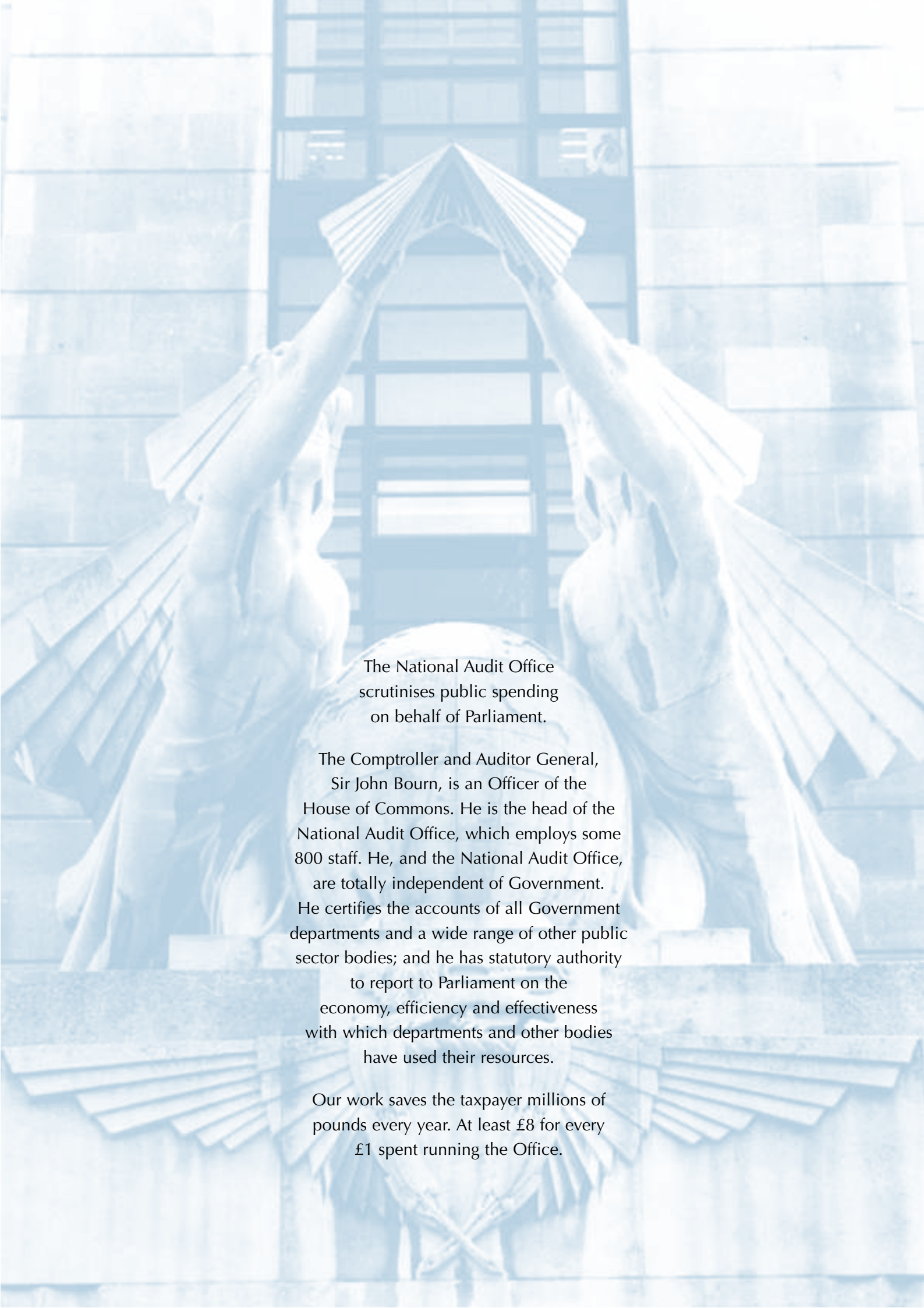


# Improving IT procurement

The impact of the Office of Government Commerce's initiatives on departments and suppliers in the delivery of major IT-enabled projects

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL  
HC 877 Session 2003-2004: 5 November 2004





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This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

*John Bourn* National Audit Office  
Comptroller and Auditor General 29 October 2004

The report was prepared by an NAO team with the assistance of RAND Europe under the direction of Mark Davies

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**For further information about the National Audit Office please contact:**

National Audit Office  
Press Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

Tel: 020 7798 7400

Email: [enquiries@nao.gsi.gov.uk](mailto:enquiries@nao.gsi.gov.uk)

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# Preface

The successful delivery of IT-enabled projects is essential to the effective functioning of government and has a direct bearing on departments' abilities to deliver improved public services. This report presents the results of a value for money examination of the work of the Office of Government Commerce (OGC) in recent years to help departments improve their procurement of IT-enabled projects.

The history of such procurements has not been good, with repeated incidences of overspends, delays, performance shortfalls and abandonment at major cost. The OGC has therefore introduced a number of initiatives to address the causes of these repeated failures and there is evidence that department and supplier behaviour is changing positively as a result of this work. These remain, however, early days; IT-enabled projects often take several years to complete and involve major changes to the way departments carry out their work. While this report highlights some of the positive actions departments have taken in response to OGC initiatives, as well as elements of good practice emerging from the case study projects featured, other projects continue to falter and fail. Sometimes this occurs within the same department and Accounting Officers must determine why one project succeeds where another fails.

This report identifies three essential requirements that need to be in place for programmes and projects to be successful:

- rigorous challenge and scrutiny of projects and programmes at each key stage in their lifecycle;
- highly skilled and capable programme and project managers; and,
- effective engagement with suppliers.

## There is increasing challenge and scrutiny of IT projects and programmes

The introduction of independent scrutiny through Gateway Reviews has imposed a framework that increases the likelihood of early identification of threats to the successful delivery of major IT-enabled projects. Regular reporting on progress improves the visibility and transparency of projects and offers the means to better co-ordinate and target guidance. The creation of a process of regular project reviews is becoming part of the culture of delivering major IT-enabled

projects and in many cases has been adopted by departments. However, the concerns raised in Gateway Reviews have remained broadly the same since their introduction in 2001, and unless there is growing evidence that these weaknesses are being addressed their recurrence will reduce confidence in the ability of OGC and departments to bring about a step change in the performance of projects.

## Much has been put in place by the OGC to improve skills but take-up remains low

The OGC has produced a comprehensive set of initiatives to improve IT procurement by departments, but this advice is not always followed. While, individually, each piece of guidance and each new initiative has made a useful contribution to the improvement process, they have been developed at different times and for different purposes. For experienced users, knowing how to access the range of material is straightforward, but it can be difficult for new users who are most in need of advice to know what advice is available, particularly, for example, when accessing the *Successful Delivery Toolkit*.

Departments recognise that there is a lack of skills and experience necessary to deliver major IT-enabled projects. While the OGC has put in place initiatives to tackle shortfalls in experience across government, most particularly the *Successful Delivery Skills Programme* and the *Programme and Project Management Specialism*, departments have yet to take full advantage of these.

The recent creation of *Centres of Excellence* within each department creates the opportunity to bring together guidance and develop sustainable project and programme management skills. Centres of Excellence co-ordinate programme and project management, including strategic oversight, scrutiny and challenge across a range of major IT-enabled and other projects, reporting regularly to departmental Boards.

## Departments should follow OGC's example and actively engage with Industry

The close working relationship between OGC and "Intellect" - the Industry representative - is helping to build trust between Industry and the public sector, through the creation of frameworks and codes of practice, designed to bring about greater clarity of respective roles and responsibilities. At a corporate level, departments are increasingly aware of these developments through their Centres of Excellence, but these initiatives have yet to reach project teams. It is important that this should happen so that those ultimately responsible for delivering projects and programmes know what they can expect from suppliers and, in turn, what suppliers should expect from them.

Departmental Boards need to provide leadership and commitment to the acquisition of commercial skills throughout the organisation. Any detailed initiatives put in place will not work unless they are drawn together into a complete and coherent set of actions. This requires the commitment of the Board, along with a mindset to develop links with suppliers and the wider IT market place, so that projects are properly understood, innovative thinking can be explored and realistic and practical deals can be secured. In practice this would require the appointment of a board-level commercial director within departments, engaging with suppliers as the "intelligent customer" as would be the case in the private sector.

The ultimate responsibility for project success rests with individual departments, and for the various initiatives to translate into successful delivery it is essential that departmental Boards exercise clear leadership and commitment to make certain that guidance is followed, skills are developed and maintained, risks properly identified and managed, and the rigour of the Gateway process becomes ingrained in departmental thinking. Here we set out six key questions for Accounting Officers to routinely ask their Boards. The National Audit Office will monitor adherence to these as part of its reporting of departments' IT procurement performance.

## Improving IT Procurement: Key issues for accounting officers

### **1 Expectations for IT-enabled business change are realistic**

What steps have you taken to address the Prime Minister's requirement that risks to successful delivery should be adequately considered before policy announcements are made?<sup>1</sup>

### **2 Key guidance is acted upon**

How has your Board responded to the issues raised in Treasury Guidance of March 2004<sup>2</sup> so that you can be confident that risks are being properly managed?

Have you got the right team in place?

### **3 Gateway results are fully implemented**

Have you set a target to improve Gateway results?

How are you making sure that emerging lessons are being learned across projects and programmes?

### **4 Your Centre of Excellence is making a difference**

What do you know about good practice and innovation in your own and other departments?

Do you seek regular and frequent briefing from your Centre of Excellence?

### **5 Scrutiny by your Board is effective**

Is there sufficient skill and experience at Board level to exercise effective oversight of major IT-enabled projects and programmes?

What measures do you have to assess your overall capacity to bring about IT-enabled change?

### **6 Close links with suppliers**

Do you have a Commercial Director or equivalent representation at board level?

How often does the board engage with key suppliers?

<sup>1</sup> *Improving Government Risk Handling Personal Minute from the Prime Minister to the Deputy Prime Minister 29 March 2004.*

<sup>2</sup> *Dear Accounting Officer Letter DAO(GEN) 07/04 30 March 2004 (see Appendix 2).*

# executive summary

- 1 Central civil government spent £15 billion on goods and services in 2002/03, equivalent to about one per cent of the United Kingdom's Gross Domestic Product. Expenditure on information technology accounted for £2.3 billion or 16 per cent of the procurement expenditure,<sup>3</sup> second only to accommodation costs. Ten departments/agencies accounted for three-quarters of the total IT expenditure, while five suppliers won 60 per cent of contracts. There is a history of failure of major IT-enabled projects, characterised by delay, overspend, poor performance and abandonment.
- 2 The Office of Government Commerce (OGC) was established in April 2000 to work with departments to improve their procurement capability in areas such as major IT-enabled projects. This was re-enforced when the Prime Minister announced in November 2002 that he had asked Peter Gershon (then Chief Executive, OGC) to strengthen the successful delivery of government IT-enabled projects and programmes. In response, Peter Gershon invited Cabinet ministers in December 2002 to agree six key actions to improve the success rate of such projects. The six actions were:
  - Establish Project/Programme Management (PPM) Centres of Excellence in each department with a remit including its agencies and Non Departmental Public Bodies;
  - Accounting Officers to provide assurance on existing (pre 'go-live') and new major projects that they do not contain the common causes of failure identified by the NAO and the OGC;



- Mandate no big-bang implementations and developments (modular, incremental developments and implementations) unless approved by central scrutiny group (for example, the Chief Secretary to the Treasury, Minister for e-Transformation, Office of the e-Envoy, Office of Government Commerce);
- No government initiative (including legislation) dependent on new IT to be announced before analysis of risks and implementation options has been undertaken;
- Force prioritisation of all existing and new projects as Mission-Critical, Highly Desirable and Desirable;
- All high risk and mission-critical projects to have clearly identified (i) responsible Minister (ii) Senior Responsible Owner and Project Manager with good relevant track records.

<sup>3</sup> This is calculated from the OGC's procurement database, containing information from 36 departments.

- 3 These Cabinet actions and the list of common causes of failure (listed at **Figure 1**) agreed between OGC and the National Audit Office were disseminated to departments through a 'Dear Accounting Officer' letter in February 2003, updated in March 2004.<sup>4</sup>

### 1 Common causes of failure in IT-enabled projects

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

- 4 The OGC reports every four months to the Prime Minister on the status of 'mission-critical' IT-enabled projects. These IT-enabled projects or programmes are essential for either the successful delivery of major legislation, meeting Public Service Agreement targets, or implementing policy initiatives announced and owned by the Prime Minister or a Cabinet Minister. Mission-critical projects also include those where failure will have catastrophic implications for delivery of public services, national security or the internal function of a public service operation.
- 5 The value for money examination reported here assesses the impact of the OGC's work to date in helping departments improve IT procurement and makes recommendations on how further improvements can be achieved. It is based upon a review of OGC's activities, tools and guidance; an assessment of five major IT-enabled projects selected from the population of 'mission-critical' programmes and projects in three government departments; and a review of the literature exploring lessons learned in the private sector and abroad. The five major IT-enabled projects summarised in **Figure 2** are described in further detail in Appendix 1.
- 6 In Part 1 of the report we assess the recent history of IT procurement in the United Kingdom central civil government against a backdrop of performance in other countries. We also reflect the views of the IT industry on why IT projects can fail. Part 2 assesses the impact of OGC initiatives in broad terms, looking in particular at the impact that Gateway Reviews are having generally on increasing scrutiny and oversight of projects and programmes. Then in Part 3 we look at the five case studies of major IT-enabled projects in more detail, examining how departments have managed these projects, drawing on the new approaches and processes developed by OGC in partnership with them. We also look at the OGC's work with Industry in seeking to establish frameworks and working practices that will help project teams and suppliers to work more closely together, to avoid the confusions that often characterise IT procurements, and to secure greater success.

## 2 The five major IT-enabled projects involve large sums of money and offer service improvements to large sections of the community

Department or Agency	Project or Programme	Value	Beneficiaries
Department for Work and Pensions	The <b>Payment Modernisation Programme</b> aims to provide flexible, secure and convenient payment of benefit through bank accounts rather than paper-based Order Books.	<b>£465 million</b>	<b>13 million benefit recipients</b>
	The <b>Jobcentre Plus Implementation Programme</b> aims to help more people into jobs by establishing a network of modern Jobcentre Plus Offices with new business processes delivering an improved service to its customers.	<b>£2.2 billion</b>	<b>5 million benefit claimants</b>
Home Office	The <b>Case Information Database Enhancement Programme</b> is designed to improve control and screening at ports and to provide reductions in the time taken to make and serve initial asylum decisions and appeals.	<b>£36 million</b>	<b>30,000 asylum applicants</b>
	The <b>Offender Assessment System</b> within the Prison Service aims to provide an electronic systematic offender risk and needs assessment system, which will be joined with the system in the Probation Service.	<b>£11.7 million</b>	<b>Up to 80,000 prisoners</b>
Driver and Vehicle Licensing Agency	The <b>Partners Achieving Change Together</b> contract has established a strategic partnership to provide upgraded and flexible electronic registers of vehicles and drivers.	<b>£550 million:</b> representing £301 million in respect of the core contract and an estimated further £250 million for development aspects.	<b>39 million drivers and 32 million vehicles</b>

## Key findings

- 7 The OGC has no authority to direct departments, but encourages them to achieve value for money through its activities. The OGC has put in place four key initiatives that are designed to improve the procurement of IT-enabled projects. These are the:
  - i. Gateway Review process;
  - ii. Centres of Excellence;
  - iii. Successful Delivery Toolkit; and,
  - iv. Successful Delivery Skills Programme and Programme and Project Management Specialism.
  
