. As at 31 March 2004, the Agency's caseload on CSCS was about 890,800. In addition there were over 427,000 cases registered on the new computer system,

²⁸⁰ *Child Support Agency (CSA): Delays in introducing the new child maintenance scheme* Library Standard note (SN/SP2898), citing Sources: Department of Social Security, *Children First: a new approach to child support*, Cm3992, 6 July 1998, para 1, p43; Department of Social Security, *A new contract for welfare: Children's Rights and Parents' Responsibilities*, Cm 4349, July; 1999, p6, para 23; HC Deb 31 January 2000, cols 465W-466W; HC Deb 20 March 2002, cols 315-7; HC Deb 27 January 2003, col 568

²⁸¹ Ev 118

which comprised of approximately 235,000 new scheme and 192,000 old scheme cases. The CSA currently estimates that the migrated load may have generated around 120,000 work items or tasks.²⁸² The migration to the new scheme was expected to take place by April 2004, a year after going live, but in the event, that deadline has been missed. In written evidence to the Committee in July 2003, the CSA stated:

The Department's Ministers have always said that no cases would be moved on to the new scheme from the old scheme until they were satisfied that it is working well. Accordingly no date has been set for conversion, and clients have been told they will transfer to the new scheme when the Government is sure it is working well. The Agency continues to work towards achieving successful conversion for the majority of old scheme cases as soon as possible. The software required to facilitate bulk migration of cases from the old computer system to the new is not expected to be available until the end of the year. The software required to facilitate bulk conversion of the migrated cases from the old child support scheme to the new is not expected to be available until next spring.²⁸³

147. In oral evidence, the Secretary of State told us:

We can all see the importance for those who are on the old system of being converted to the new system and plenty of pressure for us to get the child maintenance premium in payment for those when they will convert. I have said all along, like my predecessor, that conversion will not happen until we are absolutely certain that the new system is working properly. It seems to me that strikes the right balance. It is not always going to be a comfortable one, because yes, we should like to get on with it and the public would like us to get on with it and parents with care and non-resident parents would like us to get on with it. We maintain the maximum pressure to achieve progress as effectively as we can, but we do not allow ourselves to be seduced into giving a date which might, for the sorts of reasons you have been talking about, turn out to be undeliverable.²⁸⁴

148. We asked EDS for information on its plan for transferring old cases onto the new scheme. EDS told us that their current plan is to have all the IT improvements on CS2 ready by October 2004 and thereafter to start the migration of old cases and that the transfer should be completed by early in 2005.²⁸⁵ Mr Doug Smith told us that he welcomed EDS's commitment to complete recovery of the system by October, but added that he had not formally agreed the detail that lies behind the plan.²⁸⁶ Mr Charles Law (PCS) told us:

The latest that we have been told – and we had one of our regular meetings with the Chief Executive last week – is that EDS have produced this recovery plan in the light of a report called the Feld Report that was commissioned by an outside company to come in and have a root and branch look and ask questions like, "Should they pull

282 CSA statistics

283 Work and Pensions Minutes of Evidence, 2 July 2003, Ev 34

284 Q 557

285 Qq 519-21

286 Q 598

the plug on CS2 or not?" I think the conclusion was: no, they should not. Although there are big problems, they are not big enough to warrant that, and it is recoverable. That is the overarching view. In the light of that, EDS were told to go away and produce a recovery plan, which they have just done. As I understand it, that has several releases timetabled for the next few months, with an anticipation that, for example, those "stuck" cases that are referred to, which is probably the main problem at the moment, should be cleared by September of this year. That is what we have been told is in the plan. Whether it happens or not of course remains to be seen.²⁸⁷

Slow progress in processing new claims

149. The third serious problem arising from the defective IT programme is that, despite being two years late and now estimated to cost £456 million, the computer system is still not working satisfactorily on processing new claims. The figures in table two show that for its first year, the CSA cleared only 47% of all new cases received since March 2003.²⁸⁸ By the end of the first year of the new scheme, the CSA had cleared some 153,000 cases, which left a backlog of some 170,000 cases. The system is processing new claims so slowly that the backlog of (new) work is increasing by some 30,000 per quarter. Taking the first year as a whole, only 28% of new cases resulted in a calculation being made, with only 10% of all new cases resulting in any payment being made. The figures show that even where a calculation of child maintenance had been made, an actual payment had been made in only 34% of these cases. Moreover, the clearance rate of 47% of new cases depended upon a surprisingly high closure rate, accounting for 19% of all new cases.²⁸⁹ Indeed, there are some obvious parallels between the current problems at CSA and the state of operations when the CSA was first established: the complicated IT system not ready, staff spending all their time making calculations, and payments not made for months, years, or not at all.

150. The slow pace of making first payments is very worrying. Doug Smith told us that only a "a very small proportion" of the new cases are having their initial payment made within the government's six-week target because the average time it takes to bring cases from first application to the point at which calculations are made is approximately 12 to 15 weeks at the moment. Doug Smith told us that while this was half the time it took under the old scheme last year, "it is nowhere near the endgame target on this, which is to move the cases quickly towards payment within an average of six weeks."²⁹⁰

"Stuck" cases

151. One of the most bizarre aspects of the defective IT programme is the phenomenon of cases being "stuck" in the system, not progressing, often for lengthy periods. In oral evidence, Charles Law (PCS) characterised the problems as follows:

287 Q 406

288 Clearance is defined as cases where a calculation for child maintenance has been made or where, for whatever reason, the case is closed before it reaches the point at which the maintenance calculation is undertaken by the CSA

289 Closed cases refer to applications that are withdrawn for whatever reason.

290 Q 591

It can take several months, possibly even indefinitely because some of those ["stuck"] cases have been there for a long time and we do not know when they are going to be released. So you have the customer who wants their maintenance to be assessed or further maintenance to be paid and the Agency is literally unable to do it without setting up a clerical team. That creates enormous pressure on the customer because they keep ringing up and keep being batted off being told, "We are awfully sorry, but there are teething problems with the computer system" and things like that. You can only hold that line for so long before they get extremely frustrated and then start writing to Members of Parliament and people like that to try and speed the matter along. That is a good example of what is happening at the moment.²⁹¹

152. We heard that customers frequently needed to complain to the CSA's chief executive, the independent case examiner, or their MP in order for their case to be progressed. According to the CSA there are up to 75,000 "stuck cases" or "unprogressable cases." We asked EDS about these cases and whether the lost cases would de-bugged and proceeding successfully by October 2004. Tom Warsop told us that:

"It is important to note that those cases are not all "stuck", which is the word that we tend to use, because of information technology issues. Some of them are certainly but some of them are also difficult because of data issues, information gathering difficulties and some other causes."

He confirmed that those cases that are not being progressed now should be progressed by October 2004.²⁹²

Defective telephony system

153. In addition to the problems associated with the CS2 system, CSA's customers and staff are also inconvenienced by a defective telephony system. The new telephony system, which is supplied by BT Syntegra, was designed to link with the CS2 computer. However, the linking of the telephony system and CS2 seems to have brought many problems, including customers' calls being routed to the wrong place and cases disappearing (often at crucial stages) from the caseworker's screen as staff try to answer a telephone inquiry.²⁹³ We heard that there was a particular problem with the new telephony system of queued calls being re-routed around the country to call centres that happen to become free with the inevitable consequence that callers are unlikely to contact anyone that had any previous knowledge of their case. PCS told us that CSA's new telephony system had actually made it harder for a customer to contact the Agency and to talk to the caseworker dealing with their case.²⁹⁴ PCS illustrated the plight of one customer who had 49 calls to the Agency listed on her quarterly telephone bill.²⁹⁵ The problems with the telephony system have also been a

291 Q 388

292 Q 524

293 Ev 119

294 Ev 119

295 Ev 119

particular cause of staff frustration. PCS told us that its survey evidence indicated that only 24% of the CSA staff believed that the introduction of the new IT system had improved the service they provided to the public. In one business unit, a staggering 67% of staff believed that the new IT had not improved CSA's customer service at all.²⁹⁶ We heard that the failings of the new telephony system are similar to those of the old system, which paradoxically the new system was intended to remedy. As the Secretary of State explained, the new telephony system was intended to put callers through to the case worker. He said that where the telephony worked properly, it was great.²⁹⁷ Doug Smith said that:

The telephony system is intended to route incoming calls to the case worker for the case being actioned. A set of rules is built into it which then provides for that call to be overflowed to elsewhere in the team and then elsewhere in the office and then ultimately to the national helpline system. So the call is handled somewhere. The core of the system is accurately designed and constructed. The difficulty is that the system is not working as planned and therefore, from time to time, those calls are not going to the appropriate place and the software enhancements to the telephony system are progressively removing those difficulties.²⁹⁸

Summary of CSA's performance over its first year

154. The new scheme for child support, which was delayed by two years, completed its first year in March 2004. On the positive side, despite the defects, the CSA has managed to process over 150,000 new cases, with over 31,100 cases of child maintenance payments being calculated and paid under the new rules. For convenience, it may be useful to identify some of the main features of the current performance to March 2004.²⁹⁹ For the first year of the new scheme, the CSA had received 321,500 applications, of which some 91,500 calculations were made under the new system, with 61,000 cases being closed. In addition to the 30,000 cases receiving their first payment, 17,000 parents with care received first Child Maintenance Premium payments. The figures for the first year show that the quarterly clearance rate, as expressed as a percentage of quarterly new cases, has increased over the year from 17% (Q1) to 62% (Q4). On the basis of the last three quarters of the first year, new applications have been arriving at an average figure of around 80,000 per quarter with the CSA managing to clear about 50,000 cases each quarter. Although the high closure rate somewhat flatters the clearance rate for the year, it should be noted that the closure rate has been lower under the new scheme than for the old scheme. The CSA noted that "in clearing cases so far, the ratio of those reaching calculation to those that have been closed in the new scheme remained 6:4, compared with the ratio of 4:6 in the old scheme".