- 8 Beyond this the OGC has worked closely with representatives from Industry to put in place frameworks and mechanisms for the establishment of closer relations and joint working between departments and suppliers.
  
- 9 The introduction of *Gateway Reviews* provides an independent assessment of the status of IT-enabled and other projects at various stages of the procurement lifecycle. More recently, the establishment of *Centres of Excellence* in departments offers the potential to provide strategic oversight, scrutiny and challenge, across the portfolio of departments' projects and programmes; to ensure the application of good practice; and to improve skills and capability in project and programme management. Supporting both the Gateway process and the Centres of Excellence are programmes providing guidance and best practice on the procurement of IT and improving the skills of project managers. The *Successful Delivery Toolkit* brings together best practice in a single point of reference and is available via the Web and other sources. The *Successful Delivery Skills Programme* and the *Programme and Project Management Specialism* aim to improve the commercial skills of departments.
  
- 10 Our analysis of the OGC's activities, interviews with departments and suppliers, and our assessment of five major IT-enabled projects suggests that some of the common causes of failure noted at paragraph 3 are being successfully tackled, and that the processes now in place are increasing the likelihood of project success, but more remains to be done.



## Increasing scrutiny and oversight of programmes and projects

- 11 **Project reviews.** Departments reported that the most effective OGC initiative was the Gateway Review process. Between the inception of the Gateway process in February 2001 and 31 March 2004, there have been 440 Gateway Reviews conducted on 254 IT-enabled projects. The Gateway Review reports provided to Senior Responsible Owners,<sup>5</sup> and in particular the Red-Amber-Green traffic light used to indicate the status of the project,<sup>6</sup> provide the means for effective project assurance systems for project teams and departmental senior management. More recently, the four-monthly report from the OGC Chief Executive on mission-critical projects provided to the Prime Minister ensures the visibility of major IT-enabled projects at the most senior level.

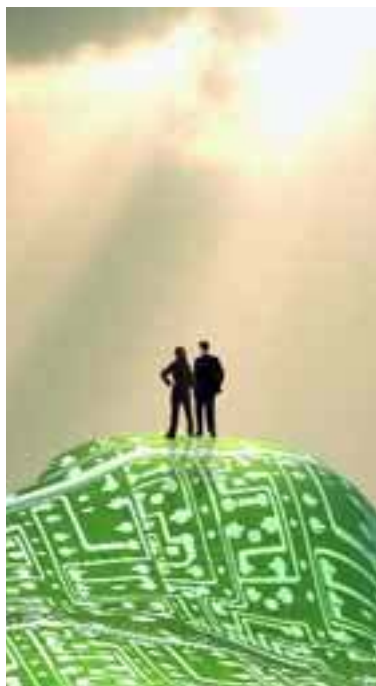
<sup>5</sup> The Senior Responsible Owner is the individual responsible for the overall success of the project or programme.

<sup>6</sup> See paragraph 1.10 and Figure 7 for further explanation of the RAG system.

- 12 Over three-quarters of departments surveyed for the National Audit Office report *Improving Procurement*<sup>7</sup> had used Gateways and all found them useful or very useful. The OGC collects feedback from project teams, detailing satisfaction ratings for Gateways. Senior Responsible Owners are asked to rate the Gateway process from 0 to 4 against 19 different questions, for a maximum possible score of 76. Response rates for this questionnaire are currently improving, and up to 45 per cent of those polled have responded. Since the initiation of Gateway Reviews, Senior Responsible Owners have regularly responded with scores of over 60, or 80 per cent of the total possible. Whilst it is reassuring that those who respond provide positive feedback, the OGC needs to sustain and improve the level of questionnaire return to have confidence in these statistics.
- 13 The common issues raised in Gateway Reviews since their introduction have remained broadly similar. The main issues are:
- the need for involvement of key stakeholders;
  - the clearer identification of the roles and responsibilities of departments and suppliers in the governance of IT-enabled projects;
  - improved development of business cases, particularly on the scope and content;
  - better risk management; and,
  - improved skills and resources, including resource planning, succession planning, and the quantity and quality of suitably skilled staff.
- 14 The Gateway Review process involves six key gates. There are five OGC Gateway Reviews during the lifecycle of a project, three before contract award and two looking at service implementation and confirmation of the operational benefits. In addition there is a repeatable Gate 0 for programmes, designed to confirm the feasibility and viability of the initiative when set against other corporate priorities and objectives. Further Gate 0 reviews later in the life of the Programme can revisit and confirm the business case, the management of programme risks, the management of the portfolio of the projects, and the delivery of benefits.
- 15 Gateway Reviews can be undertaken at any stage of a programme or project and the first Gateway Review a programme or project undergoes may not be at the first gate of the project lifecycle, although this is strongly recommended by OGC. To 31 March 2004, half of all Gateway Reviews were undertaken at Gates 2 (Procurement Strategy) or 3 (Investment Decision). A high proportion of these reviews were undertaken for the first time: 63 per cent of those at Gate 2 and 41 per cent of those at Gate 3. In addition, only 13 per cent of Projects moved from Gate 4 (Readiness for Service) to Gate 5 (Benefits Realisation). Since the introduction of the Red-Amber-Green system in June 2002, 67 IT-enabled projects have passed through more than one gate. In that time 43 per cent of projects improved their status and 38 per cent maintained the same status. **This evidence indicates that the Gateway Review process is improving the procurement of IT, and that this should increase the likelihood of successful delivery. A major risk, however, is that projects are entering the process too late - that is at Gates 2 and 3 (crucially, after the business case has been prepared), and exiting the process too early - that is before Gate 5 (when an assessment of the continuing need for the service, value for money and contract management arrangements can be made).**



<sup>7</sup> *Improving Procurement: Progress by the Office of Government Commerce in improving departments capability to procure cost-effectively. National Audit Office 2003-04 (HC 361).*



- 16 The Gateway Review process provides a mechanism by which departments can manage innovation risk in initiating new projects. A red review at Gate 0 should be positively interpreted as it shows that the review process is working effectively and that risks are being picked up at the earliest opportunity. On the other hand, two consecutive red reviews is unacceptable, and triggers a letter from the Chief Executive of the OGC to the Permanent Secretary of the department responsible. To date 8 double-red projects have been IT-enabled. In our examination, two of the five case studies had multiple Gateway Reviews reporting a RAG status. For example, and as discussed in detail in Part 3 of this report, for the Driver and Vehicle Licensing Agency's Partners Achieving Change Together project, there was a change from Red at Gateway 3 (Investment decision) to Green at Gateway 4a (Readiness for Service - Technical Transition)<sup>8</sup> due to the implementation of a number of recommendations regarding the proposed contract.

## Developing skilled programme and project managers

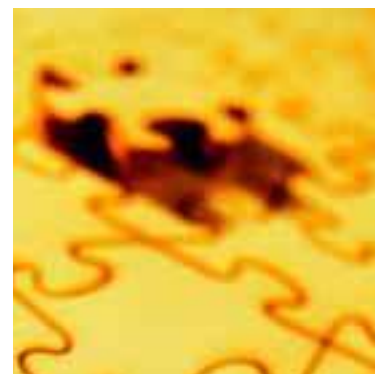
- 17 **Encouraging good practice.** Only 45 per cent of respondents to a survey about usefulness of OGC guidance in the National Audit Office report *Improving Procurement* had used the Successful Delivery Toolkit. In the present study, we found that those people who were aware of OGC guidance were satisfied with its content, but reported difficulty in accessing information posted on the OGC website. More importantly, it can be difficult for new and inexperienced users to know what advice is available, and how to make best use of it at the appropriate time. Although OGC receives information on usage of the Internet version of the Toolkit including numbers accessing different pages and the amount of material downloaded, this does not provide any indication of how these web-based products are utilised, or how best to improve their usefulness.
- 18 The introduction of Centres of Excellence provides the opportunity to develop, disseminate and promote departmental programme and project management standards, methods, techniques and tools by using, building on and tailoring the good practice guidance provided by the OGC including through the Successful Delivery Toolkit.
- 19 **Improving skills and capacity.** There is clear evidence that departments lack appropriate Project and Programme Management (PPM) skills and experience and this presents a major risk to successful delivery of many IT-enabled projects. For example, the National Audit Office report, *New IT systems for Magistrates' Courts: the Libra project (2003)*,<sup>9</sup> concluded that no external IT advice was sought and that technical assessment of the project was undertaken in-house. In this study we found that for the OASys project neither the HM Prison Service nor its supplier, EDS, had the skills immediately available to manage a novel process for developing software which were accordingly brought in from an established and trusted partner. The take up of the OGC's Successful Delivery Skills Programme has been low. To tackle this issue, departments are starting to take action in transferring business-oriented skills to the public sector by engaging commercial third parties to manage projects or recruiting individuals from a recent commercial background. In addition, the introduction of the Programme and Project Management Specialism in October 2003 will encourage the internal growth of these skills for staff who wish to follow a career in programmes and projects rather than line-oriented career paths.

8 This project underwent two separate Gate 4 (readiness for Service) reviews, a Gateway 4a covering the technical transition and a Gateway 4b covering the organisational transition.

9 *New IT systems for Magistrates' Courts: the Libra project. National Audit Office 2002-03 (HC 327).*

## Engaging effectively with suppliers

- 20 Working with industry.** The establishment of a clear understanding of the respective positions between supplier and department, as well as the sharing of responsibilities, risks and benefits, are critical to successful delivery of IT-enabled projects. Industry has begun to work with the OGC and departments to increase the mutual confidence of all stakeholders in the procurement of IT-enabled projects, but this work is not yet institutionalised. The establishment of the Senior IT Forum and the publication of the *Government Procurement Code* and the *IT Supplier Code of Best Practice* are major steps in developing sustainable partnerships between the public and private sector. As a result, OGC guidance recommends the establishment of Joint Project Boards, with senior representation of both departments and suppliers. Our research showed that partnerships could be broken down into three levels. First, at an industry level, mechanisms such as the Senior IT Forum, jointly run by the OGC and Intellect, were widely regarded by suppliers and departments as a very useful forum for the exchange of views and building of trust. Second, partnerships at a corporate level between departments and suppliers are formally articulated in contracts and through Joint Project Boards. In the case of the Driver and Vehicle Licensing Agency, its Executive Board has a representative from the supplier (IBM) with full executive responsibility and the same status as Agency directors - although excluded from Board discussions in respect of the financial aspects of the contract itself and without authority to formally commit Agency expenditure externally. Finally, and perhaps most importantly, partnerships exist between individuals. This was highlighted in the level of good working relationships among the Home Office Immigration and Nationality Directorate, Siemens Business Services (the prime contractor) and SchlumbergerSema<sup>10</sup> (providing client-side support and delivering training), despite serious problems at a more senior level with project delivery.
- 21 Innovation.** The public sector market for IT has until recently been dominated by a relatively small number of suppliers. Five companies accounted in 2002-2003 for over 60 per cent of the IT provision to central civil government. This limited choice potentially restricted competition as these five suppliers could more aggressively dictate the terms of a contract, and excluded potentially innovative suppliers who might better meet government needs. This potential was recognised by the OGC, which in a report, *Increasing Competition and Improving Long-Term Capacity Planning in the Government Market Place*, published in December 2003, concluded that 'the public sector needs to take a more systematic and strategic approach to the markets in which it operates'.
- 22** There are, however, a number of examples of innovative thinking about the acquisition of IT-enabled projects. For example, the Driver and Vehicle Licensing Agency has flexible agreements with its suppliers. The contract with IBM allows for flexibility in the delivery of other IT-enabled business change programmes. Although the provision of adequate contractual safeguards for such flexible arrangements may require complex negotiation - the contract is 512 pages long - they were seen to be a useful device in helping to deliver flexibility, value for money, and to significantly reduce delivery timescales. For example, the contract both allows for further IT systems and business development and also potentially for other Agencies and Departments to access services provided through the contract. Another example of contractual innovation is the business benefits based contracting included in the Jobcentre Plus contract which directly linked some payments to EDS to increases in the number of jobseekers who found jobs.



<sup>10</sup> Note: SchlumbergerSema is now part of Atos Origin group and trades under the name Atos Origin UK, with Atos KPMG Consulting.

# Recommendations

- 23 What the Gateway process has revealed is that many of the problems of IT-enabled programmes and projects are not about the technology itself, but about the determination of the business processes that it is designed to serve and the selection and training of staff who will operate the new arrangements. The Gateway Review process' insistence that the planning, management and implementation of programmes and projects with an IT element should also have regard to these matters has been of great value.
- 24 The degree to which it is possible to assess whether the procurement of IT-enabled projects has improved as a result of the OGC's activities, tools and guidance is difficult to judge at this time given the recent introduction of a number of these initiatives. What can be said is the structures are in place to minimise the risk of future IT failure and that department and supplier behaviour is changing positively as a result of the OGC's work. The challenge for the OGC, departments and suppliers is to ensure that this momentum is maintained and that it is realised in improved IT procurement. Against this background, we derive eight recommendations that should result in further improvement in the future.
- 25 The introduction of the Gateway Review process provides an effective means of early identification of threats to the successful delivery of IT-enabled projects and increases transparency in the project management process. Evidence to date, however, shows that the concerns raised in Gateway Reviews have remained broadly the same since their introduction in 2001, and unless there is growing evidence that these weaknesses are being addressed their recurrence will reduce confidence in the ability of OGC and departments to bring about a step change in the performance of projects. **This requires the regular and sustained engagement of departmental and agency boards, and the Gateway performance of projects and programmes should be a routine agenda item.**
- 26 At the present time the OGC has a range of activities, tools and guidance. But there is a risk that usability is compromised because it has been developed at different times for different audiences and is not coherent. **The OGC should review how it works with departments and agencies and create a strategy to change behaviour that includes a clear understanding of its clients' needs, experience and capabilities.** Our examination showed that OGC staff had different views of its key audiences and how they were reached. While this may reflect individuals' work in different areas, it was also apparent that these differences were, in part, the result of there being no shared communication strategy for the whole Office. This was backed up by evidence from departments which highlighted that they were not always aware of all the relevant guidance available to them.
- 27 **The OGC should continue to evaluate, monitor and assess the impact of its non Gateway Review activities such as Centres of Excellence, the Successful Delivery Toolkit and the Successful Delivery Skills Programme to ensure they accurately reflect what is most valued and that they are consistent. This may be achieved through expanding current monitoring mechanisms or may warrant developing a separate monitoring programme.** Many OGC activities are still relatively new and it is too early to fully evaluate their impact. For example, the Centres of Excellence were only inaugurated in June 2003. The OGC commissioned an independent review of the embedding of best practice across Government, and they should work towards implementing the actions arising from this review as well as continuing to monitor and evaluate all their non Gateway activities.
- 28 **To enhance further the impact of Gateway Reviews, departmental Centres of Excellence should provide advice to Senior Responsible Owners on best practice guidance relevant to their Gateway Review recommendations.** Senior Responsible Owners need to share Gateway Review reports with departmental Centres of Excellence and should also consider case-by-case their dissemination to key suppliers. Gateway Review teams are encouraged by OGC to refer to the information in the Successful Delivery Toolkit in Gateway Review Reports, thus project teams are more likely to follow, and demonstrate the following, of such guidance or other sources of best practice. Further, it would enhance feedback to the OGC as to the quality, impact and relevance of their guidance, thereby keeping the product portfolio lean and of use. Finally, it would ensure that Gateway Review Teams are fully aware of OGC guidance.
- 29 Centres of Excellence provide for the first time a central point to embed guidance within departments and to develop programme and project management skills to promote successful delivery. **Departments need to ensure that Centres of Excellence align their tools and guidance with that of the OGC, and that these are disseminated to project teams.** Active communication is a two-way process. Just as the OGC should review its communication with departments, departments should actively seek out,

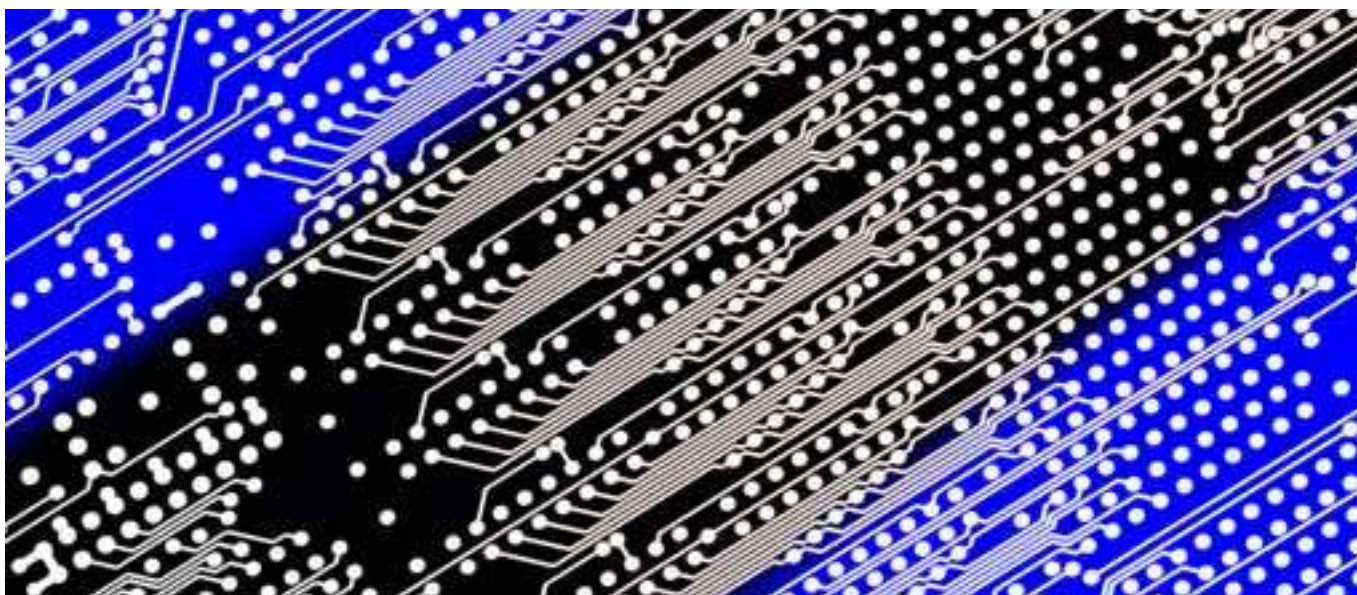
use and contribute to the development of the tools, guidance and activities provided by the OGC. The establishment of Centres of Excellence provides an opportunity for departments to disseminate this information to Senior Responsible Owners and all project team staff. The Joint Action Plan<sup>11</sup>, which sets out the shared aspirations of the OGC and departments, also provides a vehicle for taking forward this recommendation.

- 30 Departments do not have enough programme and project managers to manage IT-enabled projects. **Departments need to set in place arrangements to develop a cadre of experienced programme and project managers.** Departments do not take full advantage of OGC activities such as the Successful Delivery Skills Programme or the more recent Programme and Project Management Specialism. Only by assuring that IT-enabled projects are managed by skilled and experienced individuals can project success become at all possible. One major way to do this is to recruit from the private sector people who have the requisite skills, another possibility is to engage with private sector bodies and agencies who frequently have well developed skills in their areas, in new ways - possibly even 'sub-contracting' the responsibility for this support. Departments should start or sustain appropriate programmes of career development, to ensure the recruitment and retention of people with Programme and Project Management competencies. In addition, the OGC should promote the Successful Delivery Skills Programme as another method of addressing this process.

- 31 The close working relationship between OGC and "Intellect" - the Industry representative - is helping to build trust between Industry and the public sector, through the creation of frameworks and codes of practice, designed to bring about greater clarity of respective roles and responsibilities. At a corporate level, departments are increasingly aware of these developments through their Centres of Excellence, but these initiatives have yet to reach project teams. **The challenge for the OGC, departments and agencies, and suppliers, is to continue to work together to ensure that these initiatives result in a step change in the management of major IT-enabled projects.**

- 32 The ultimate responsibility for success and for the various initiatives to translate into successful project delivery rests with individual departments. **It is essential that Departmental and Agency Boards exercise clear leadership and commitment to make certain guidance is followed, skills are developed and maintained, risks properly identified and managed, and the rigour of the Gateway process becomes ingrained in departmental thinking.**

As reviewed in Part 2 of this report, and assessed in this section, the OGC has put in place a range of initiatives and good practice guidance designed to help departments tackle the lack of expertise in IT procurement. Specifically, the role of Gateway Reviews offers the means to better co-ordinate and target guidance, while the introduction of Centres of Excellence within departments offers the opportunity to develop sustainable project and programme management skills.



11 See: [http://www.ogc.gov.uk/embedded\\_object.asp?docid=1001005](http://www.ogc.gov.uk/embedded_object.asp?docid=1001005).

# Part 1

## The Procurement of Major IT-Enabled Projects

- 1.1 IT-enabled projects are critical to the delivery of the Government's objective of improving the quality of public services and securing step changes in levels of efficiency. Nearly all such projects in government today have, to a greater or lesser degree, an element of business change associated with them that goes significantly beyond simply introducing new computer hardware, software or systems. Typically this involves introducing new processes, modernising working practices, and offering new services to the customer, often involving replacing the manual processing of high volume routine claims or operations, for example identifying vacancies for job seekers, with new electronic service provision.
- 1.2 Thus IT-enabled business change, as it is commonly known, offers the potential for better and more accurate information, increased convenience for the citizen and other stakeholders and scope to provide new services. These major increases in capacity are only made possible by information technology and for this reason, as **Figure 3** shows, IT accounts for around £2.3 billion of central civil government procurement expenditure, (16 per cent), second only to accommodation costs.
- 1.3 Successful IT procurement is much more than simply purchasing systems and services; it is a much wider management issue involving the application of a range of skills and it is the quality and the competence of that management that ultimately determines whether a project or programme succeeds or fails (**Figure 4**).

## The Lessons of IT Procurement in the Public Sector

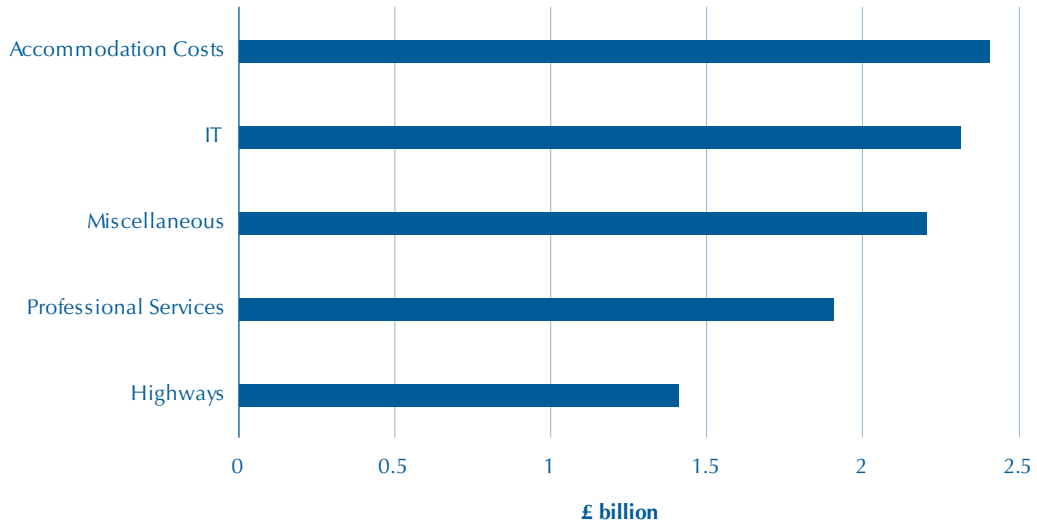
- 1.4 The history of failure of the public sector to procure effectively complex IT systems has been documented in previous National Audit Office reports. In reviewing these failures, the Public Accounts Committee, in its January 2000 report *Improving the Delivery of Government IT Projects* identified a number of key lessons for the better management of information technology projects in the public sector. An analysis of other subsequent National Audit Office reports on IT projects show that these lessons remain comprehensive and valid. The Office of Government Commerce and the National Audit Office expanded upon this work in formulating a list of causes of failure for major IT-enabled procurement projects (**Figure 5**). Similar conclusions were reached by the Organisation for Economic Co-operation and Development (OECD) in their examination of large public IT-enabled projects in 11 countries.<sup>12</sup>
- 1.5 This included the United States where repeated project failures in government agencies prompted the Clinger-Cohen Act of 1996, also known as the Information Technology Management Reform Act. This legislation requires the heads of Federal Agencies to link IT investments to agency goals and to report in real time to Congress on the progress or otherwise of programmes and projects.

<sup>12</sup> The case studies cover Canada, Denmark, Finland, France, Ireland, Norway, New Zealand, Poland, Sweden, the United Kingdom and the United States.

### 3 Central civil government procurement of goods and services, 2002-03

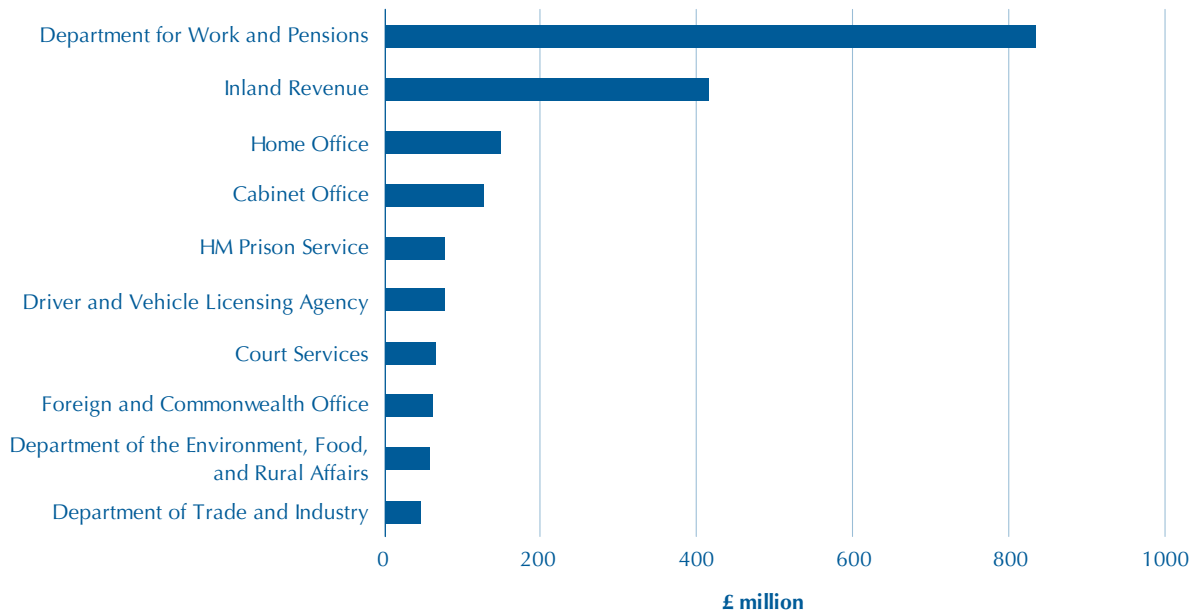
#### Procurement Spend by Category, 2002-03

IT accounts for around £2.3 billion of central civil government procurement expenditure, second only to accommodation costs.



#### IT Expenditure by Department and Agency 2002-03

Expenditure on IT by the Inland Revenue and Department for Work and Pensions accounts for 56 per cent of departments' IT procurement spend.



Source: Office of Government Commerce. (Figures exclude the Ministry of Defence)

#### 4 The Scope of the Procurement Process

**Procurement is** 'the whole process of acquisition from third parties (including logistical aspects) and covers goods, services, and construction projects. This process spans the whole life cycle from initial concept and definition of business needs through to the end of the useful life of an asset or the end of a service contract'.

Source: Gershon (1999)

#### 5 Key lessons for improving the delivery of government IT-enabled projects

Committee of Public Accounts (2000)	Organisation for Economic Co-operation and Development (2001)	Common causes of failure in IT-enabled projects (2003)
<ul style="list-style-type: none"> <li>■ Departments should ensure that they analyse and understand fully the implications of the introduction of new IT systems for their businesses and customers;</li> <li>■ Departments must consider carefully the scale and complexity of projects to assess whether they are achievable;</li> <li>■ Delays in implementing projects place them at risk of being overtaken by technological change;</li> <li>■ The project specification must take into account the business needs of the organisation and the requirements of users;</li> <li>■ Senior management has a crucial role to play in championing the successful development of IT systems;</li> <li>■ It is vital that departments pay attention to the management of risks and have contingency plans in case projects are not implemented as planned;</li> <li>■ Relations between the departments and the supplier will have a crucial effect on the success of the project;</li> <li>■ Contracts between departments and suppliers must be clearly set out; and,</li> <li>■ Sufficient time and resources should be spent on ensuring the staff know how to use the IT system.</li> </ul>	<ul style="list-style-type: none"> <li>■ Establish appropriate governance structures;</li> <li>■ Think small;</li> <li>■ Use known technologies;</li> <li>■ Identify and manage risk;</li> <li>■ Ensure compliance with best practices for project management;</li> <li>■ Hold business managers accountable;</li> <li>■ Recruit and retain talent;</li> <li>■ Prudently manage knowledge;</li> <li>■ Establish environments of trust with private vendors; and,</li> <li>■ Involve end users.</li> </ul>	<ul style="list-style-type: none"> <li>■ Lack of clear link between the project and the organisation's key strategic priorities including agreed measures of success;</li> <li>■ Lack of clear senior management and Ministerial ownership and leadership;</li> <li>■ Lack of effective engagement with stakeholders;</li> <li>■ Lack of skills and proven approach to project management and risk management;</li> <li>■ Lack of understanding of and contact with the supply industry at senior levels in the organisation;</li> <li>■ Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits);</li> <li>■ Too little attention to breaking development and implementation into manageable steps; and,</li> <li>■ Inadequate resources and skills to deliver the total delivery portfolio.</li> </ul>

Source: Committee of Public Accounts (2000); OECD (2001); National Audit Office (2003); 'Dear Accounting Officer' letter, February 2003, Appendix 2

- 1.6 It is not only the United Kingdom public sector which has difficulties procuring IT-enabled projects. **Figure 6** summarises the challenges encountered in the recent introduction of a Financial and Human Resources System in one of the Agencies of the United Nations.
- 1.7 If IT projects fail, it is because departments are either: not following the guidance that exists, because that guidance remains ambiguous, or because the cause of the failure is novel. This conclusion was reached by Peter Gershon, in his 1999 *Review of Civil Procurement in Central Government* ('the Gershon Review'), when he noted that: 'Many of the findings of this review have been identified in at least one of the three previous studies on procurement published since 1993. Despite these studies identifying many sensible recommendations and policies, I concluded that both properly resourced implementation plans and the necessary top level commitment have been lacking.'<sup>13</sup>

## 6 The Replacement of IT systems in a United Nations Organisation

In March 2001 the organisation embarked on a project to replace its obsolete financial and human resource systems.