296 Ev 119

297 Q 588

298 Q 588

299 The statistical details are set out in the quarterly progress report. See Ministerial Statement HC Deb, 21 April 2004.

Table 4 - Summary of Agency Performance to March 2004

Agency Performance	Quarter 1 Mar – Jun 2003	Quarter 2 Jul – Sep 2003	Quarter 3 Oct – Dec 2003	Quarter4 Jan – Mar 2004	Scheme to Mar 2004
Applications received	73,582	78,982	85,306	83,652	321,522
Applications cleared	12,648	38,583	49,453	51,876	152,560
of which: Maintenance Calculations	6,671	23,857	29,672	31,229	91,429
Closures	5,977	14,726	19,781	20,647	61,131
First payments made through the Agency	461	5,164	11,473	14,017	31,115
First Child Maintenance Premium payments made	77	3,314	6,173	7,484	17,048

155. The Secretary of State, in his written statement to the House on the quarterly Progress Report, accepted that progress had been slower than anticipated. He said:

The new arrangements for child support came into operation for new cases and some linked old scheme cases from 3 March 2003. Progress has been slower than anticipated, chiefly due to problems with the new computer and telephony systems. However, over the course of the first year of operation of the new scheme, progress in performance has grown steadily. For example, more than a third of all maintenance calculations and over 45 per cent. of all first payments were made in the latest quarter. Further improvement is expected.

The number of cases cleared in the final quarter rose above 50,000 taking the total number of clearances (calculations and closures) to over 150,000. The ratio of cases reaching calculation compared to those that closed continued to be 6:4 to the year's end, comparing favourably with the ratio of 4:6 under the old scheme.

Technical issues continue to preclude reliable figures on compliance and throughput for the latest quarter. The Department continues to retain around 15–20 per cent. of each monthly payment due to EDS, the service provider, due to the continuing problems with the computer and telephony systems. A special exercise is being undertaken to test accuracy to the year-end.³⁰⁰

156. Doug Smith (CSA) told us that the EDS-commissioned review into CS2 had indicated that the CS2 system was "fundamentally sound, but needed some significant work to remedy what was clearly a large number of defects in the way the system was operating."³⁰¹

300 HC Deb, 21 April 2004, cols 19-21WS

301 Q 587

He added that after DWP had validated the EDS commissioned review, it gave the green light to EDS to move ahead with the remediation of the system, which he said was likely to take a place through to the autumn of this year.³⁰² He added that software releases that had already taken place had remedied 70% of the defects which related to the interface with JobCentre Plus and around 60% of the defects which were causing difficulties in cases progressing from one stage to another in the system. Further software releases planned for June, July and September should stabilise the system at the level that was expected when the system went live and should provide a platform for further migration of cases onto the new system. Overall:

The position is starting to look better for cases coming into the system for the future. There is a series of further enhancement releases, one scheduled for early June and then beyond that probably in July and September, which will bring the system broadly to the level of resilience and robustness that we expected at go-live and should provide a platform then for further migration of cases onto the new system.³⁰³

157. The DWP's annual report, which was published in April 2004, attempted to put the problems of the IT system into context. The DWP stated:

It is ... easy to dwell on the difficulties caused by the new computer service. Despite them, many clients have been receiving a better service than before. In the last months of the year, the agency converted more applications into maintenance calculations than previously. The time taken to handle applications is falling, and the agency is paying the child maintenance premium on a regular basis to Income Support claimants.³⁰⁴

6 Assessment of CSA's IT and telephony system

158. Below we set out our views on the problems that have been identified. From the outset, it should be noted that CS2 is now processing new claims and that in this limited sense it is actually performing. As Tom Warsop (EDS) told us, parts of the functionality were not operating as desired, but generally the system was working, albeit not perfectly. John Cross (DWP) told us that the CSA were addressing the short run operational issues, which was simply getting cases through as a matter of urgency. A second phase which involves re-engineering the underlining design of the system is expected to provide the needed capability and stability. Overall, DWP, CSA and EDS seem to be working on the assumption that CS2 is recoverable but will require a lot of time and energy to get it there. Doug Smith told us that

The trick must be to move from the proportion who are getting that good level of service now to a far higher proportion of the applications we are receiving and that

302 Q 587

303 Q 587

304 Department for Work and Pensions, *Departmental Report 2004*, page 108

should be possible as the defects are progressively moved from the IT system. We then start catching up on the backlog we have in the system.³⁰⁵

159. We note with concern, however, that EDS and the CSA have already missed a number of key deadlines, including the date of launching of the new scheme, the pace of processing new claims, making payments within the Government's target of six weeks and in answering letters, including those from Members of Parliament.³⁰⁶

160. As regards the failure to migrate cases from the old scheme to the new scheme, we consider the delay to be unacceptable. We understand the reluctance of Ministers to make a commitment on the timescale for migrated cases and the heavy demands that transferring such cases places on staff time. However, the failure by DWP to give customers and Parliament any indication of when cases are likely to be processed puts many customers in a very difficult situation.³⁰⁷ Rather than leaving the cases on the old scheme indefinitely, without any indication of when they will be processed, we urge DWP to come forward with a robust and detailed plan for moving cases onto something more in line with the new scheme. In the interim, we call upon DWP to investigate the possibility of delaying job cuts in order to allocate staff to the task of processing the old cases onto the new scheme. **We recommend that the Secretary of State makes a statement to the House before 1 November 2004 outlining progress made on the new scheme and providing whatever information is available at the time on the proposed migration of cases from the old to the new system. We further recommend that monthly progress reports on the migration be published to enable Parliament to monitor accurately the rate of migration from the old system to the new.**

161. The slow pace of processing new claims is also unacceptable and represents a very disappointing level of service. We recognise that there are signs that the CSA's performance has started to improve recently, but observe that any improvement starts from a very low base. The present performance falls some way short of what most people would describe as the proper sense of "working." We note with concern that for its first year of operation, the number of new cases exceeded clearances significantly, leaving a growing backlog of uncleared new cases. This backlog is estimated to total some 170,000 cases and includes a number of "stuck" cases that is thought to have peaked at around 75,000.³⁰⁸ On a worst case scenario with no improvement in labour productivity, the total of "stuck" cases could have reached 100,000 by March 2005.³⁰⁹ As noted earlier, we find it unacceptable that full details about the recovery plan for the system are not available to us. One indicator of progress is the number of cases that have received their first payment within the Government's six weeks targets. **We recommend that the DWP includes in the monthly report to Parliament, figures on the number and proportion of cases that have received their first payment within the Government's time limit of six weeks.**

162. The telephony system used by the CSA provides an appalling level of service. We recognise that the present telephony system is not working as planned, but we consider

305 Q 594

306 For examples see Q 593

307 Q 408

308 Figures confirmed by DWP.

309 According to DWP recent software releases have reduced the number of "stuck" cases.

that the level of service provided to customers (and staff) is so bad that **we recommend that the new telephony system should be abandoned in favour of alternative systems of direct lines to local call centres unless the new system is fully functional by 1 May 2005.**

163. We are concerned that the Department seems to be assuming that staff in call centres can provide the same level of service to DWP customers as customer-facing staff or dedicated caseworkers. This assumption needs to be examined closely. **We recommend that the Department sets out in detail by 1 November 2004 how the service provided by call-centre staff is expected to differ from that provided by fully qualified caseworkers.**

The effect on staff

164. Defective IT systems have a detrimental effect on staff. We heard that sickness levels amongst the CSA staff have risen sharply since March 2003 when the system went live.³¹⁰ According to departmental figures, the CSA also exhibits the highest sickness absence levels throughout the DWP with staff on average each being absent for 15.3 days in the year to December 2003: nearly twice the target that had been set for the Department as a whole.³¹¹ We understand that annual turnover amongst the CSA staff is also high (13%) and as a result a third of the CSA staff have less than two years experience working with the CSA.³¹² Staff morale in the CSA is clearly low, as acknowledged by DWP in its recent departmental report when it reported that morale had, "taken a knock in the past year"³¹³ The threat of a 30% cut in staffing levels between now and 2006 and possible additional cuts between 2006 and 2008 that were mentioned by the Chancellor in his Financial Statement and Budget Report are unlikely to improve matters. According to PCS, senior management have imposed exceedingly challenging targets on staff, despite the malfunctioning systems.³¹⁴ The efforts of staff to provide a service despite the problems were recognised by Doug Smith when he told us that the CSA staff had "played a blinder over the last year in effectively sustaining or containing the level of aggravation which this has caused many customers."³¹⁵ The Departmental Annual Report 2004 also commended staff:

The commitment 'above and beyond' of agency staff to provide the best possible service to clients, despite constraints imposed on them by the computer service, is to be commended.³¹⁶

165. The persistent poor level of service provided by the IT programme has prompted us to raise two issues. Firstly, given the poor performance, why the Department has imposed what seem to be relatively slight penalties on EDS; and secondly, to what extent it is necessary to consider abandoning the CS2 project.