In September 2003, however, a review established that the original scope of the project needed to be fully aligned with business needs and that the initial budget needed to be reviewed.

Early in 2004 senior management commissioned an independent assessment of the project which resulted in the revision of its management structure to establish clearer lines of responsibility and authority for the successful delivery of the project's objectives.

The external auditor's report on the body's accounts identified the following measures necessary to secure the successful implementation of the project. Beyond their immediate application, such measures are relevant to many other IT-enabled programmes and projects:

- The establishment of comprehensive knowledge transfer protocols;
- A review of financing and support costs;
- An expansion of the post-roll out IT strategy;
- Adequate testing, including a period of parallel running;
- The identification of a data conversion and cleansing strategy;
- A cost benefit evaluation of the implementation of regional and other field offices;
- A review of the impact on work practices;
- An identification of training requirements and a programme to achieve them; and,
- The establishment of an IT Security Policy.

Source: National Audit Office

## The Role of the Office of Government Commerce

- 1.8 As a result of the Gershon Review, the Government established the Office of Government Commerce (OGC) in April 2000, giving it responsibility for formulating an integrated procurement policy and strategy. The OGC is an independent office of the Treasury, with a Chief Executive appointed at Permanent Secretary level. The OGC has no authority to direct departments to secure better value for money from procurement - departments are responsible for how they manage their own procurement spend. Instead, the OGC has to encourage them through its activities to achieve best value for money throughout the procurement lifecycle.
- 1.9 Since its creation the OGC has developed a number of initiatives to help departments procure IT-enabled programmes and projects. These have included Gateway Reviews, the Successful Delivery Toolkit and more recently the provision of a Successful Delivery Skills Programme and the creation of Centres of Excellence within each department.
- 1.10 The most important of these developments was the introduction in February 2001 of Gateway Reviews exposing for the first time all major central civil government projects to external scrutiny. The process was significantly tightened in June 2002 with the introduction of a colour-coded - Red, Amber, Green - system to give a clear and common measure of the overall status of projects as set out in **Figure 7**.

## 7 Red-Amber-Green assessment criteria for overall status of Gateway projects



### Red

To achieve success the project team should take action immediately.



### Amber

The project should go forward with actions on recommendations to be carried out before the next OGC Gateway Review of the project.



### Green

The project is on target to succeed but may benefit from the uptake of recommendations.

Source: Office of Government Commerce

1.11 In December 2002, as a move to strengthen the delivery of government IT-enabled projects, the Cabinet agreed six key actions (Figure 8), including the establishment of programme and project management Centres of Excellence.

### Mission-Critical Programmes and Projects

1.12 Following the introduction of these Cabinet IT actions a further tightening of scrutiny took place with the introduction of a requirement for the Chief Executive of the OGC to provide to the Prime Minister every four months a report on the status of "mission critical" programmes and projects in central civil Government. The report is not limited to IT-enabled projects and includes, for example, major construction programmes. A programme or project is included in the report as "mission critical" if it meets at least one of the following criteria:

Essential to the successful delivery of:

- i a major legislative requirement; or
- ii a Public Service Agreement target; or
- iii a major policy initiative announced and owned by the Prime Minister or a Cabinet Minister;

or

If the project does not work successfully there are catastrophic implications for delivery of a key public service, national security or the internal operation of a public sector operation.

1.13 Mission-critical reports use a similar system of Red-Amber-Green status to the Gateway Review assessments<sup>15</sup> (Figure 9), offering the opportunity to monitor major IT-enabled project management across central civil government. For example;

- In the July 2003 report, 113 mission-critical projects were reported; 10 were rated Red, 55 Amber and 41 Green (for a number of reasons it is not always appropriate to assign RAG status to all mission-critical projects and programmes).
- In October 2003, 100 mission-critical projects and programmes were reported; 13 projects were rated Red, 45 Amber and 37 Green.
- In February 2004, 112 mission-critical projects and programmes were reported, 10 projects were rated Red, 56 Amber and 40 Green.
- In July 2004, 122 mission-critical projects and programmes were reported, 11 projects were rated Red, 60 Amber, and 43 Green.

### 8 Actions departments should take to improve the delivery of IT-enabled projects and programmes

- Establish Project/Programme Management (PPM) centres of excellence in each department with a remit including its agencies and Non Departmental Public Bodies;
- Accounting Officers to provide assurance on existing (pre 'go-live') and new major projects that they do not contain the common causes of failure identified by the NAO and the OGC;<sup>14</sup>
- Mandate no big-bang implementations and developments (modular, incremental developments and implementations) unless approved by central scrutiny group (for example, the Chief Secretary to the Treasury, Minister for e-Transformation, Office of the e-Envoy, Office of Government Commerce);
- No government initiative (including legislation) dependent on new IT to be announced before analysis of risks and implementation options has been undertaken;
- Force prioritisation of all existing and new projects as Mission Critical, Highly Desirable and Desirable;
- All high risk and mission-critical projects to have clearly identified (i) responsible Minister (ii) Senior Responsible Owner and Project Manager with good relevant track records.

Source: Office of Government Commerce

### 9 Red-Amber-Green assessment criteria for overall status of Mission-Critical projects

R	<ul style="list-style-type: none"> <li>1 Very significant issues impacting successful delivery, <b>or</b></li> <li>2 No resourced delivery plan, <b>or</b></li> <li>3 Very significant variances from plan, <b>or</b></li> <li>4 Service will be delivered after Public Service Agreement target date</li> </ul>
A	<ul style="list-style-type: none"> <li>1 Key issues - e.g. funding/business case, Ministerial and official-level leadership, and deliverability of major milestones - impacting successful delivery, <b>or</b></li> <li>2 Major variances from plan</li> </ul>
G	<p>On track to deliver with only minor issues, against resourced detailed delivery plan. Where Public Service Agreement target dates have been set, they will be met</p>

Source: Office of Government Commerce

14 As listed in Figure 1 in the Executive Summary.

15 Mission-critical Red-Amber-Green statuses differ from Gateway review Red-Amber-Green assessments in focusing on severity, rather than urgency, of required remedial action.

1.14 Although over this period the distribution of Red Amber Green status did not significantly change there is evidence that individual projects did improve; for example 50 per cent of projects classified as Red in February 2004 had improved to Amber in July 2004. Similarly 14 per cent of projects moved from Amber to Green between those two dates. Although these data only cover changes between two reporting points this suggests that the Gateway process is having some effect in bringing projects back on track, but that other projects are still going awry as evidenced by the unchanging distribution of projects across the three classifications.

## The Private Sector's views on why IT Procurements can fail

1.15 The failure of IT procurement is not limited to the public sector. For example, the 2003 Parliamentary Office of Science and Technology (POST) report, *Government IT Projects*, cites two studies on IT delivery in the private sector. The Standish Group in the United States has been classifying IT projects into three types - successful, challenged and failed - since 1994. The Group's latest report, published in 2003, considered 13,522 IT projects. Only a third of projects were successful. Cost overruns were reported in 43 per cent of projects and time overruns in 82 per cent. Similarly, a Computer Weekly/Oxford University survey published in 2003, also cited by the POST report, revealed that one in ten of private sector IT projects were abandoned and only 15 per cent succeeded.

1.16 There is evidence, however, summarised in **Figure 10**, that public sector and private sector customers have different practices and requirements in the procurement of IT-enabled projects. For example, when compared to the private sector, open tendering in the public sector requires a large outlay of capital and business risk.

1.17 Despite these apparent differences, analysis undertaken by EDS has identified very similar factors to those key lessons from government IT procurements, identified in Figure 5, which define for them the ingredients for successful programme management (**Figure 11**).

1.18 While the causes of IT failure are common to the public and private sectors, both in the United Kingdom and abroad, there is no shortage of good practice guidance to help identify and manage the risks to IT-enabled projects. The difficulty has been in translating those lessons and good practice into successful projects and programmes.

### 10 Main differences between public sector versus private sector IT project procurement processes

- **Government procurement processes, in particular during the tendering phase, require large upfront capital and human investments from potential contractors;** even in successful bids these are difficult to recoup and prevent smaller players from bidding. Even in highly regulated commercial sectors, industry has been able to make the overall tendering process a financially manageable business risk.
- **Government departments have less freedom to innovate and exploit innovative technological solutions;** the private sector is more flexible in looking beyond current contracts and exploring new technological solutions to address specific business needs.
- **The procurement of a mission-critical IT project by government departments is often a 'one off'.** As a consequence, project managers and teams have less experience than supplier staff who are regularly involved in a series of complex procurement projects.

Source: RAND Europe

### 11 Critical Success Factors of successful programme management

- Create clear consistent objectives;
- Establish joint, senior-level leadership;
- Ensure an environment where stakeholders feel comfortable challenging and helping each other;
- Establish clear roles and responsibilities;
- Manage programme end to end;
- Align commercial and business objectives and strategies;
- Balance requirements, cost and time;
- Control changes ruthlessly, exposing impacts on cost and time;
- Build flexible relationships and contracts to enable change management behaviours;
- Jointly manage risks between customers and suppliers; and,
- **Never** compress or eliminate thorough testing.

Source: EDS Corporation

1.19 The aim of this study is therefore to assess how successful the OGC has been in its mission of developing best practice for the public sector since its creation in April 2000. Specifically to:

- Assess whether the actions and guidance of the OGC are sufficient to increase the likelihood of successful procurement for major IT-enabled projects;
- Assess how government departments implement the actions and guidance of the OGC, and what barriers and facilitators to successful implementation remain.

1.20 **Part 2** of this report contains a broad analysis of the impact of the initiatives that the OGC has taken to assist the public and private sectors in achieving success and value for money in IT-enabled procurement. This is followed, in **Part 3**, by a more focused analysis of the local impact of the initiatives on five major projects within central government (**Figure 12**). There is also a more general commentary that arises from the case studies on how the key relationships between customers and suppliers can be made more effective, and what the OGC's role in this might be. Our methodology is set out in more detail in Appendix 3.

## 12 Five Major Projects covered in this study

### Department for Work and Pensions



The Payment Modernisation Programme (£465 million).

The Jobcentre Plus Implementation Programme (£2.2 billion).

### Home Office



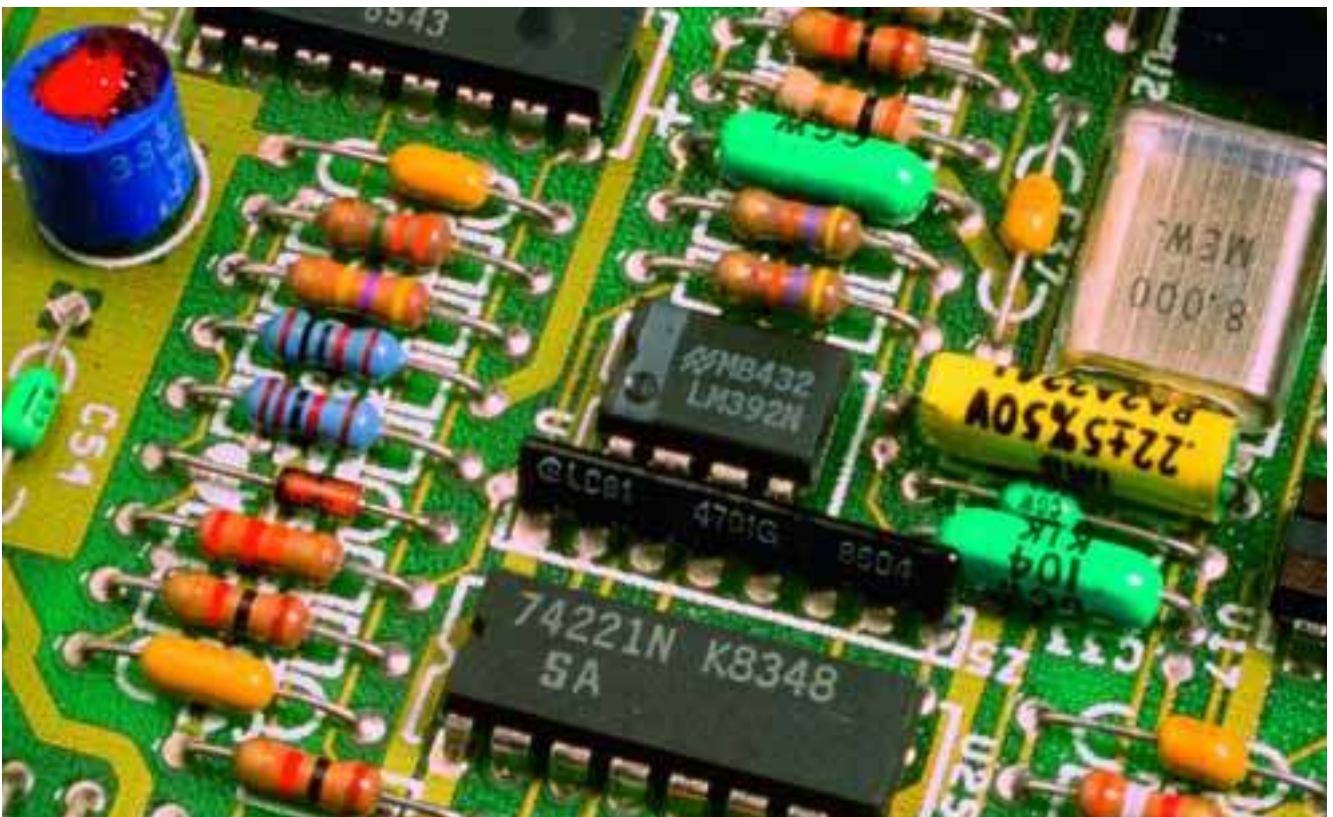
The Case Information Database Enhancement Programme (£36 million).

The Offender Assessment System (£11.7 million).