310 Ev 119

311 Department for Work and Pensions, *Departmental Report 2004*, Figure 24

312 Work and Pensions Committee, Minutes of Evidence, 2 July 2003

313 Department for Work and Pensions, *Departmental Report 2004* p108

314 Ev 119

315 Q 595

316 Department for Work and Pensions, *Departmental Report 2004*, p 108

The scale of penalties

166. The CSA's IT programme is clearly defective. What is less clear is the extent to which the problems have been caused by the hardware, software, inadequate data or managerial and organisational weaknesses within CSA or within EDS. For some time, the Department seemed to identify the inadequate IT and inability of staff to adjust as the main sources of the problems. For example, in oral evidence to our main Committee in July 2003, the CSA referred to two constraints on improving productivity: the IT system; and staff. At that time, the CSA told us that the staff had found the "culture shift" required by the new IT system "difficult," especially the move towards telephone-based working and away from being paper driven. However, in more recent months, the Government's position seems to have switched so that it is now more likely to blame exclusively the software. For example, in oral evidence to the Committee on child poverty (on 11 February 2004), the Secretary of State said that the fundamental problem with the CSA is that the new system still is not working well enough and that is "because of design and software failings."³¹⁷ On the other hand, EDS produced a press release in 2002, which pointed out that the decision to go live with CS2 was taken by Ministers and that Ministerial decisions were to blame for the system being more complex than initially anticipated.³¹⁸

167. In his evidence, Tony Collins argued that there was too much emphasis in the CSA on blaming the technology rather than concomitant organisational, managerial and cultural weaknesses. He said that this was a common factor in projects that failed to meet expectations.³¹⁹ According to a press report in *Computer Weekly*, poor project planning by DWP had resulted in some 2,500 change requests being made to the specification of CS2.³²⁰ We are unable to assess whether the number of change requests was unusual and to what extent it contributed to the delays and complexity of the system, but **we recommend that the DWP provides a list of the change requests and dates thereof that it has issued for CS2 with reasons for each request and an assessment of the effect on the programme in terms of hours of DWP staff time, cost, delays, reliability and functionality.** We see no reason why disclosure of this information should compromise commercial confidentiality. Tony Collins also told us that while the CSA has obvious system-related problems, it also has internal administrative difficulties which prevented any rapid transfer of cases from the old to new rules. One particular aspect mentioned by Tony Collins was the poor quality of the data on the old system. According to him, much of the old data could only be rectified by deploying a large amount of manual effort. He told us that experienced staff needed to be allocated to "regularise and verify the "old" data such it will be accepted by the new system" and that even if the IT systems were working perfectly today, and the software to handle bulk conversions was available, the transfer of some one million cases from the old scheme to the new rules could not happen immediately.³²¹ He added that it was disingenuous of the Department to imply that its problems lay mainly with the main IT supplier and the quality of the company's systems.

317 Q 501

318 EDS press release, dated July 2002

319 Ev 139

320 "CSA holds back £1m a month from EDS in systems dispute", *Computer Weekly*, 4 May 2004

321 Ev 142

168. The apportionment of blame is more than of academic interest; it has some bearing on the imposition of financial penalties for poor service. In oral evidence to us in 2002, Doug Smith and Mr Vince Gaskell (DWP) agreed that on a case by case basis the new system was expected to produce 20% cost savings compared with the old system, but that no significant efficiency gains have yet been achieved. This means that the average cost of processing each CSA claim remains roughly the same in both the old system and in the new one. To put it another way, processing each new case is on average costing 25% more than it should. And there was nothing in the contract to allow the Department to seek those additional processing costs from EDS.³²² During this inquiry, the Secretary of State said that with the benefit of hindsight there are ways in which the contract "could and should have been strengthened."³²³ **We recommend that the DWP's in house contract negotiating team be further strengthened.**

169. The Government has imposed some penalties on EDS, as provided for under the contract.³²⁴ Chris Pond MP told the House that "penalties are built in [to the system]: we have the power in the contracts to withhold payments and we are doing so to ensure that the system operates in a way we would all like."³²⁵ In the second progress report to the House, the Rt. Hon. Andrew Smith MP, the Secretary of State provided details of the operation of this penalty. He said that 15% of the monthly payment to EDS was being held back whereas the contract allowed a maximum of 70% to be held back³²⁶ He added that EDS had responded by strengthening its management team and providing more resources from the United States.³²⁷ In the third progress report, the Secretary of State, said that around 15% of the monthly payment to EDS continued to be retained owing to "the continuing problems with the computer and telephony systems."³²⁸ The fourth, and most recent, progress report implied an apparent increase in the penalty imposed on EDS; the Secretary of State told the House that "the Department continues to retain around 15–20 per cent. of each monthly payment due to EDS, the service provider, due to the continuing problems with the computer and telephony systems".³²⁹ The Secretary of State told us that his department needed to be "very assertive in requiring better performance" in its dealings with EDS while maintaining a partnership relation.³³⁰

170. DWP are reported to be withholding payments of £1 million per month from EDS on account of the poor IT service. According to a report in *Computer Weekly*, by Tony Collins, EDS has received only about £50 million for IT services, even though it is four years into the 10-year contract.³³¹

322 Also see Work and Pensions Committee, Minutes of Evidence, 22 May 2002, Q 55.

323 Q 582

324 The contract with EDS contains a number of measures that provides some legal protection for the Government. These are set out in annex six.

325 HC Deb 12 November 2003, col 91WH

326 See annex six

327 HC Deb 18 November 2003, col 787W (answer placed in Library)

328 HC Deb 12 February 2004, col 80WS

329 HC Deb 21 April 2004, col 20WS

330 Q 583

331 CSA holds back £1m a month from EDS in systems dispute", *Computer Weekly*, 4 May 2004

171. DWP told us that that it only made payments to suppliers "once the service has been delivered." ³³²In our view, it is important to stress that for future contracts, payment should be conditional on satisfactory levels of service and that in some cases payment may not be justified until the system is live and working to a satisfactory level: a level that is somewhat higher than that applying in the case of CS2. It is worth noting that in addition to the loss of payment, a private contractor faces further (unspecified) penalties through the loss of its reputation in the market, so there is no reason to presume that a supplier is not fully committed to remedying the problem. Nor have we seen any evidence to doubt EDS's commitment. The point was made by IBM, who told us that delivering contracts to public sector clients carries a level of reputational risk that is significantly higher than is normal in contracts with private sector clients.³³³

172. As regards DWP and EDS, we see little value in either party trying to blame the other. While there is a prospect that the CSA's system can be recovered, the partners should be committed to finding and implementing a solution.

Time to abandon?

173. During the course of our inquiry, we asked about the Department's position on abandoning projects, including CS2, in the event that recovery becomes too difficult. A few months ago the Secretary of State raised the notion that the new computer system may have to be scrapped. He told the Committee during its inquiry on child poverty:

We have been assured that there is a recovery programme in place, that we will be seeing the milestones against which that recovery can be judged, and that the system is retrievable, in other words, can be made to work properly rather than needing to be scrapped, but I am certainly very impatient to see delivery by EDS of the commitments they have made.³³⁴

174. When asked whether consideration had specifically been given to scrapping CS2, he said:

If it could not be made to work properly you would not have an alternative, would you?³³⁵

175. During this inquiry, we asked a number of witnesses about the likelihood of recovering CS2. Avi Silverman said from his viewpoint he thought there was little real prospect for turning it round and we "would not expect the prognosis for it being successful to be particularly high."³³⁶ Tony Collins told us that a judgment could only be made on the basis of an independent audit of the system.³³⁷ He said that two factors to

332 Ev 108

333 Ev 151

334 Second report of the Work and Pensions Committee, 2003-04 *Child Poverty in the UK*, HC 85, Q 501

335 Second report of the Work and Pensions Committee, 2003-04 *Child Poverty in the UK*, HC 85, Q 505

336 Q 233

337 Q 233

consider were: is the system retrievable and are the organisational problems so profound that they could be used as an excuse in order to cancel the project? ³³⁸

176. We pressed the Department on the circumstances that may cause the CS2 contract to be terminated and what the financial consequences were likely to be. In response the Department told us:

The current Child Support Reforms (CSR) contract can be terminated as a result of a number of different scenarios. The precise circumstances under which the contract is ended will determine the financial and legal provisions applicable. Whether the Department wishes to retain use of all, some or none of the CS2 IT system will also affect any financial arrangements.

Detailed termination provisions remain confidential because of the potential impact on the Department's programme of competitive supply and on supplier market position.³³⁹

177. In its written response to our supplementary questions, the Department pointed out that:

There are a number of factors that need to be taken into account in deciding whether to terminate. The most significant factor is whether the Agency would be able to support further new scheme applications (and those already on the new scheme) through alternative arrangements. We are also minded of the commitment shown by EDS since last November and the success of recent software releases.³⁴⁰

178. We also questioned the Department about the possibility of using the old Child Support Computer System (CSCS) to run the new scheme calculation and accounts. The Department told us that it had explored this possibility. But it added:

However, there are a number of radically different elements to the new scheme. The main stumbling blocks to use of CSCS are:

- child maintenance premium - CSCS does not currently have the functionality to pay this premium to the parent with care.
- apportionment - CS2 splits payments received so that the money is evenly apportioned to the children of all parents with care associated with the non-resident parent. This is completely at odds with CSCS configuration, which allocates money on the basis of the parent with care case.

These issues pose significant implications in terms of development time, even before other new functionality to support issues such as phasing, flat rate maintenance and variations are considered.