### Driver and Vehicle Licensing Agency



The Partners Achieving Change Together (PACT) Project (£550 million)

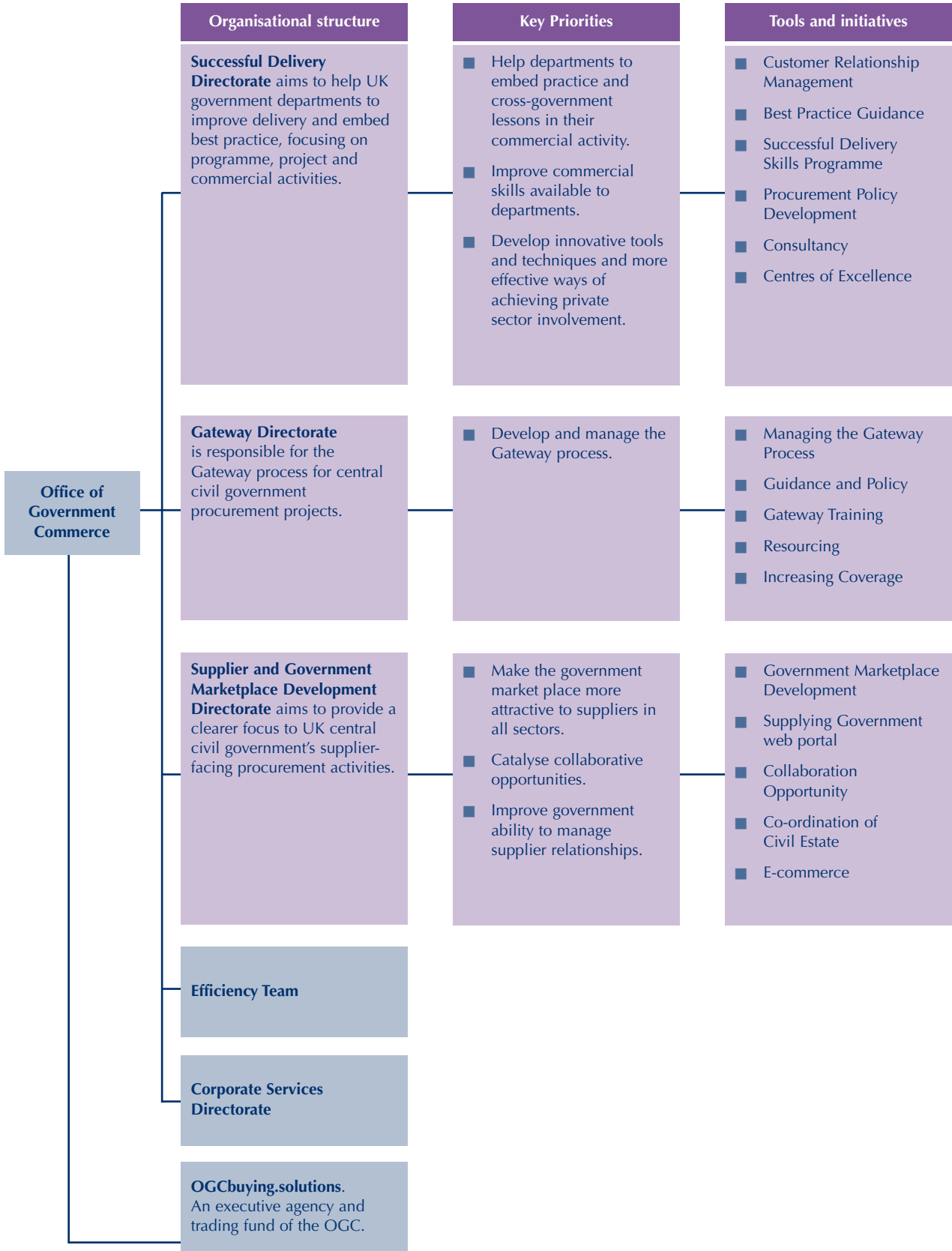


# Part 2

## Initiatives taken by the Office of Government Commerce to Improve IT Programme & Project Performance

- 2.1 This part assesses the overall fitness for purpose of OGC's four key initiatives - **Gateway Reviews; Centres of Excellence; the Successful Delivery Toolkit; and the Successful Delivery Skills Programme and Programme and Project Management Specialism** to promote improvements in the procurement of IT-enabled programmes and projects. Part 3 assesses the impact of OGC's initiatives in more detail on five major IT-enabled projects.
- 2.2 Responsibility for these four initiatives is concentrated in OGC's Successful Delivery and Gateway Directorates (**Figure 13 overleaf**). The work of the Directorate for Supplier and Government Marketplace Development is also relevant both in respect of the provision of market place intelligence on key suppliers; and where departments share a common supplier the enabling of discussions on their similar or different experiences. This Directorate is also collaborating directly with the private sector in a number of important joint initiatives.
- ### 1 Gateway™ Reviews
- 2.3 One of the key findings of the Gershon Report was that there was 'no well defined, common "cradle to grave" process for managing procurements'. This resulted in a recommendation that an independent project review process should be implemented. The subsequent development of the Gateway Review process is shown at **Figure 14 overleaf**.
- 2.4 The Gateway process examines a project at each critical stage of its lifecycle shown in **Figure 15**. There are five OGC Gateway Reviews during the lifecycle of a project, three before contract award and two looking at service implementation and confirmation of the operational benefits. In addition there is a Gate 0 assessment carried out at the very start of a programme designed to assess the feasibility and viability of the initiative when set against other corporate priorities and objectives.
- 2.5 The Gateway process is intended to provide assurance that the project can progress successfully to the next stage, and many projects undergo multiple reviews as seen at **Figure 16**. Gateway reviews are applied to programmes and projects involving services and construction/property; IT-enabled business change projects; and procurements utilising framework contracts. Between February 2001, when the process was introduced, and 31 March 2004, there have been 626 reviews. Of these 440 (70 per cent) were reviews on 254 projects and programmes designated as IT-enabled (**Figure 17**).
- 2.6 The form that the Gateway process takes depends on whether the project is designated as **Low, Medium, or High** risk against OGC's Risk Potential Assessment guidance. The standard procedure is for Gateway Reviews for High or Medium risk projects to be conducted by a team of trained Gateway Reviewers, supplied by the OGC and independent of the project team. The results of reviews take the form of a confidential report to the project's Senior Responsible Owner - the individual responsible for the overall success of the project or programme. Training for all Gateway Reviewers is provided for OGC by a private contractor - Skillbase - and OGC have around 700 active reviewers on their database. The OGC, following feedback, have recently introduced a further half-day course for Senior Civil Servants. At the end of May 2004 there were 110 such Civil Servants accredited as Gateway Reviewers, of whom 84 had participated in at least one Gateway Review. From October 2001 to March 2004 2,043 participants attended the one-day 'Preparing for Gateway Review' Workshop (although two of these workshops were pilots).

13 How the OGC is organised to deliver its objectives



## 14 The evolution of the Gateway Review Process

<b>February 2001</b>	<b>OGC Gateway Reviews</b> established to ensure all major central civil government projects are subject to rigorous tests and pass through a series of gates at critical points in the project lifecycle. Mandatory for central civil government.
<b>December 2001</b>	<b>Gate 0 introduced for projects and programmes</b> following a review of information collated from the Government's first 100 Gateway Reviews across civil central government and the demonstration of considerable added value on a number of pilot reviews. Gate 0 is an early gate expected at the start up of a programme and recommended for a major project that is high risk, and is designed to confirm that a programme or project has been established with appropriate management structures, resources and stakeholder support. The Gateway Review refresh of January 2004 subsequently designated Gate 0 as a repeatable review for programmes only.
<b>June 2002</b>	New <b>Red, Amber, Green system</b> introduced by OGC to assess projects at critical stages to provide assurance that they are ready to move on to the next stage in their lifecycle: red: urgent action is required to achieve success in the project; amber: the project should proceed, with actions on recommendations to be carried out before the next OGC review; and green: the project is on target to succeed but may benefit from taking up OGC recommendations.
<b>February 2003</b>	<b>Dear Accounting Officer</b> letter (DAO (Gen) 01/03) issued by HM Treasury setting out actions agreed by the Cabinet to strengthen the monitoring and delivery of IT-enabled projects and programmes. The DAO letter advised that, following a Gate 1 Gateway Review, Accounting Officers should satisfy themselves that the project does not suffer from any of the common causes as identified by the OGC and NAO, and place a note on file to this effect. Gateway Review teams will then check for the existence of this assurance at subsequent Gates.
<b>March 2003</b>	<b>250 projects</b> with a combined cost of £36 billion reviewed through OGC Gateway Reviews.
<b>April 2003</b>	<b>Public Service Agreement</b> introduced for the delivery of £3 billion of value for money gains in civil procurement through OGC by 2005-06. OGC estimates that gains achieved on Gateway Reviewed projects will account for around half of this target by avoiding potential whole life costs through the application of Gateway Review recommendations.
<b>June 2003</b>	Departments required to have <b>Centres of Excellence</b> in place which will monitor all projects. Centres of Excellence are encouraged to get access to Gateway reports as part of their monitoring of all departmental projects, in order to understand better the issues in their departments and prepare action plans to deal with gaps in current capability.
<b>October 2003</b>	Departments requesting Gateway Reviews on Programmes and Projects for the first time at Gate 3 or later are now to be directed to OGC's Consultancy Division for a <b>'health check'</b> which will consider strategic issues beyond those of the immediate review.
<b>January 2004</b>	<b>Gateway 'Refresh' Project</b> launched by OGC in response to stakeholder and customer consultation. This revised the Gateway Review process in several areas including: an updated Risk Potential Assessment for Senior Responsible Owners to measure the risk associated with programmes and projects; the designation of Gate 0 as a repeatable review Gate for programmes only; and, a review of Gateway guidance workbooks to incorporate current best practice.
<b>March 2004</b>	<b>NAO Report <i>Improving Procurement</i></b> published. Report finds that the process is popular with departments. Three-quarters of the 86 departments, agencies and non-departmental public bodies surveyed for the report had used the Gateway Review process and all found it to be 'Useful' or 'Very Useful'.

Source: Office of Government Commerce/National Audit Office

## 15 The Gateway Stages and the Product Lifecycle

Gateway Stage	Purpose	Description
<b>Gateway Review 0</b> Strategic assessment	<b>Establish business need for programme</b>	Asks how the proposed programme meets the business need that lies behind it. Assesses the capability of those who are responsible for the programme and the support of users and stakeholders.
<b>Gateway Review 1</b> Business justification	<b>Develop business case</b>	Asks whether the end project is feasible, affordable, and likely to achieve value for money. Also whether the high-level plans for establishing it are clear and realistic.
<b>Gateway Review 2</b> Procurement strategy	<b>Develop procurement strategy</b>	Asks whether the tendering strategy sufficiently reflects business requirements, awareness of the market, good practice in procurement, and changes to business need. Asks whether funding is available for the whole project, and with adequate financial controls in place.
<b>Gateway Review 3</b> Investment decision	<b>Competitive procurement</b>	Asks whether the tendering process has met its objectives and followed good practice, and whether the prospective contractor is likely to deliver on time, within budget and achieve value for money. Assesses readiness of the business to implement the contract.
<b>Gateway Review 4</b> Readiness for service	<b>Award and implement contract</b>	Assesses whether project plans are up to date, and adapted to working successfully with the contractor. Asks whether implementation of the project is going to plan, with any lessons for the future being recorded.
<b>Gateway Review 5</b> Benefits evaluation (repeated as required)	<b>Closure</b>	Assesses whether expected benefits are being delivered, and what is being done to pursue continued improvements. Asks what contingency plans there are for future changes.

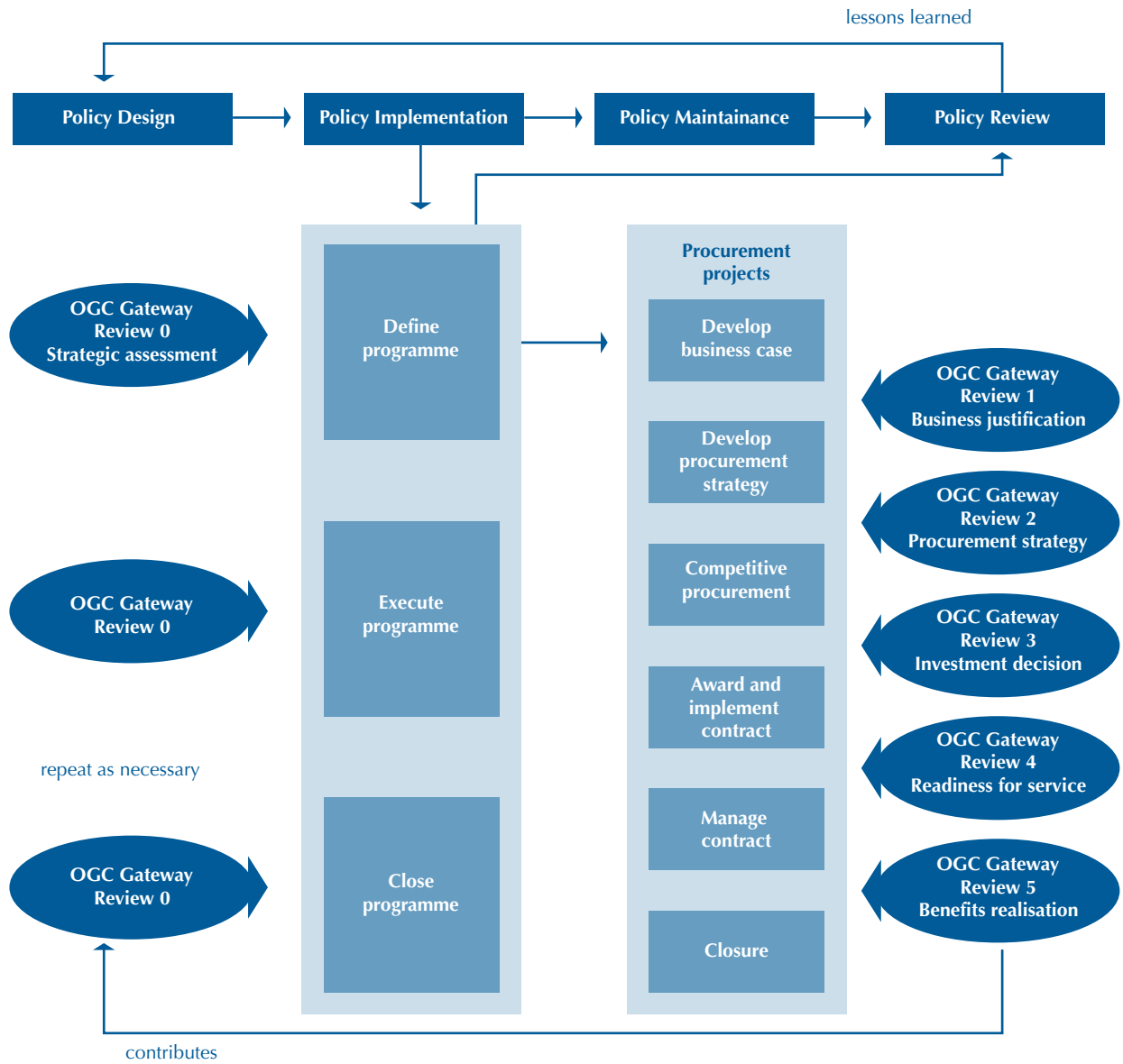
### Gateway Reviews are now widely used by departments

2.7 As of 31 March 2004 Gateway Reviews had been carried out in 28 central government organisations. Those departments which have undertaken five or more Gateway Reviews are shown at **Figure 18**. These include the Department for Work and Pensions and the Home Office which are the subject of the case studies examined in Part 3 of this study. The five most frequent users of the Gateway Review process account for 48 per cent of total reviews and 48 per cent of total projects reviewed. However, the frequency of Gateway reviews does not necessarily reflect levels of take-up of the Gateway initiative because the number of projects will also vary between departments.

### Gateway Reviews are highlighting risks sufficiently early for them to be managed

2.8 As illustrated in **Figure 19**, of the 254 IT-enabled projects given a Gateway Review rating between June 2002 and March 2004, 50 per cent of them were rated as Amber (representing a state of affairs whereby key issues need to be addressed before the next review), 28 per cent Red (indicating that the project should take action on key issues immediately) and 22 per cent Green (on track with only minor issues outstanding). While a red marking means that remedial action must be taken immediately it does not mean that the project must necessarily be stopped. Gate 0 reviews were introduced in December 2001 to inject greater rigour into projects and programmes at the very earliest stage of testing, in particular, whether they have in place adequate management structures, resources and stakeholder support. For this reason a red review at this early stage should be positively interpreted as it shows that the review process is working effectively and that risks are being picked up at the earliest opportunity.

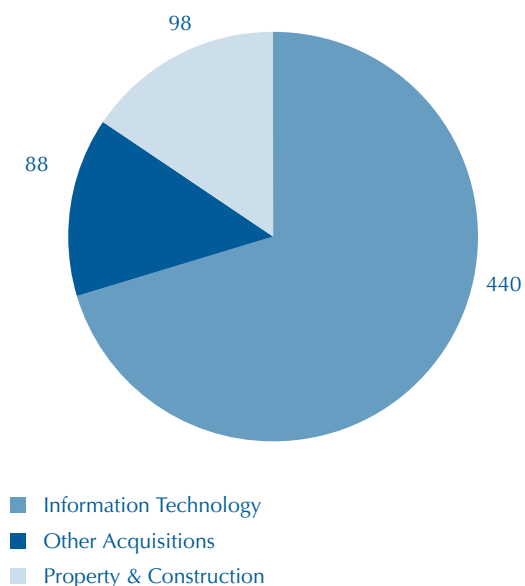
16 The Gateway™ process



Source: Office of Government Commerce

## 17 Gateway Reviews on IT-related projects

At 31 March 2004 there had been 626 Gateway Reviews of which 70 per cent were of IT enabled projects.



Source: Office of Government Commerce

2.9 On the other hand, while an early red review may be acceptable, successive red reviews are not and since April 2003 trigger a letter from the Chief Executive of the OGC to the Permanent Secretary of the department responsible. The letter, in particular, highlights the importance of identifying and addressing risks to successful delivery at the earliest possible stage. Eight IT-enabled projects have received reds in successive Gateway Reviews. In this way the Gateway Review process provides a strong mechanism by which departments at the most senior levels can be alerted to significant risk requiring immediate action. This is very much in the spirit of the Prime Minister's letter of March 2004 to Permanent Secretaries, which stresses the need to improve risk handling generally across Whitehall.

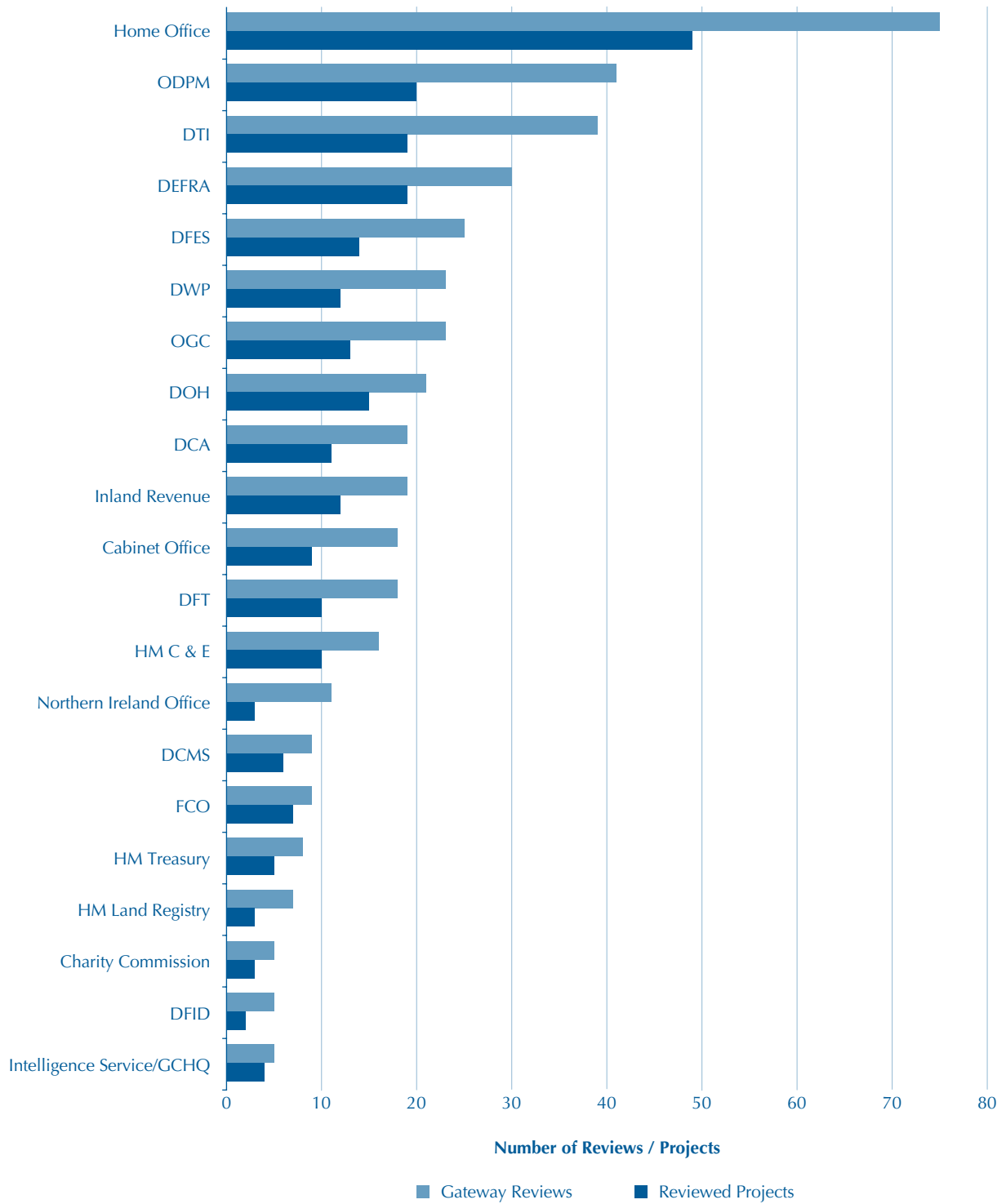
2.10 As illustrated by the introduction of Gate 0 reviews, it is important that Gateway scrutiny starts early in the IT procurement lifecycle because there are often significant risks which if not tackled early, increase and worsen with time. **Figure 20** shows that half of all reviews to 31 March 2004 have been carried out at Gates 2 (Procurement Strategy), and 3, (Investment Decision). Of these, a high proportion were first time reviews of projects: 63 per cent of those at Gate 2 and 41 per cent of those at Gate 3. This is because many of these projects had started before the introduction of Gateway Reviews. If a project arrives at Gate 3 (Investment Decision), without having passed through the earlier Gates, it is immediately referred to the OGC's consultancy team who undertake a 'health check' of wider strategic aspects of the project.

2.11 At the other end of the Gateway process, of the 62 reviews completed at Gate 4 (Readiness for Service), only eight (13 per cent) went on to complete Gate 5 (Benefits Realisation). If low numbers of projects complete the final gate and the extent to which they deliver their intended benefits is not evaluated, departments will have limited information on the success of projects and whether they were delivered as planned. For this reason OGC and departmental Centres of Excellence are pressing for more Gate 5 reviews.

2.12 Between the introduction of the Red-Amber-Green status in June 2002 and 31 March 2004, 67 IT-enabled projects have been reviewed at two or more Gates. Of these 43 per cent improved their Red-Amber-Green status, 19 per cent experienced a decline, and 38 per cent stayed the same.

2.13 The OGC collects feedback from project teams, detailing satisfaction ratings for Gateways. Senior Responsible Owners are asked to rate the Gateway process from 0 to 4 against 19 different questions, for a maximum possible score of 76. Response rates for this questionnaire are currently improving, and up to 45 per cent of those polled have responded. Since the initiation of Gateway Reviews, Senior Responsible Owners have regularly responded with scores of over 60, or 80 per cent of the total possible. This was confirmed in our discussions with case study bodies; teams welcoming Gateway Reviews as a rigorous 'health check', providing reassurance when things are going to plan and a wake-up call when they are not.

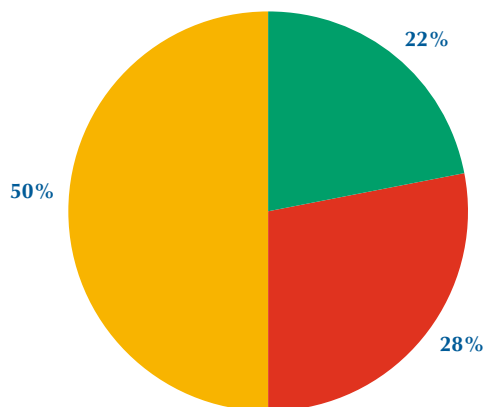
**18** Twenty one Departments have undertaken five or more Gateway Reviews



Source: Office of Government Commerce

**19 Gateway Reviews of IT enabled projects by Red-Amber-Green status June 2002 - March 2004**

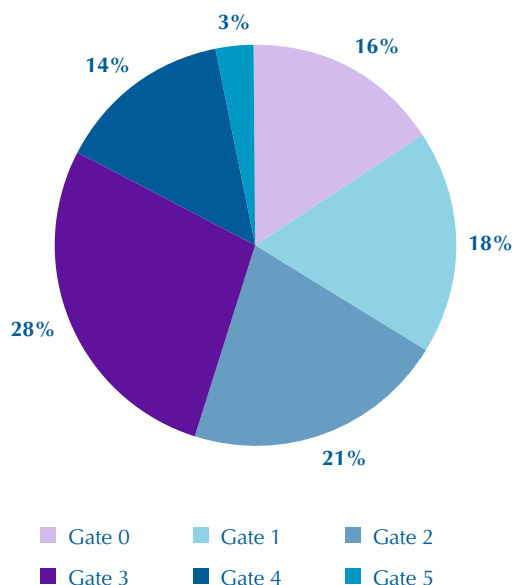
Between June 2002 and March 2004 50 per cent of projects were designated as amber; 28 per cent as red and 22 per cent as green.



Source: Office of Government Commerce

**20 Gateway reviews carried out at each Gate**

Nearly half of Gateway Reviews to 31 March 2002 were of procurement strategies (Gate 2) and the underlying investment decision (Gate 3).



Source: Office of Government Commerce

2.14 While it is reassuring that those who respond provide positive feedback, the OGC needs to ensure a higher return to have confidence in these statistics. The OGC has taken steps to increase response rates to this survey and maintain the resultant information in a way that allows detailed analysis to establish whether the results are representative.

**Gateway Reviews continue to highlight the same issues needing to be addressed**

2.15 Analysis of the common issues raised in Gateway Reviews has remained the same since their introduction. In the National Audit Office report, *Better Public Services through e-Government*, analysis of the first 100 Gateway Reviews up to June 2001 identified a number of areas requiring improvement, as illustrated in **Figure 21**. Although categorisation of issues has since changed, **Figure 22** illustrates a similar analysis for Gateway Reviews conducted between July 2003 and February 2004. By comparing Figures 21 and 22, it is clear that most intractable issues are around: skills and

**21 Improvements required by Gateway Reviews of IT-enabled projects up to 30 June 2001**

**More appropriate skills.** This weakness occurred in 76 per cent of Reviews, highlighting a shortage of IT and contract management skills together with insufficient involvement by senior managers.

**Success criteria.** 54 per cent of reviews found that projects lacked quantified criteria for assessing the success of projects in terms of the improvements to be delivered in departments' operational efficiency and quality of services for citizens.

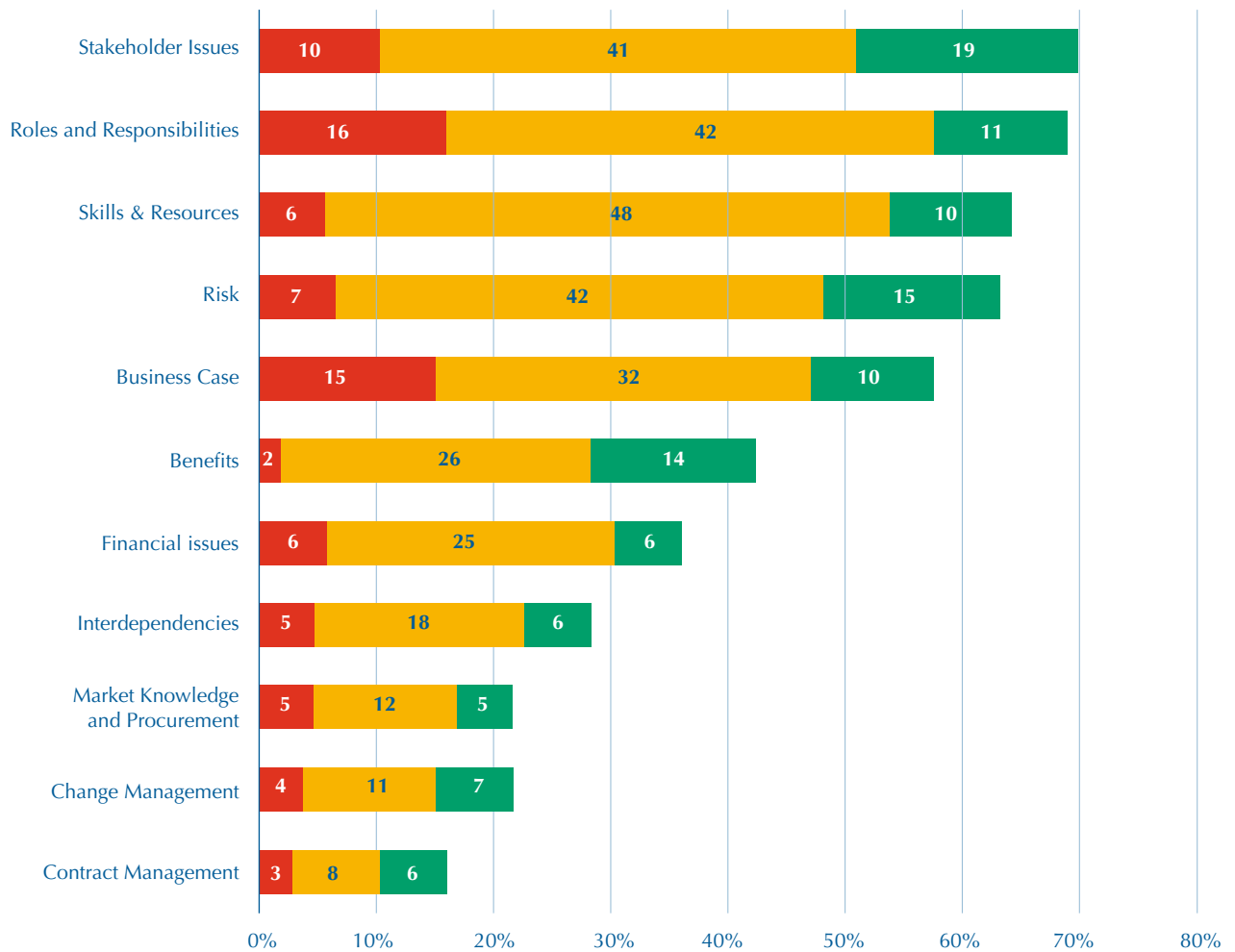
**Better risk management.** 54 per cent of reviews identified the need for better risk management including contingency arrangements in the event that the project failed or was delayed; and the need for risk management to be a continuous process through the life of the projects. There was also a concern that the emphasis was more on technical and not management risk.