338 Q 233

339 Ev 235

340 Ev 235

The capacity of CSCS to deal with an increased caseload and further functionality enhancements is also doubtful, and was one of the reasons the Department originally looked to a new system. It will not support a modernisation in working methods required to provide an enhanced customer service.³⁴¹

179. In our view abandonment of the CS2 project is preferable to stubbornly continuing with the present situation only to abandon it later when the recovery plan falters. **We recommend that if the new system is not fully operational for new cases by 1 December 2004, then the CSA should by 1 February 2005 make public its contingency plan including various options, in particular the abandonment of the CS2 system in the event that this should become necessary. We also recommend that, if by 1 December 2004, the CSA cannot guarantee that the migration of old cases onto the new system will have been completed by 1 May 2005, then the CSA should by 1 February 2005 make public its contingency plan including various options, in particular the abandonment of the CS2 system in the event that this should become necessary.**

Was CSA's IT programme mis-sold to Parliament?

180. As discussed above, we welcome efforts to simplify policy. But the striking feature of the CSA's system is that an excessively complicated IT system has been used to deliver a simplified policy. PCS wondered whether the simplified policy solutions should have been delivered by an equally simple IT solution.³⁴² For our part, we are very surprised that a decision was made to deliver the simplified child support policy via this complicated IT system. Mr Kevin Large (EDS) told us that the core calculation engine with CS2 was simpler, but the breadth of the system, and the way it is inter-related, makes it a very complicated system. An indication of the complexity was given by Mr Large:

One of the points that is quite important in understanding the complexity of the CS2 system is that compared with the old system it covers a much greater breadth of the CSA's business. The old system covers the bit of the calculation of assessments and acts really as a calculation and filing engine for them. The new system is intended to provide a much more end-to-end service so that it covers all stages through the process, the whole of the business, including the amount of finance and amount of information and so on at the back end. It is a much broader, greater system. It also tries to make many of those more automated. Although the basic rules, the policy rules, if you like, are simpler, all the exception conditions and the things that were typically more judgmental, there is an attempt to build much more of that within the system itself so that it actually guides users much more directly through the system and provides them with a much more constrained process. In practice, of course, that cannot be 100% and there have to be exceptional issues and you always get into these cases of fathers who are deliberately abroad and NRPs, non-resident parents who are [not] British Nationals, all of those complexities, which makes it very difficult to build a system that tries to manage that process end-to-end and actually direct it. It also means a considerable change in the way of working for the staff. The system controlling and managing that process, rather than it being driven by the staff

341 Ev 235

342 Ev 119

is quite a cultural change. We have already talked about the business complexity, and that is a feature that has driven the business complexity. Those are drivers of complexity within the system, within the business, that have made it more difficult, as you will appreciate.³⁴³

181. We considered how after Parliament had voted for a simpler and more straightforward system for child support, one that would be similar to a simple ready reckoner, instead what was developed was a highly complex IT system. It is our understanding that the House was assured that the IT system would be simpler for everyone and would get us out of some of the fixes from the first computer system. In reply to a question following his statement on 20 March 2002 on why the new scheme would be delayed from its April 2002 start-date, Alistair Darling (then Secretary of State) told the House:

The key to success, however, is to try to keep the system as simple as possible. Indeed, it was the complexity of the existing system that crippled it. I intend that we will bring on new cases once the system starts up, and when they are settled in we will bring on the existing ones. ...[...]

The more complex we make the system, the worse it becomes. The hon. Member for Northavon (Mr. Webb) said yesterday that he wanted a simple system but with more complications. I strongly urge my hon. Friend to give that proposal a very wide berth.³⁴⁴

182. The words "scheme" (as in new and old maintenance schemes) and "systems" (as in IT) have been known to be substituted for one another, but, given that the legislation for the new scheme had already been passed at that time, it is clear that the (then) Secretary of State was referring to the IT system when he said "The key to success, however, is to try to keep the system as simple as possible". This is reinforced by the fact that the question put to the Secretary of State made the point about simple IT by referring to BA's new computer booking system. Also, in evidence to the Committee on 22 May 2002, Vince Gaskell, Child Support Reform Director, CSA, said "The way that the system was being developed, really, by joint agreement between us was in what we call a series of builds or chunks. As Doug indicated, the early work on those builds went broadly to plan. As they added the later builds to the rest of the system that increased the complexity of the system inevitably and we started to hit problems in terms of the amount of lapsed time to do the testing on those later builds."³⁴⁵

183. In our view, the decision to deliver a simplified policy through a highly complex IT system was an astonishing one given the problems that the previous IT system generated. The administrative and organisational weaknesses within the CSA should have led to questions being asked throughout DWP about CSA's ability to make the necessary changes that such a business transformation would require. The notion that an intended simple system metamorphosed into a highly complex system is also consistent with the earlier observation that CS2 has undergone a high number of request changes. It is hardly surprising that the system is defective. It is shameful that the benefits of policy

343 Q 512

344 HC Deb, 20 March 2002, col 321

345 Work and Pensions Committee, Minutes of Evidence, 22 May 2002, Q 9

simplification have been frittered away on a decision to build an IT solution that is clearly over-spec, over-budget and overdue.

The case for more openness

184. Our main recommendations for improving the success rate of IT systems centre around improving accountability. We believe that greater openness is important in its own right, but should also lead to a higher success rate. CS2 demonstrates the lack of accountability that exists, even for defective systems. Although CS2 has been subject to a number of reviews, we have not been given access to these reviews on grounds of confidentiality- which is certainly convenient for the Department and makes us suspicious. However, we understand that the EDS-commissioned review by the Feld Group concluded that:

- The selection of components within the architecture was basically sound.
- Remedial action was required to focus on the way in which the basic architectural components were put together, the overall performance and stability of the service, and the usability to the caseworker of the service.
- Major re-work was required on the management information systems.
- Further analysis was required on the telephony components and their integration within the overall solution, and with the interfaces with the Jobcentre Plus systems supporting Income Support and Jobseekers Allowance.³⁴⁶

185. In addition to this review, two assurance reviews were carried in 2003 and 2004. The first of these, in early 2003, was an OGC Gateway Review to provide assurance on readiness for service, whereas the second assurance review was conducted by the Gartner Group in early 2004 and was commissioned by the Department to provide assurance in relation to the recovery plan by EDS. Again the Department refused to publish these reviews, leaving us with very little knowledge of their contents, except that the Gartner review concluded, amongst other things, that the Feld Report was a fair statement of the technical status of the new system, that breaking the contract with EDS at that stage was not realistic, that the EDS plan was feasible and that further work needed to be done between the Agency and EDS to deal with governance, communications and trust.³⁴⁷ We can only presume that the OGC Gateway Review gave the go ahead for the system to go live.

186. Overall, we have been very disappointed at the Department's refusal to provide more information about the position of the CS2. This reluctance to make information available to Parliament is consistent with the Department's apparent reluctance to share information with its other key stakeholders, (clients, staff, and unions) whether in the development of the new system or in finding a way forward when difficulties arise. In our view, stakeholders, especially staff, clients and Parliament need to know what is going on.

346 Ev 195

347 Ev 237

187. We believe that the Department should make greater efforts to provide genuine opportunities to share information with all its stakeholders. Staff and clients need to be kept fully informed of any planned developments and changes to their service. When asked how Parliament could be kept better informed about the progress of programmes, Sheelagh Whittaker (EDS) provided the following helpful reply.

Over time, Parliament has developed a number of effective mechanisms to ensure that public monies are well spent. First amongst those is the annual Public Accounts Committee process where Departmental spending and performance is reviewed. But in addition the Departmental committees such as yours have a key role to play in this.

I was wondering if it might be appropriate to suggest that your committee address the following questions when considering large scale Departmental projects.

First the questions might focus on key information concerning the nature of the governance structure in place for the project, the manner in which risk can be escalated and how approval can be granted for changes associated with the mitigation of risk,

It might also be relevant to ask Departments which project risks lie with the supplier, and which risks continue to be held by the Government.

Finally, it would seem to be appropriate to ask a department how they might define a successful outcome. Often success is not something to be measured in cost or technology, but in its contribution to the betterment of Government, and the lives of citizens, but that kind of lofty objective can get lost in narrower discussions.³⁴⁸

188. We are hopeful that our recommendations for increasing openness will be greeted favourably by the Department. **We recommend that a full post mortem be undertaken into the CS2 project by the DWP as soon as is reasonably possible, either after it becomes fully operational or in the wake of its cancellation. If the Department does not comply with reasonable requests for transparency, then we will consider the case for conducting a review into DWP IT projects with conclusions and recommendations being made to Parliament and the taxpayers who provide the financial resources.**

7 Overall conclusion

189. This inquiry has focused on DWP's administration of major IT projects against the background of widespread concern at the apparently high failure rate of major IT projects.³⁴⁹ Expenditure on IT in the UK public sector in 2003/4 has been estimated to be in excess of £12.4 billion, with a significant proportion at risk of being wasted.³⁵⁰ The understanding within the IT industry and the thrust of the evidence that we have received demonstrates that success rates in the UK can be improved. In our view, this could be

³⁴⁸ Letter to the Chairman, dated 7 May 2004 (not printed)

³⁴⁹ *The Challenges of Complex IT Projects*, The report of a working group from the Royal Academy of Engineering and the British Computer Society quoting Kable Ltd, www.kablenet.com

³⁵⁰ *The Challenges of Complex IT Projects*, citing Ovum Holway Report – Holway@Ovum: Industry trends, 2002

achieved by greater adherence to good standards, including those set out in business case models. The necessary standards and methodologies of best practice are already in the public domain. The trick seems to be to get key people - from Ministers to project teams - to comply with the necessary standards. The responsibility lies with these key stakeholders. In our view, the mechanism for improving compliance with good standards is to increase scrutiny so that best practice can be seen to have been followed with penalties (including possible dismissals of senior staff, and/or contract termination) where it has not.