**Stakeholder involvement.** Need for better involvement of key stakeholders was highlighted in 43 per cent of reviews - particularly, consulting the users of IT services to ensure that projects met their needs cost-effectively.

**Stronger project management.** 43 per cent of reviews highlighted the need to strengthen project controls; to have project boards meet regularly; and to sign off key elements of the project before proceeding to the next stage.

Source: NAO (2002) *Better Public Services through e-Government report*

## 22 Top issues raised in Gateway Review Reports July 2003 - February 2004



Source: NAO analysis of Gateway reviews

experience in managing IT-enabled projects; the need for improved communication with stakeholders; and better risk management. This evidence could suggest that the OGC has not been successful in achieving the widespread dissemination of best practice in these areas. Alternatively, however, it could demonstrate the challenge of applying this best practice to large and complex projects.

2.16 Gateway Reviews are conducted on a confidential basis for the Senior Responsible Owner and ownership of the report rests there. This approach promotes an open and honest exchange between the project and review teams, around a candid assessment of the state of the project. The reports are written quickly, usually within three or four days, so lessons learned can be quickly put into effect.

2.17 Already, however, Centres of Excellence are receiving copies of Gateway reports and evidence from case studies shows that Accounting Officers too are recognising the value of seeing these documents. Beyond this there was a view at our senior stakeholder workshop that reports, or at least key parts, should be circulated to the relevant suppliers in the spirit of positive partnership working and a joint approach to tackling problems.

### Our assessment

2.18 *There is good evidence, particularly through the application of the Red, Amber, Green warning system, that gateway reviews have introduced more rigorous scrutiny into IT-enabled programmes and projects early enough for remedial action to be taken before immediate or potential risks escalate out of control. Continued rigorous scrutiny, however, depends on;*

- **The need for reviews to continue to highlight consistent weaknesses** such as the need for better risk and project management and stakeholder involvement in how projects are conceived and managed. Unless there is growing evidence that these weaknesses are being addressed, their recurrence will reduce confidence in the ability of OGC and departments to bring about a step change in the performance of IT projects.
- **Sharing the lessons of Gateway Reviews and sufficiently senior consideration of their findings.** On the one hand it is paramount that those subject to a review are sufficiently open and frank about the risks they face and their concerns about how risks are being managed. Such openness depends on project managers having the confidence that they will not be subject to unjustified censure for highlighting weaknesses - which might suggest limiting the circulation of reviews. It is, however, only by sharing Gateway findings - both positive and negative - that lessons learned can be maximised and past mistakes avoided. Gateway Review reports are provided to the Senior Responsible Owner for the project and to the department's Centre of Excellence and our case studies indicate that Accounting Officers are keen to see reports. But, more generally, practice varies in the extent to which

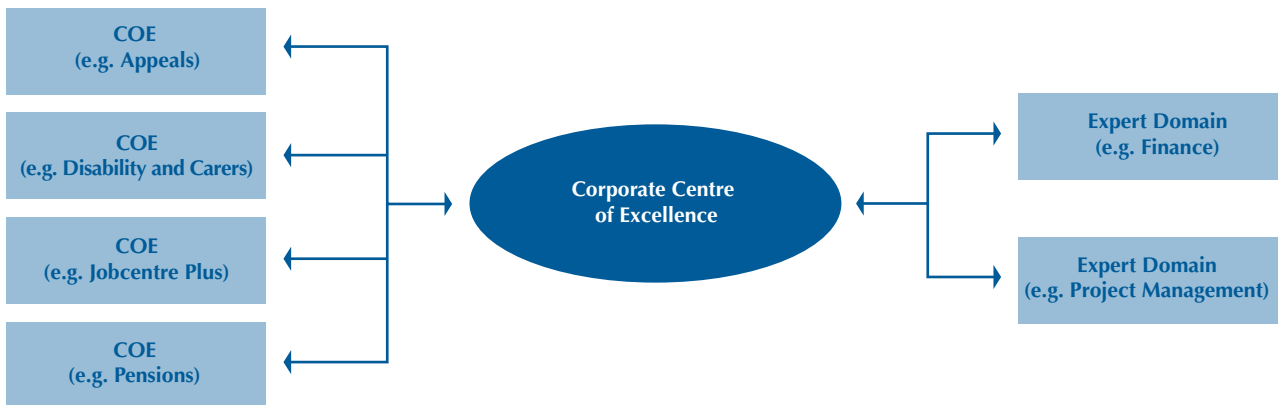
they are routinely considered by departmental boards and Chief Executives. As the Gateway process is now much more firmly embedded within departments the results of reviews should be routinely considered by management boards and the action taken in response made more transparent. Similarly, suppliers have made the point that they do not routinely see Gateway reports and consider that wider circulation of at least key parts of such documents would help to maintain a joint approach to tackling emerging problems and issues.

## 2 Centres of Excellence

2.19 The *Improving Programme and Project Delivery* initiative was started in September 2001 as a means to address concerns that increased investment in the public sector was not being matched by improvements in the capacity of the Civil Service to deliver programmes and projects. The initiative recommended setting up Centres of Excellence (COE's) as a means of establishing the 'right structures and culture' for successful programme and project delivery within departments. The structure of the Centres of Excellence in the Department for Work and Pensions is shown at **Figure 23**. The Cabinet set a target for all departments to have established Centres of Excellence in June 2003.

### 23 How Centres of Excellence operate in the Department for Work and Pensions

*In the DWP nine Centres of Excellence centred on core business functions (for example Appeals, Disability, Jobcentre Plus) interact with 'Business Expert Domains' - specialist areas of competency such as Project Management, Finance, and Strategy and Planning - through the Corporate Centre of Excellence*



Source: NAO Examination

2.20 A Centre of Excellence<sup>16</sup> is a co-ordinating function providing strategic oversight, scrutiny and challenge across the department's portfolio of programmes and projects. A Centre of Excellence is a focal point for supporting the department's individual programmes and projects, and for driving the implementation of improvements to increase the department's capability and capacity in programme and project delivery. It does this by:

- **Adopting portfolio management** by providing a single comprehensive oversight of the department's portfolio of programmes and projects;
- **Embedding key practices** by developing, disseminating and promoting departmental programme and project management standards, methods, techniques and tools.
- **Improving capability and skills** by supporting the departmental Human Resources and professional development function by assessing and developing the current skill levels of all levels of staff involved in Programme and Project Management.

2.21 By June 2003, all 19 major government departments had established Centres of Excellence, either in the creation of a wholly new entity or designation of the role to an existing departmental body. By March 2004, this had increased to 35 departments which had also put in place improvement plans to help ensure that their Centres of Excellence became fully embedded within their organisation. These improvement plans are intended to develop capabilities in the four areas set out in **Figure 24**. Centres of Excellence were initially focussed on IT-enabled projects. However, in March 2004 the OGC set a target for Centres of Excellence to extend their responsibility beyond IT-enabled projects, to all mission critical and high-risk procurement, according to the timetable in **Figure 25**.

**Our assessment**

2.22 **Centres of Excellence will only work if they are taken seriously by departments.** OGC considers that progress in establishing Centres of Excellence and in turn having an impact in improving departmental capabilities is reasonable. But while a quarter are assessed as making good progress a further quarter are assessed as having mixed success (**Figure 26**). It is therefore too soon to judge whether Centres of Excellence will improve the procurement of IT-enabled projects. If they have sufficient seniority, skills and input to Board level management Centres of Excellence have the potential to

**24 Centres of Excellence - Improvement Plans in Key Areas**

- Implementing Best Practice in programme/project/ procurement management
- Improving individual, team and organisational skills and capability
- Ensuring the portfolio of programmes/projects is proactively managed
- Fully establishing the Centre of Excellence

*Source: Office of Government Commerce*

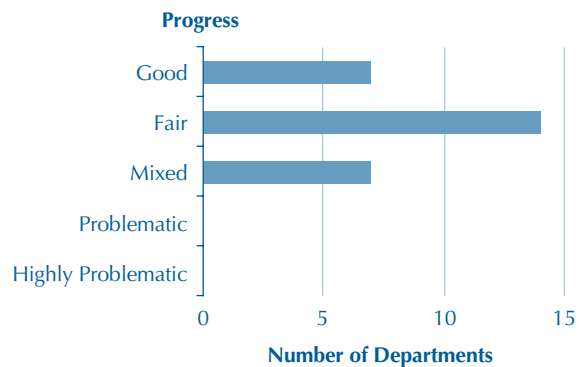
**25 Centres of Excellence - scope of increasing coverage**

By

- March 2004 to cover all Acquisition-based: Mission Critical and/or High Risk
- March 2005 to cover Acquisition-based: Mission Critical, Highly Desirable and/or High Risk projects
- March 2006 to cover Acquisition-based: All and Other (e.g. Policy Based): Mission Critical Highly Desirable and/or High Risk projects and programmes

*Source: Office of Government Commerce*

**26 Office of Government Commerce Review of the progress of Centres of Excellence**



*Source: Office of Government Commerce*

facilitate a step change in the management of IT-enabled projects. Our consideration of the case study organisations in Part 3 of this study provides a more detailed understanding of how Centres of Excellence are being created to meet the different circumstances of each organisation.

<sup>16</sup> The title 'Centre of Excellence' is used by the OGC and others to describe its functions, and is not a mandatory title, with alternatives including: Programme and Project Management Unit; Programme and Project Management Support Unit; Project Professionals Group etc.

### 3 Successful Delivery Toolkit

2.23 The OGC's Successful Delivery Toolkit sets out proven good practice for procurement, programmes, projects, risk and service management. The Toolkit brings together policy and best practice in a single point of reference and is available on the Web,<sup>17</sup> (Figure 27). Its aim is to help departments to ask the critical questions about capability and project delivery. The Toolkit is structured around four core areas - Key Issues, Workbooks, Delivery Lifecycle and Reference - that provide alternative ways of organising guidance and best practice.

2.24 The Toolkit is available in two forms. Between 1 July 2003 and 4 December 2003, 2,006 copies of the 'Standalone' and 258 copies of the 'Intranet' Successful Delivery Toolkit CD-ROMs were requested by departments and agencies. Although the OGC's web host can monitor what areas of the toolkit are accessed, it does not provide details of where visitors to their pages come from, and therefore usage of the web version of the Successful Delivery Toolkit cannot be evaluated. In responding to our October 2003 survey undertaken as part of our report Improving Procurement 45 per cent of respondents had used the Successful Delivery Toolkit (although this was high enough to rank its usage sixth amongst 10 different tools and guidance products assessed).

2.25 In the first quarter of 2004, OGC commissioned an independent review, headed by Jonathan Tamblyn from Intellect, of its practices for developing and embedding best practice including the use of the Successful Delivery Toolkit. The review included extensive consultation with departments, the private sector and academia, and confirmed views expressed in the NAO report about the usability of the Successful Delivery Toolkit and access to its information. In consequence OGC has a project in progress to tailor access to the Successful Delivery Toolkit to meet the needs of different user roles and experience.

#### Our assessment

2.26 **The Successful Delivery Toolkit needs further development and better accessibility if it is to be used more widely.** In interviews of project teams we found that those people who were aware of the Successful Delivery Toolkit were satisfied with its content. For experienced users knowing how to access the material is straightforward, but evidence from our interviews and the senior stakeholder workshop indicated that it can be difficult for new users to locate existing advice on the Successful Delivery Toolkit. This is because the

#### 27 How the Successful Delivery Toolkit works in practice



The Successful Delivery Toolkit provides a single access point for all of OGC's good practice guidance. Users can navigate the site using icons corresponding to key subjects (such as 'Gateway Reviews' or 'Project Management'), or alternatively can access four colour coded areas; Red for guidance on 'key issues' in ensuring delivery; Orange for workbooks available to users; Blue for guidance on the delivery lifecycle for programmes and projects; and Green for reference materials.

Source: NAO Examination

Toolkit was not originally intended for open access but to meet the requirement for Gateway Teams to have online reference to sources of OGC best practice. It was subsequently extended to provide general access, but needs further development to improve its usability for general enquirers. Some departments already had their own frameworks in existence which pre-date the OGC's Successful Delivery Toolkit. Others have chosen to develop their own, incorporating extracts from the Toolkit, because they felt the need to tailor the advice and guidance to their own specific needs.

### 4 Successful Delivery Skills Programme and the Programme and Project Management Specialism

2.27 The capacity and capability of the Civil Service to deliver major IT-enabled projects is one of the largest challenges facing central civil government. To tackle this OGC established in September 2002 the Successful Delivery Skills Programme covering skills in procurement, programme and project management. The idea of the programme is to recognise the existence of professional delivery skills and promote their importance and value to departments. The components of the Successful Delivery Skills Programme were:

- The **Skills Framework** describing in detail the skills levels in Programme Management, Project Management and Procurement, creating a shared vocabulary for delivery skills.

- The **Maturity Matrix** provided a simple logical structure setting out the required level for each skill area, set against a range of common project roles;
- A **Skills Analysis Tool** allowed departments to establish the current skill levels of their staff and identify where improvements could be made;
- The **SDS Passport Scheme** enabled participants to maintain a record of their achievements; and,
- A **Programme of Continuous Professional Development** to keep participants' skills up to date.

2.28 Faced with low levels of take up of the Programme by November 2003 the OGC, working in consultation with departments, has taken steps to address this issue by enhancing the Skills Framework and developing the Passport scheme. At the same time the Maturity Matrix and Skills Analysis Tool have been withdrawn. To further revitalise the scheme, a revised programme of Continuous Professional Development is currently being developed.