190. We heard evidence that DWP is growing into an "intelligent customer".³⁵¹ However, despite the undoubted progress, a number of witnesses were not optimistic that major IT failures were a thing of the past. Tom Warsop (EDS) told us that it would be impossible to say there would never be any case where a very difficult programme may struggle. But he added:

I do believe that the processes that are in place on all sides have dramatically improved, and I am very hopeful for the future.³⁵²

191. Other witnesses thought that the string of IT disasters had focused people's minds much more on things like specifying exactly what was needed before it was done and spending considerably more time and effort on devising the right way to handle such projects. Sarah Arnott and Avi Silverman thought that "things are better but not guaranteed."³⁵³ Tony Collins suggested many lessons that should have been learned had not been.³⁵⁴

192. Our analysis of CSA's defective IT programme illustrates a number of wider concerns that we have about major IT programmes. It also confirms our view that closer Parliamentary scrutiny is a prerequisite to improving the success rate of DWP's IT projects, as is recognising that IT is only one part of the business transformation that is usually needed to make projects succeed.

351 See Q 271, Q 287, Q 499, Q 300, Q 466, Q 240

352 Q 467

353 Q 236

354 Q 236

Conclusions and recommendations

1. We recommend that the Department establishes a high level working group chaired by Ministers, comprising IT suppliers, social policy experts and other relevant parties, including representatives of client groups and front-line staff to make recommendations on how policies can be simplified. (Paragraph 13)
2. We recommend that the Government makes a commitment to transfer half of any savings into benefits with the balance being divided equally between better service delivery and public expenditure savings. (Paragraph 14)
3. We recommend that DWP sets and publicly justifies more realistic deadlines than hitherto has been the case. (Paragraph 18)
4. We recommend the introduction of an independent, publicly available, continuing assessment of Concept Viability for all major IT projects as they are developed by the Department. (Paragraph 24)
5. We recommend that well before any contracts are signed, IT programmes should involve key stakeholders in the analysis of how business processes will be changed. (Paragraph 25)
6. We recommend that, as formal evidence to Parliament, the Department should present an implementation assessment for each major IT project. (Paragraph 26)
7. We recommend that the Department recruits sufficient numbers of skilled project managers with knowledge of IT projects to negotiate contracts and to monitor their IT suppliers effectively. (Paragraph 31)
8. We further recommend that the Department enters into urgent discussions with the OGC, the Royal Academy of Engineering, British Computer Society and Intellect to agree a set of recognised professional qualifications for IT project management. (Paragraph 32)
9. We recommend that a far higher priority is attached by Ministers to committing time and resources to managing the cultural aspects of major IT programmes. (Paragraph 36)
10. We recommend that in drawing up IT programmes, the Department consults fully with its staff and the responses of those consultations be included in the ITIA that we recommended earlier. (Paragraph 41)
11. We recommend that the Department spends a significant proportion, at least 20%, of the budget of any major IT project on examining its business processes and

putting the necessary organisational systems in place before new computer systems are introduced. (Paragraph 46)

12. We recommend that mechanisms for identifying and allocating costs associated with system failure, including compensation to customers, should be identified before contracts are signed and included in contingency plans. (Paragraph 52)
13. We recommend that detailed information about how risks are to be managed in major IT projects should be made available to Parliament before contracts are signed. (Paragraph 53)
14. We recommend that Government expands the remit of the OGC to include continuing support for Departments after IT systems go live. (Paragraph 54)
15. We recommend that when replying to this report, DWP describes the contingency plans that it and the Inland Revenue have in place to: a) avoid a replication of some of the problems we have witnessed with tax credits; and b) support people on income support in the event that problems do occur. (Paragraph 55)
16. We recommend that the Government makes an early statement of policy on how it proposes to proceed with all IT projects which continue to operate under PFI rules. (Paragraph 74)
17. We recommend that the Department should by 1 April 2005 publish detailed plans on how it proposes to increase involvement of SMEs in the IT procurement process in future. (Paragraph 81)
18. We recommend that the DWP investigates ways of helping bidders with their tender costs incurred when competing for contracts. (Paragraph 85)
19. We recommend that the DWP actively explores using the services of organisations like the CA to improve the delivery of services. (Paragraph 86)
20. We call upon the Department to set out how it will ensure that its IT projects are fully in line with the highest standards of accessibility and to provide reassurance that it will fully meet its duties under the Disability Discrimination Act. (Paragraph 88)
21. We recommend that more information, such as the cost of the contract and penalties for delay, should be put into the public domain. (Paragraph 90)
22. We welcome the offer to develop a set of guidelines to cover increased access to information on IT contracts and agree that the proposals put forward by the Secretary of State do provide the basis for further consideration. (Paragraph 95)

23. We further recommend that the powers available to the OGC are strengthened: (i) to impose the recommendations made by Gateway Reviews; (ii) to ensure that departments follow the guidance; and (iii) to allow the OGC to police compliance with mandatory actions. (Paragraph 104)
24. We recommend that the Government invites the OGC to undertake and complete a review by 1 July 2005 into the likely effect of implementing the Clinger-Cohen statutory framework in the UK. (Paragraph 109)
25. We recommend that the Government should publish Gateway Reviews with appropriate safeguards or failing that to set out how Parliament otherwise can be provided with the level of information it needs in order to scrutinise adequately questions of value for money from major IT contracts. (Paragraph 121)
26. In the event that the case against full publication of Gateway Reviews can be substantiated, we call upon the Department to provide a summary document of each review within 6 weeks of the review being completed. (Paragraph 123)
27. We recommend that the DWP publish strategic outline and full business cases together with relevant supporting information. (Paragraph 129)
28. We recommend that the Department by 1 October 2004 sets out how it proposes to deal with requests for detailed information on publicly funded IT projects from members of the public or other interested commercial organisations under the provisions of the Freedom of Information Act that come into effect in January 2005. (Paragraph 135)
29. We recommend that the Secretary of State makes a statement to the House before 1 November 2004 outlining progress made on the new scheme and providing whatever information is available at the time on the proposed migration of cases from the old to the new system. (Paragraph 160)
30. We recommend that the DWP includes in the monthly report to Parliament, figures on the number and proportion of cases that have received their first payment within the Government's time limit of six weeks. (Paragraph 161)
31. We recommend that the new telephony system should be abandoned in favour of alternative systems of direct lines to local call centres unless the new system is fully functional by 1 May 2005. (Paragraph 162)
32. We recommend that the Department sets out in detail by 1 November 2004 how the service provided by call-centre staff is expected to differ from that provided by fully qualified caseworkers. (Paragraph 163)

33. We recommend that the DWP provides a list of the change requests and dates thereof that it has issued for CS2 with reasons for each request and an assessment of the effect on the programme in terms of hours of DWP staff time, cost, delays, reliability and functionality. (Paragraph 167)
34. We recommend that the DWP's in house contract negotiating team be further strengthened. (Paragraph 168)
35. We recommend that if the new system is not fully operational for new cases by 1 December 2004, then the CSA should by 1 February 2005 make public its contingency plan including various options, in particular the abandonment of the CS2 system in the event that this should become necessary. We also recommend that, if by 1 December 2004 the CSA cannot guarantee that the migration of old cases onto the new system will have been completed by 1 May 2005, then the CSA should by 1 February 2005 make public its contingency plan including various options, in particular the abandonment of the CS2 system in the event that this should become necessary. (Paragraph 179)
36. We recommend that a full post mortem be undertaken into the CS2 project by the DWP as soon as is reasonably possible, either after it becomes fully operational or in the wake of its cancellation. If the Department does not comply with reasonable requests for transparency, then we will consider the case for conducting a review into DWP IT projects with conclusions and recommendations being made to Parliament and the taxpayers who provide the financial resources. (Paragraph 188)

Formal Minutes

MONDAY 21 JUNE 2004

Members Present:

Sir Archy Kirkwood, in the Chair

Miss Anne Begg

Rob Marris

The Committee deliberated.

Draft report (Making IT deliver for DWP customers), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 192 read and agreed to.

Resolved, That the Report be the First Report of the Sub-committee to the Committee.

Ordered, That the Chairman do make the Report to the Committee.

Several papers were ordered to be appended to the Minutes of Evidence

Ordered, That the Appendices to the Minutes of Evidence taken before the Sub-committee be reported to the Committee.—

WEDNESDAY 7 July 2004

Members Present:

Sir Archy Kirkwood, in the Chair

Vera Baird

David Hamilton

Miss Anne Begg

Rob Marris

Ms Karen Buck

Andrew Selous

Mr Andrew Dismore

Mr Nigel Waterson

Mr Paul Goodman

The Committee deliberated.

Draft report (Making IT deliver for DWP customers), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 51 read and agreed to.

Paragraph 52 read, amended and agreed to.

Paragraphs 53 to 128 read and agreed to.

Paragraph 129 read, amended and agreed to.

Paragraphs 130 to 145 read and agreed to.

Paragraph 146 read, amended and agreed to.

Paragraphs 147 to 178 read and agreed to.

Paragraph 179 read, amended and agreed to.

Paragraphs 180 to 192 read and agreed to.

Annexes agreed to.

Resolved, That the Report as amended, be the Third Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select committees (reports)) be applied to the Report.

Several Papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House – (The Chairman.)

Annex 1: Inquiry

193. The sub-Committee of the House of Commons Work and Pensions Committee announced the start of this inquiry in November with a remit to "to examine the DWP's management of information technology (IT) projects. "

194. Throughout the inquiry the sub-Committee received written submissions from 23 witnesses, not counting the three informal briefings from IT suppliers. A list of those who submitted evidence is attached. The sub-Committee's programme of oral evidence included taking evidence from Sir Peter Gershon (OGC), academics, Intellect, IT journalists, DWP officials, Doug Smith (chief executive of the CSA) and the Secretary of State, Rt Hon Andrew Smith. In addition to the oral evidence session, the sub-Committee also attended an informal briefing meetings at IBM offices, South Bank, which included a demonstration of some software.

195. We wish to record our thanks for the assistance that we have received from all our witnesses. We are also extremely grateful to Dr Sarah Pearce of Queen Mary, University of London for her invaluable assistance throughout the inquiry as Specialist Adviser and to Tim Jarrett, Senior Researcher, House of Commons Library.

Annex 2: References to the effect of inadequate IT on DWP's Operations and Effectiveness (Identified in NAO and PAC Reports since Session 1999-2000)

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
C & AG Report Getting it right, putting it right Improving decision-making and appeals in social security benefits	1142	2002-2003	07-Nov-03	Jobseeker's Allowance decision-makers have to use three different computer systems (Jobseeker's Allowance Payments System, Decision-making & Appeals System and Labour-Market System) and not all staff have access to all three systems.	<p>Interaction between decision-makers – and with other governments departments (for example, to share evidence and prevent fraud and error) – is difficult.</p> <p>It is difficult to record details of the reasons for decisions about customers' payments, what explanations had been given, and details of when decisions had been looked at again.</p> <p>No one method is consistently used by offices to record customer requests for explanations. This means that there is no one place to which decision-makers or jobcentre staff can routinely refer for information on</p>	<p>[The DWP acknowledge the limitations of the system and through the Digital Office Infrastructure project, are upgrading computers in local offices and providing access for all decision-makers to the departmental intranet.</p> <p>They plan to roll out a new Customer Management System in 2003-04 to capture information electronically and issue customer statements reflecting information supplied.]</p>

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
					<p>explanations given and decisions looked at again.</p>	
				<p>Notification letters (advising of benefit decision) should be sent out following a decision on a claim, but computers do not always allow this. Staff are not able to access the letters and so cannot confirm or deny the situation on discussions with customers. Letters cannot be improved because the changes require costly computer updates as the letters are designed into the system.</p>	<p>The first a customer may know of their benefit being withdrawn or reduced is when payment is refused.</p> <p>Customers cannot discuss the position with an informed member of staff as staff have no access to the letters.</p> <p>Poor quality letters cannot be improved easily.</p>	<p>[At the PAC hearing, Sir Richard Mottram accepted that the standard of letters was very poor and the situation where staff couldn't access letters was ridiculous. He expected that from April 2004 there will be a new release on the system to enable decision-makers to read letters sent to customers.]</p>
<p>C & AG Report Improving service quality: Action in response to the Inherited SERPS problem</p> <p>PAC Report Improving service quality: Action in</p>	<p>497</p> <p>616</p>	<p>2002-2003</p> <p>2002-2003</p>	<p>20-Mar-03</p> <p>17-Jul-03</p>	<p>The quality of the address records held by the Department remains poor, both for those resident in the United Kingdom and abroad. DWP estimate that 30% of the addresses of SERPS contributors who were within 10 years of</p>	<p>Unable to inform customers about developments which affect them or communicate messages effectively.</p> <p>Had to make wide use of advertising to draw attention to changes in regulations.</p>	<p>The Department wishes to improve the quality of its address data, where it is cost effective to do so.</p>

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
<p>response to the Inherited SERPS problem</p>				<p>retirement were wrong. No IT infrastructure for secure e-mail. There has been progress in making IT available for staff, particularly those who deal with customers. But three years after the Committee's recommendations, some parts of the Department still rely on guidance issued in paper form.</p>	<p>Unable to inform customers, especially those abroad, about initiatives and developments that benefit or affect them. Risk remains of inaccurate or consistent provision of information and advice.</p>	<p>The Department is to adapt its systems, where appropriate, to ensure secure electronic communication channels for the purpose of recording and using e-mail addresses. 94 % of staff in former DSS offices now have individual access to the internet and upgrade ongoing to provide staff in former ES offices with similar level of access. The Department is confident that all its guidance will be available online by the target date of 2005. [But there is evidence that many staff do not use intranet to keep up to date with changes].</p>

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
<p>C & AG SERPS: The failure to inform the public of reduced pension rights for widows and widowers</p> <p>PAC Report SERPS: The failure to inform the public of reduced pension rights for widows and widowers</p>	<p>320</p> <p>01</p>	<p>1999-2000</p> <p>1999-2000</p>	<p>15-Mar-00</p> <p>17-Aug-00</p>	<p>Each area maintains its own database of customer feedback recorded under a number of general headings. The feedback is analysed but not pooled centrally.</p> <p>No IT system to analyse or record correspondence coming in.</p> <p>Lack of easy access to IT for staff. The Benefits Agency then relied on paper bulletins and weekly briefing meetings to communicate with staff. They did not have an intranet to provide staff with ready access to essential information.</p>	<p>Senior management are not able to take a strategic view and potential early warnings of a problem can be missed.</p> <p>Not able to identify problems. For example, warning letters about the failure to inform the public of reduced pension rights for widow(er)s were sent from two MPs in 1997 and 1998. If the Department had picked these letters up the problem would have been identified.</p> <p>Many of the staff had not been aware of the change to Inherited SERPS when they provided information to members of the public, either in writing, face-to-face or by telephone. As a result, an unknown number of staff in offices throughout the country gave incorrect information by informing customers that they could bequeath 100 % of their SERPS pension to their spouse should they die after 5 April 2000.</p>	<p>The Benefits Agency was developing a central database to record customer feedback. In April 2002, it was the intention to introduce new complaints handling software nationally, which will enable local offices to record complaints in a standard format, and allow them to be analysed in predetermined categories and client groups.</p> <p>[Subsequently, BA introduced computerised complaints handling system which has improved management information. Internal Audit have expressed concerns about the quality of the CSA computer generated statistics. Old ES offices have only a manual complaints system. Therefore, still not possible to produce easily management information on complaints.]</p> <p>The Department secured funding for complete modernisation of their computer systems, including those that give front line staff access to rules and guidance via the Department's intranet. [EOI roll out progressed.]</p>

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
C & AG Report Tackling Benefit Fraud	393	2002-2003	13-Feb-03	Benefit customer data are held in over 20 separate systems. There is no common access point to all the systems to check routinely what data is held nor a mechanism to share between the systems.	Customers receiving more than one benefit are asked to provide the same information for each benefit claimed. And benefit administration staff cannot readily check what information has already been received from a customer in connection with other benefits.	The Department recognises that investment in IT is crucial to its drive to reduce fraud and error. The Department has updated its Information Systems and Information Technology strategy. The update drew on industry best practice to strengthen the Department's ability to deliver change, focusing on: <ul style="list-style-type: none"> increasing the use of proven off the shelf packages in preference to made to order bespoke systems; reducing the size and complexity of individual projects and implementing an incremental approach to IT; and integrating new technologies with existing systems to enable business requirements to be met.
PAC Report Tackling Benefit Fraud	488	2002-2003	04-Jul-03	IT systems and standards that are not compatible with other departments and private sector firms.	There is an increased risk that benefit administration staff will fail to detect inconsistent and erroneous information, where customers have provided different details about themselves for each benefit claimed or they have failed to disclose receipt of other benefits. This risk can be moderated by a separate data matching system that the Department has developed to compare data on different computer systems to identify anomalies (however, this is carried out as a separate process and does not serve as a common access point to the different systems). Frauds such as claiming benefit while working cannot be detected by cross checking with other departments and other organisations.	

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
PAC Report Tackling pensioner poverty: Encouraging take- up of entitlement	565	2002-2003	09-Apr-03	Systems for administering benefits in central and local government have been developed separately and information is not passed between agencies automatically.	<p>Many pensioners will be entitled to more than one benefit. They currently have to provide the same information to different agencies.</p> <p>Time is wasted by Departmental staff duplicating work.</p>	<p>The Department has a clear IS/IT strategy and will start to deliver new systems and improvements to existing systems by 2004 using technologies that are aimed at transforming the customer experience and making real improvements in providing joined up services across the public sector.</p> <p>For future pensioners the Department is in the process of introducing a modernised IT system to support the growing demand for pension forecasting services. These include Combined Pension Forecasts, providing individuals with information on both their private and state pensions in one. The new system involves using information from the Inland Revenue National Insurance Recording System and for Combined statements, information provided by private pension providers.</p>
PAC Report Better public services through Call centres	373	2002-03	5-Jun-2003	The Child Benefit Centre (now Inland Revenue but may be more of general relevance) was one of the first call centres to be set up, so its IT was fairly old and not now sufficiently advanced to handle the volume of calls. Because Child Benefit was	<p>Difficult to monitor and predict the volume of calls.</p> <p>Agents may need to access three separate IT systems to carry out essential security checks on personal details, update data and amend payment details. Absence of single system may increase</p>	Introducing more sophisticated workflow management technology.

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
				<p>relatively simple and not prone to high levels of fraud and inaccuracy it had not been a high priority for investment in IT</p>	<p>time taken to deal with call. No expert system to remind and guide the agent and no independent check of the accuracy and completeness of the advice given by the agents.</p>	

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
C & AG Report National Insurance Fund Account 1999-2000	446	2000-2001	4-May-01	The release of the NIRS2 system, to the former Contributions Agency of the DSS, was delayed due to a large number of technical and functional issues outstanding.	Backlog of NI work built up. The Benefits Agency was unable to correctly calculate contributory benefits and many benefits awarded were being made on an interim or emergency basis.	There are concerns that the NIRS2 will not reach a steady state by April 2001. All key NIRS2 functionality has been available from April 2000 and is working well. A further release of system functionality was made in October; the remaining, non-priority, system upgrade will be made as planned in April next year.
C & AG Report National Insurance Fund Account 1998-1999	149	1999-2000	1-Mar-00		Pensioner, widows and benefits claimants suffered uncertainty and loss of income through the award of interim payments.	
PAC Report National Insurance Fund Account and wider issues of fraud and error in benefits paid by DSS	350	1999-2000	9-Aug-00		Members of contracted out money purchase and personal pension schemes were losing out through loss of invested income.	
					In November 1999, 94% of short term benefits (incapacity benefit and jobseeker's allowance) and 82% long term benefit cases (retirement pension and widows benefit) requiring review had been cleared. In doing so the Benefits Agency identified underpayments of £32 million and overpayments of £1.1 million. The total cost of clearing the backlogs was	

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response
					<p>estimated at £14.1 million.</p> <p>Cases were considered by the Benefits Agency for payments of compensation under the Departmental Special Payments Scheme. By 24 November 1999, some £127,000 has been paid out for unreasonable delays under the scheme.</p> <p>Compensation payments of £10 were issue to claimants of contributory benefits who experienced an unreasonable delay in the assessment and subsequent payment of benefit because of NIRS2 problems. Over 200,000 such payments were made at a cost of £2 million.</p>	

Report	HC	Session	Publication Date	Inadequate IT	Impact	Treasury Minute Response	
C & AG Report DWP Resource Account 2001 - 2002	146	2002-2003	07-Feb-03	The Department's debt systems are not integrated with either feeder benefit systems or the Programme Accounting Computer System (PACS) and are heavily reliant on clerical procedures.	The IT system is unable to assist in the reduction of fraud.	Benefit fraud totals £3-4 billion a year.	The Spending Review provided new funding for investment in Information Technology. The introduction of Automated Credit Transfer will have a significant impact on fraud associated with current paper based methods of payments.

Annex 3: The Department's modernisation programme

PROJECT NAME	Brief Description Of The Project
CHILD SUPPORT REFORM	This project will implement the Child Support Reforms, involving the transformation of the existing the CSA business processes and structures, through the introduction of a new IT system that supports new rules, legislation and operating model.
CUSTOMER MANAGEMENT SYSTEM	This system is an information gathering business process for working age IS/JSA/IB benefit claims and changes of circumstances. It will allow information supplied by the customer to be gathered electronically by staff, improving efficiency and customer service. Staff will be able to check information supplied against that already held. The system will also support the arrangement of work-focused interviews.
DEBT MANAGEMENT	The Debt Programme introduces a new organisational structure based on 10 Debt Centres and a Commercial Of The Shelf (COTS) package to provide new Management Information systems, combined with increased focus on the management and ultimately reduction of debt stock.
DIGITAL OFFICE INFRASTRUCTURE (formally EARLY OFFICE INFRASTRUCTURE)	DOI aims to implement a modern IT infrastructure platform across the Department allowing access to the Internet and Intranet and modern business software. Over 128,000 new desktop PCs have been installed by October 2003.
JOBCENTRE PLUS IMPLEMENTATION	This will introduce the Jobcentre Plus service in a network of integrated, modernised offices across Great Britain. Jobcentre Plus brings together the former Employment Service and the parts of the former Benefits Agency, which dealt with people of working age. Jobcentre Plus is a key element in the Government's objective to accelerate the move from a passive welfare system to one which provides active support to help people become more independent, based on 'work for those who can, support for those who cannot
NEW TAX CREDITS	This project supports the implementation of new tax credits by Inland Revenue by putting a tax credits service in place for DWP customers (principally through Jobcentre Plus) and ensuring that necessary amendments are made to DWP benefits.
PAYMENT MODERNISATION PROGRAMME	The Payment Modernisation Programme aims to establish direct payment into a bank or building society account as the normal, convenient method of payment for all customers. This includes those who wish to collect their money from the Post Office. (The national banking infrastructure was successfully implemented in April 2003 through the Universal Bank project.
PENSION CREDIT	This project successfully introduced Pension Credit in October 2003 and aims to increase the take-up of Pension Credit. It will deliver new IT functionality to existing DWP systems, and associated business products (e.g. training, staff guidance, customer notifications).
PENSIONS TRANSFORMATION PROGRAMME	This Programme will transform the Pension Service, bringing together business and IT change in ways that improve customer satisfaction, increase staff morale and deliver efficiencies.
RESOURCE MANAGEMENT SYSTEM	This programme will provide modernised HR, financial and procurement functions for DWP staff. These systems will introduce significant business process change, enabling Departmental resources to be managed more effectively.

PENSIONS FORECASTING	We have introduced a modernised IT system to support the growing numbers of combined forecasts we are producing.
INTERACTIVE E-SERVICES	The Department has a number of individual projects to enable customer to undertake benefit and other transactions through e-services. For example, from April 2003 Child Benefit can be claimed via the Internet and since Aug 2003, Invalid Carers Allowance can be claimed on-line.
ISCS/JSAPS MODERNISATION	The key objectives are to improve interfaces with other DWP systems to reduce fraud and error; reduce costly clerical interventions by improving work management systems; improve customer service by enabling staff to view on-line system generated letters; provide a modern user interface for ISCS and JSAPS
HUMAN RESOURCES MODERNISATION PROGRAMME	The Human Resources Modernisation Programme includes: HR Service Centre Modernisation to restructure the existing HR Service Centres and consolidating Jobcentre Plus HR administration. design and delivery of a range of technologies required for the modernisation of learning and development over a three-year period. a strategy to ensure delivery of effective leadership development and education to senior managers and those identified as potential leaders. review of the current payroll system to ensure it is capable of delivering changes to the DWP reward strategy.
CUSTOMER INFORMATION SYSTEM	The Project will deliver a database of key citizen information to be shared across DWP. The database will complement information currently available in the Department's key customer information systems, i.e. Personal Details Computer System and Departmental Central Index, and become their replacement. The Project will use cost-effective modern technology with minimum impact on the existing systems.
MANAGING CORE SYSTEMS ESTATE	To improve the ways in which our core legacy systems are managed
IT DEVELOPMENT PROGRAMME	This aims to deliver a fully integrated set of services for employers and partners.
DISABILITY AND CARERS SERVICE CHANGE PROGRAMME	This is an over-arching change programme that brings together a range of infrastructure projects, covering process, IT and telephony changes, into a single coherent programme. The programme will design and deliver changes to business processes and Information Technology (IT) and support ongoing changes to the business organisation and telephony to reflect the emerging DCS Business Model.

Annex 4: Key IS/IT challenges as identified by DWP's IT/IS Strategy – an outline

Priority	Challenge	How IS/IT will meet challenge	End result
Coherent view of customer	<ul style="list-style-type: none"> * Changes in customer details communicated once (one stop) * Changes electronically communicated to other systems * Need to bridge segmented IT systems 	<ul style="list-style-type: none"> * New customer IS system will share customer details, even to frontline 24/7 access 	<ul style="list-style-type: none"> * Joined up view of customer, enabling benefit and services to respond quickly to changed circumstances.
Providing joined up services	<ul style="list-style-type: none"> * One stop shop for services from DWP and other parties 	<ul style="list-style-type: none"> * New customer info system * Audited access given to other departments and org Automating processes 	<ul style="list-style-type: none"> * Joined up services provided to customer
Supporting e-enablement	<ul style="list-style-type: none"> * All services e-enabled by 2005 * e-enable staff working * paperless office 	<ul style="list-style-type: none"> * Web services plus other channels (tele, email, text, fax) * e-learning for staff 	<ul style="list-style-type: none"> * Customers accessing servicing * e-learning
Enabling improved efficiency	<ul style="list-style-type: none"> * Efficiency up with IT at process automatic 	<ul style="list-style-type: none"> * IT for corporate functions: Central payment system, HR customer statements, produced automatically Customer a/c management system Automated calculations, issuing of forms * roll out of PC 	<ul style="list-style-type: none"> * Improved benefit process with less paper/training * More staff on customer facing activities
Supporting the drive to reduce fraud and errors	<ul style="list-style-type: none"> * Loss, Errors and inefficiencies down [no specific target] 	<ul style="list-style-type: none"> * IT will reduce: Keying in errors More automatic risk profiling Data sharing * ACT will reduce losses 	<ul style="list-style-type: none"> * Errors will reduce fraud if: Customer info is shared with other orgs Redirect staff from processing towards persistent fraudsters

Source: Derived from IS/IT Strategy, DWP, 2003. Objectives of modernisation Programme by 2005/6 through series of projects across DWP

Annex 5: Business case

A business case is developed over time, in conjunction with the scoping, planning and procurement phases of the solution.

- 5 There are three key stages in its development, which constitute milestones when approval may be required to proceed further. During its infancy, the key deliverable is the SOC; in its adolescence, the OBC; and finally, when the solution has reached maturity, the FBC.

This document shows the three key development phases, and provides a template from which to develop your case in each phase.

Strategic Outline Case (SOC)

Phase 1: Initial Scoping

Primary purpose:

1. to establish the Case for Change and Strategic fit with other Programmes;
2. to indicate the way forward in terms of a preferred option.

Structure and Content:

Executive Summary

Document Structure

The Strategic Case

Strategic Context

Organisational Overview

Snap shot of the organisation: purpose, structure and environment etc.

Business Strategy and objectives

Existing and future business plans, inc. any relevant national initiatives and stakeholders/ customers for services

Other Organisational Strategies; eg. IS/IT; HR

Existing and future plans

Strategic Needs

Investment Objectives

Key Objectives for proposed investments

Existing Arrangements (if any)

Snapshot of current service arrangements

Business Needs - current & future

Service Gaps to be filled

Outline Business Case (OBC)

Phase 2: Planning

Prior to OJEC (pre-procurement)

Primary purpose:

3. to validate the preferred way forward;
4. to assess potential VFM, affordability and achievability.

Structure and Content:

Executive Summary

Document Structure

The Strategic Case

Strategic Context

Organisational Overview

Update as required

Business Strategy and objectives

Update as required

Other Organisational Strategies

Update as required

Strategic Needs

Investment Objectives

Investment objectives ranked in order of priority and made SMART

Existing Arrangements (if any)

Update as required

Business Needs - current & future

Update as required

Full Business Case (FBC)

Phase 3: Selection of Solution

Following competition (pre-contract)

Primary purpose:

5. to select the service solution;
6. to finalise post procurement arrangements.

Structure and Content:

Executive Summary

Document Structure

The Strategic Case

Strategic Context

Organisational Overview

Update as required

Business Strategy and objectives

Update as required

Other Organisational Strategies

Update as required

Strategic Needs

Investment Objectives

Update as required

Existing Arrangements (if any)

Update as required

Business Needs - current & future

Update as required

Potential Scope & Service Requirements Business scope and high level service outputs	Desired Scope & Service Requirements Detailed description of business scope and high level service outputs/requirements	Scope & Service Requirements Update as required
Benefit Criteria Main benefits by key stakeholder groups	Benefit Criteria Main benefits by key stakeholder groups - ranked in order of importance and/or weight	Benefit Criteria Update as required
Strategic Risks Key business, service and external risks, together with outline mitigation and management arrangements	Strategic Risks Update as required, inc. specific proposals for mitigation and management	Strategic Risks Update as required
Constraints and Dependencies Internal and external	Constraints and Dependencies Update as required	Constraints and Dependencies Update as required
<u>The Economic Case</u>	<u>The Economic Case</u>	<u>The Economic Case</u>
Critical Success Factors (CSFs) Weighted and ranked in order of importance	Critical Success Factors (CSFs) Update as required	Critical Success Factors (CSFs) Update as required
Main Business Options Longlist for SWOT analysis inc. "do nothing" or "do minimum" options.	Main Business Options Revisit and update, as required, inc. options not identified earlier	Main Business Options Summary of OBC options
Preferred Way Forward Conclusion from assessment using Options Framework	Preferred Way Forward Revisit and update, as required	Preferred Way Forward Summary of OBC conclusion
Short-listed Options Assessment of preferred way forward for future analysis, inc. "do nothing" or "do minimum" and Public Sector Comparator (PSC)	Short-listed Options Detailed description of shortlisted options inc. "do nothing" or "do minimum" and Public Sector Comparator (PSC)	Short-listed Options Detailed description of shortlisted options inc. "do nothing" or "do minimum", the PSC and Service Providers' solutions
<i>Also includes</i> Commercial Case High level assessment of possible deal and supply-side interest	NPC/NPV Findings Results of Economic Appraisals for each Option, inc. cost of risk retained	NPC/NPV Findings Results of Economic Appraisals for each Option, inc. cost of risk retained
Financial Case High level assessment of affordability	Benefits Appraisal Results of rank, weighting and scoring the qualitative benefits for each shortlisted option.	Benefits Appraisal Results of rank, weighting and scoring the qualitative benefits for each shortlisted option, inc. service providers' solutions
Project Management Case High level assessment of achievability	Risk Assessment Full assessment of risks retained under each shortlisted option, inc. costing of DBFO risks	Risk Assessment Full assessment of risks retained under each shortlisted option, inc. costing of DBFO risks
Recommended Way Forward	Sensitivity Analysis Results of sensitivity analysis undertaken for shortlisted options	Sensitivity Analysis Results of sensitivity analysis undertaken for shortlisted options

Preferred Option

Recommended option following above analysis

The Commercial Case

For Possible Deal:

Potential Scope and Services
 Potential Charging Mechanisms
 Potential Key Contractual Arrangements
 Potential Personnel Implications
 Potential Implementation Timescales
 Potential Accountancy Treatment

The Financial Case

For Possible Deal:

Potential Capital Requirement
 Potential Net Effective on Prices
 Potential Impact on Balance Sheet
 Potential Impact on Income and Expenditure Account
 Overall Affordability

Project Management Arrangements

Procurement Strategy

Intended method of procurement, including use of:
 - EC/GATT regulations
 - evaluation criteria
 - selection of preferred bidder

Project Methodology and Structure

Proposed Project Plan

Proposed use of Advisers

Appendices:

1. Economic Appraisals
2. Financial Appraisals
3. Sensitivity Analysis

Preferred Option

Recommended solution following above analysis

The Commercial Case

For Recommended Deal:

Agreed Scope and Services
 Agreed Charging Mechanisms
 Agreed Key Contractual Arrangements
 Agreed Personnel Implications
 Agreed Implementation Timescales
 Agreed Accountancy Treatment

The Financial Case

For Recommended Deal:

Capital Requirement
 Net Effective on Prices
 Impact on Balance Sheet
 Impact on Income and Expenditure Account
 Overall Affordability

Project Management Arrangements

The Procurement Process

Description of procurement process;
 OJEC Notice (attachment)
 Summary of ITN;
 Prequalification: long and short listing of service providers;

Arrangements for Contract Management

Agreed Benefits Realisation Plan

Agreed Risk Management Strategy

Arrangements for post project evaluation

Contingency Plans

Appendices:

1. Economic Appraisals
2. Financial Appraisals
3. Sensitivity Analysis

Possible Appendice:

1. Detailed analysis of short-listed options

Source: Joe Flanagan MA.

Annex 6: Measures in the contract with EDS that offer legal protection for the Government

2.1 *Payment on Delivery.* The allocation maintains a key principle of Public Finance Initiatives in that the DWP will not pay any monies to EDS for the operation of the system until such time as the system meets agreed criteria and is considered “Live”.

As the DWP has yet to make any payments to Affinity this adversely affects their financial position. At this point in time EDS would have expected to have recovered some of the costs of IT development by way of monthly payments for the use of the new system after it had been implemented. This has not happened and no payments have been made to them.

2.2 *Assurance Points.* The business allocation contains a number of assurance points through which we formally measure progress. Failure to meet the criteria associated with these requires EDS to develop and deliver an acceptable recovery plan. Failure to do so could ultimately result in the DWP terminating the contract. EDS has presented a re-plan that is being impacted against other business activities required to implement the reforms.

2.3 *Partial Delivery.* The CSR [Child Support Reform] business allocation [BA] also allows the Department to agree to the implementation of a reduced set of functionality (or part of the system) ahead of the delivery of the full system. This was added as a contingency measure in case development of particular aspects of the IT service proved problematic. Had it been involved the level of monthly payment for the use of the “live” system would have been reduced on a pro rata basis.

2.4 *Liquidated Damages.* Liquidated Damages (LDs) are a pre-estimate of loss that the Department may claim if there is a delay in the delivery of the IT system and the ensuring provision of services.

There are three business events triggers for the payment of LDs in the CSR BA, these are:

- delay to “A” day;
- delay to Migration; and
- delay to conversion.

The level of LDs for each business event was calculated by the Department prior to the contract negotiations and limited to the direct costs for the delay. They include the costs of employing project staff for longer, re-training and re-deployment of operational staff. They cannot, for legal reasons, include the value of lost benefits.

The LDs are payable for a period of 13 weeks from the start of the delay after which the Department are entitled to terminate the contract should we wish to do so.

2.5 *Payment/Performance Regime.* As mentioned earlier EDS receives payment only after the system has gone live and then on a monthly basis thereafter. Even then payment is

subject to a rigorous set of service levels related to how well the system performs I live operations. If these performance targets are not met for any reason then the amount due is reduced depending on the extent of failure. In extreme cases the payment can be reduced by 70 per cent.

- 5 Continued failure to meet agreed service levels can result in termination if the Department wishes.

2.6 *Formal Acceptance.* Under current planning assumptions formal acceptance of the system takes place a full 18 months after the “Go Live” date. This measure is required because until the system holds and processes existing cases alongside the new we are not able to confirm that the system can cope. During this extended period we are able to terminate for poor performance under better terms to the Department than would be the case after the system had been formally accepted.

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2.7 *Application of these Protections.* Currently the Department and EDS remain confident a that the new IT will be available to support introduction of the reforms. Detailed planning and impact analyses are taking place.³⁵⁵

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Source: House of Commons Library

Witnesses

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Sir Peter Gershon, Office of Government Commerce, Dr Mike Rodd and Professor Brian Collins, British Computer Society, Mr Michael Hartley, Gartner and Mr Nick Kalisperas, Intellect.	Ev 1
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Dr Mike Rodd and Professor Brian Collins, British Computer Society, Mr Michael Hartley, Gartner and Mr Nick Kalisperas, Intellect.	Ev 18
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Ms Sarah Arnott, Computing, Mr Tony Collins, Computer Weekly, Mr Avi Silverman, Government Computing, Mr John Corneille and Ms Jan Gower, IBM, Mr Kevin Saunders and Mr Derek Ward SchlumbergerSema.	Ev 27
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Mr John Cross, Mr Martin Bellamy and Mr Kevin Bone, Department for Work and Pensions.	Ev 55
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Ms Laura Martin and Mr Charles Law, Public and Commercial Services Union and Mr John Wheatley, Citizens Advice.	Ev 55
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Rt Hon Andrew Smith MP, Secretary of State for Work and Pensions, and Mr Doug Smith, Chief Executive, Child Support Agency.	Ev 84

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