2.29 The Successful Delivery Skills Programme was complemented in October 2003 by the introduction of a Programme and Project Management Specialism. This joint scheme sponsored by the OGC and the Cabinet Office Corporate Development Group is designed to

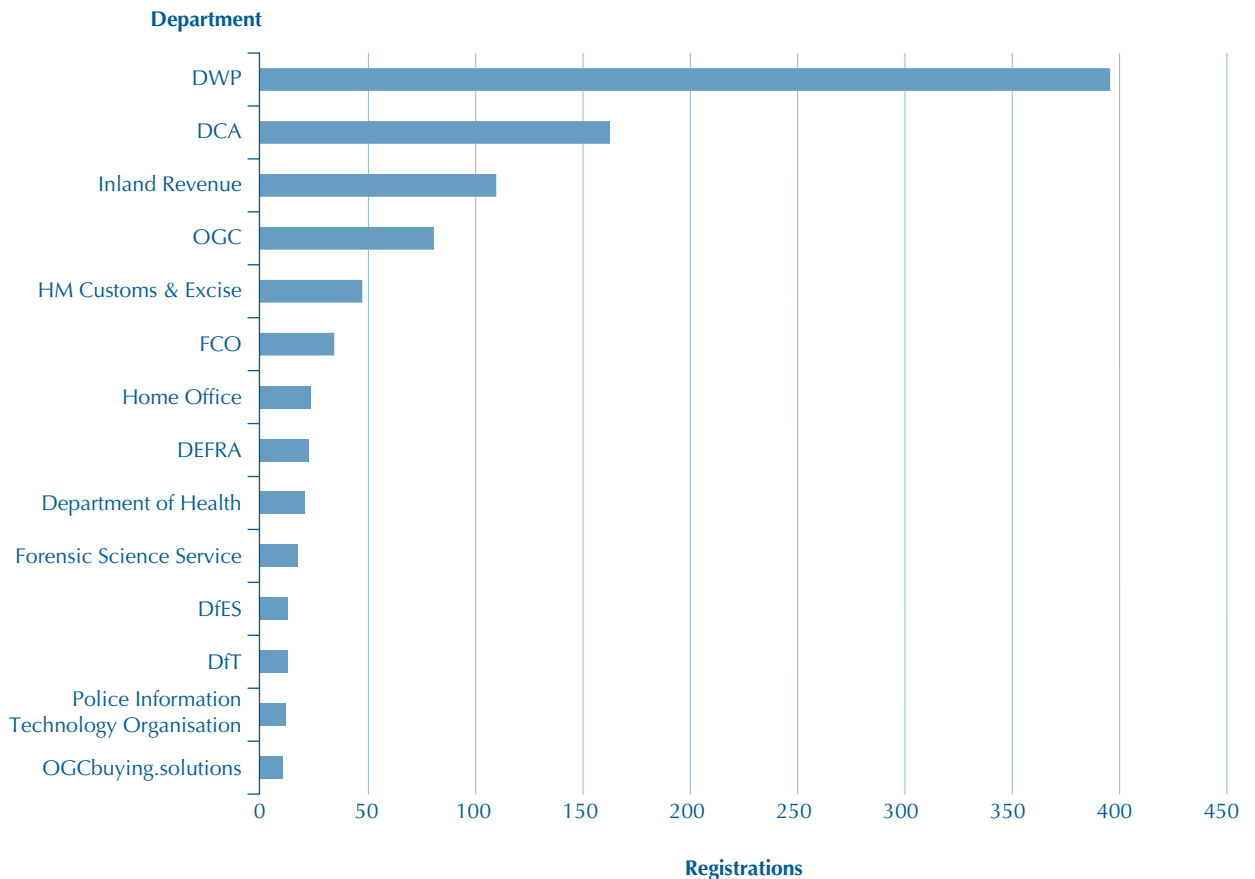
**28 Objectives of the Programme and Project Management (PPM) Specialism**

- create an appropriately sized and improved skilled PPM workforce
- ensure PPM is seen as a mainstream management skill
- facilitate better allocation of PPM staff to PPM roles
- ensure PPM skills are both recognised and transferable
- ensure improved rewards and career prospects for members

Source: Office of Government Commerce

provide help, advice and support for programme and project management practitioners, to help them develop their skills and careers within the Civil Service (Figure 28). This initiative was also prompted by a December 2002 report, *Improving Programme and Project Delivery* which identified the need for greater commercial skills within the civil service rather than those traditionally held. Figure 29 shows that membership stood at 1,199 people in May 2004, covering 113 organisations. Of these only 14 have registered more than 10 staff and they represent over 80 per cent of the total registered members.

**29 Take up of the Programme and Project Management Specialism**



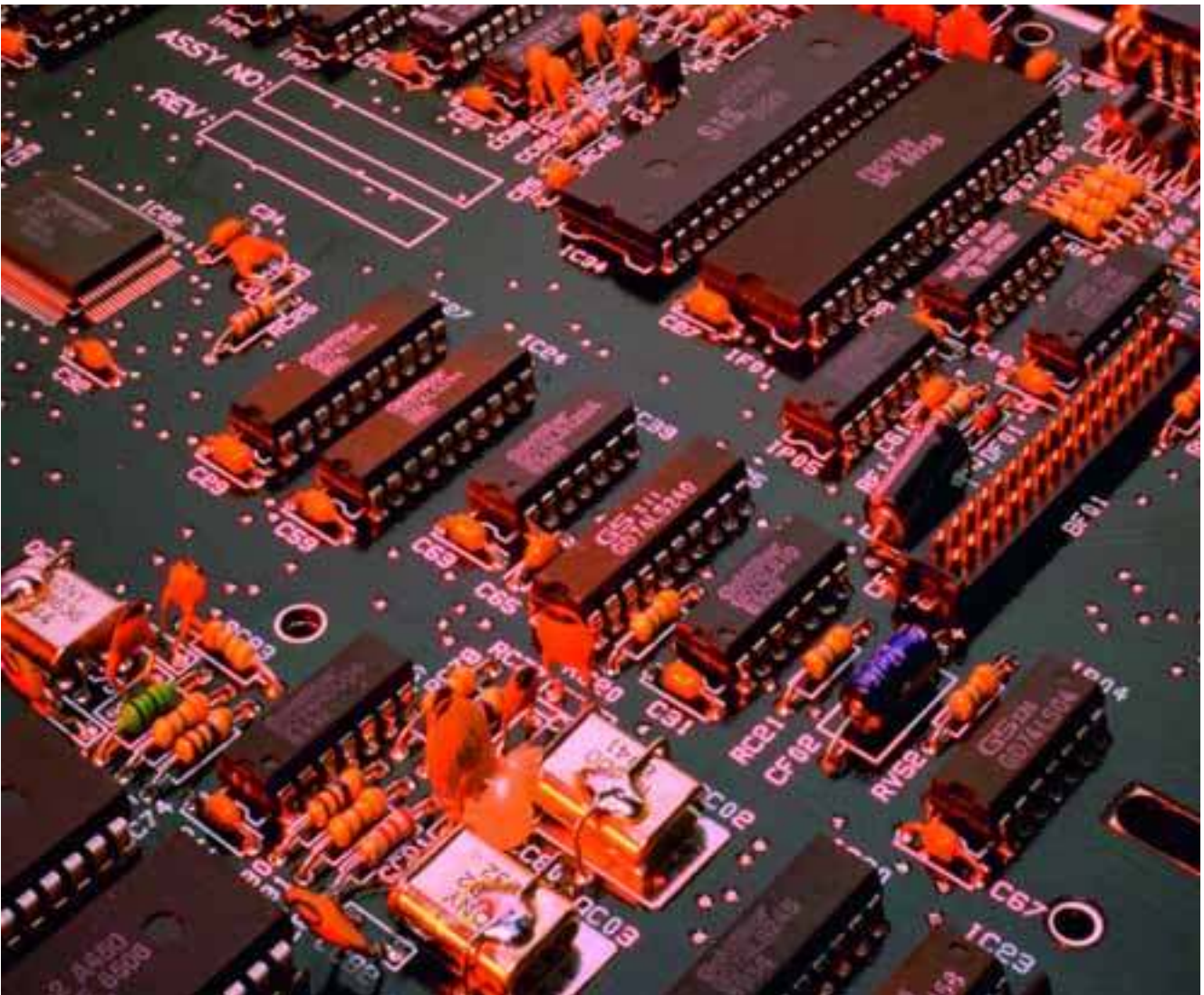
Source: Office of Government Commerce

## Our assessment

2.30 ***Development of the Successful Delivery Skills Programme and the Programme and Project Management Specialism need to complement each other and their impact needs to be measured. The initiatives together aim to improve significantly the skill sets of those responsible for procurement, programme and project management, and also general delivery skills. The impact of the Successful Delivery Skills Programme has so far been limited although the OGC has now put in place modifications to the programme designed to increase its utilisation. Uptake of the Programme and Project Management Specialism has so far been more positive but more needs to be done to further raise levels of participation. Future membership growth is being secured primarily through liaison with departmental Centres of Excellence. It will also be important that the two initiatives complement - and do not duplicate - each other as they are developed, and that the OGC monitors and measures the impact of the PPM Specialism.***

## General observations

2.31 The broad analysis of the OGC initiatives presented in this part of the study suggests that their impact has varied markedly. While Gateway Reviews have emerged as the dominant initiative, and the Centres of Excellence initiative continues to be driven forward, there is less certain evidence of success with the Programme and Project Management Specialism and the Successful Delivery Toolkit. This may in turn reflect the fact that the two initiatives may not have as yet a high enough profile in broad strategic level reviews of IT-enabled project procurement. For this reason Part 3 of our study uses evidence collected from the case studies and suppliers to reveal the detailed impact of the OGC initiatives in a manner which complements the broad strategic overview presented in Part 2.



# Part 3

## The Impact of the Office of Government Commerce on Departments and Supplier Behaviour

- 3.1 The success of OGC's initiatives will ultimately depend on whether IT projects are delivered on time, within budget and are fit for purpose. It is too early as yet to reach definite conclusions on this; IT projects and programmes have long lifecycles and the OGC's initiatives remain fairly recent.
- 3.2 In this part of the report, however, we look at five mission critical projects, to assess the extent to which OGC initiatives have made a difference to their management. In doing so, we base our judgements around three essential requirements that need to be in place for projects to be successful:
- 1) rigorous challenge and scrutiny of projects and programmes at each key stage in their lifecycle;
  - 2) highly skilled and capable programme and project managers; and,
  - 3) effective engagement with suppliers.
- 3.3 The five case study projects and programmes are all important to the delivery of better public services. They differ widely in size and nature; the Driver and Vehicle Licensing Agency, for example, holds information on some 39 million drivers and 32 million vehicles; the Payment Modernisation Programme affects some 13 million benefit recipients ranging from children to pensioners, while the Job Centre Plus initiative has a total budget of £2.2 billion and will provide services for 5 million benefit claimants (**Figure 30**).

### 30 The five case study projects and programmes involve large sums of money and offer service improvements to large sections of the community

Department or Agency	Project or Programme	Value	Beneficiaries
Department for Work and Pensions	The <b>Payment Modernisation Programme</b> aims to provide flexible, secure and convenient payment of benefit through bank accounts rather than paper-based Order Books.	£465 million	13 million benefit recipients
	The <b>Jobcentre Plus Implementation Programme</b> aims to help more people into jobs by establishing a network of modern Jobcentre Plus Offices with new business processes delivering an improved service to its customers.	£2.2 billion	5 million benefit claimants
Home Office	The <b>Case Information Database Enhancement Programme</b> is designed to improve control and screening at ports, and to provide reductions in the time taken to make and serve initial asylum decisions and appeals.	£36 million	30,000 asylum applicants
	The <b>Offender Assessment System</b> within the Prison Service aims to provide an electronic systematic offender risk and needs assessment system, which will be joined with the system in the Probation Service.	£11.7 million	Up to 80,000 prisoners
Driver and Vehicle Licensing Agency	The <b>Partners Achieving Change Together</b> contract has established a strategic partnership to provide upgraded and flexible electronic registers of vehicles and drivers.	£550 million: representing £301 million in respect of the core contract and an estimated further £250 million for development aspects.	39 million drivers and 32 million vehicles

# 1 The need for rigorous challenge and scrutiny of programmes and projects

- 3.4 Many IT-enabled programmes and projects have proved unsuccessful or encountered serious problems because departments have failed to recognise key risks. For example the complexity of changes which a project is intended to bring about have been underestimated; too much focus has been given to the technical details at the expense of re-engineering the underlying business process; or too little thought has been given to the contractual relationship and the sharing of risk between department and suppliers.
- 3.5 External challenge and scrutiny can help prevent such shortcomings by injecting greater rigour and expertise into the consideration of key issues early enough to take pre-emptive recovery action.
- 3.6 It was in order to achieve such scrutiny and challenge that the OGC introduced Gateway Reviews in February 2001. In Part 2 we assessed the general impact which the Gateway process was having across government - here we evaluate its contribution to improving the performance of five major projects.











## Project teams generally welcome Gateway Reviews

- 3.7 Evidence from the five case studies reflects the value that project teams attach to Gateway Reviews - either as a source of re-assurance that the project is under control or a wake-up call if it is not. All five teams regarded the reviews as rigorous, generating a "healthy anxiety" and prompting careful checking of all aspects of the project before each Gateway Review; one comment made to us in this spirit was that "if you don't find the problem, the Gateway review will".
- 3.8 Part of this sense of rigour stems from an increasing practice for Gateway reports to be scrutinised at the most senior levels within departments. Until recently, Gateways have been regarded as being written for the Senior Responsible Owner of the project, but an increased focus generally on IT-enabled projects through, for example, the OGC Chief Executive's four-monthly reports to the Prime Minister, means that Accounting Officers increasingly regard reviews as a critical tool to inform themselves about the management and oversight of projects. For example, both the Home Office and the Department for Work and Pensions' Accounting Officers see Gateway reports. At the Driver and Vehicle Licensing Agency the CEO (Accounting Officer) sees all major Gateway reports, including that for the Partners Achieving Change Together (PACT) project, for which he personally took SRO responsibility, although this was exceptional.

## Gateway Reviews have focussed attention on critical issues

- 3.9 Analysis of Gateway results for the five case study projects (**Figure 31**) shows that on the whole the Red-Amber-Green status improves as the project moves towards the start of service delivery. Action in response to Gateway findings was most clearly illustrated by the Driver and Vehicle Licensing Agency's "Partners Achieving Change Together" programme in June 2001 when a Gateway Review at Gate 2 concluded that the project was in "a precarious position". This focussed the attention of the Board, advisors and prospective suppliers; by the time of the next Gateway Review in April 2002, there was only one main issue triggering the red assessment of the programme; the need to secure greater transparency in commercial arrangements and profit share in the partnership. Rapid resolution of this issue through Board and high level supplier negotiations allowed the project to achieve a green assessment in November 2002.
- 3.10 More generally, evidence from Centres of Excellence within the case study bodies indicates that the Gateway process is making a difference in moving projects from red to amber and amber to green.
- 3.11 Across the case studies there are repeated examples of where specific action has been taken to address particular concerns highlighted in a Gateway report. Sometimes these have been specific issues, at others more general risks.
- 3.12 In the Department for Work and Pensions a joint Gate 2 and 3 Gateway Review in April 2002 gave a red status to the Payment Modernisation Programme, highlighting various risks including the magnitude of change for frontline staff involved in the Programme and the potentially differing priorities of client-focussed business groups. This had the effect of bringing the Programme sharply to the attention of senior management. At the time there were two other major initiatives underway in the Department (Pension Credit and Child Support Reform) which meant there was a danger of insufficient senior management oversight to keep the project firmly on track.
- 3.13 In the case of the Offender Assessment System under development for the Prison Service and National Probation Service, a Gate 1 review in October 2001 identified significant differences in the capacities of the two Services' existing computer systems to cope with the complexities attached to the OASys project. As a consequence implementation of the new national IT system went ahead first in the Prison Service which completed a favourable Gateway 4 review in June 2003, confirming that it was ready for service.

## 31 Red-Amber-Green status: Gateway Reviews for case study projects

Department	Programme	Gate	RAG Status	Impact
Department for Work and Pensions	Payment Modernisation Programme	Combined Gate 2 and 3 Review April 2002.		The combined review found that the programme was ambitious and complex and carried inherent risks which meant it was red-gated. However the review team felt the project was being well managed with sound implementation plans in place.
		Jobcentre Plus Implementation Project	Gate 1 Review July 2002	
	Combined Gate 2 and 3 Review November 2002			
	Gate 4 Review June 2003			
	Gate 5 Review May 2004			
Home Office	Offender Assessment System	Gate 1 Review October 2001	before RAG introduced	At Gate 1 the review team found that the business case was justified and that the project was ready to proceed. At Gate 4 the team noted that the IT application had been developed and tested effectively, staff had been trained in its use, and that a cautious roll-out with senior business commitment had been maintained.
		Gate 4 Review June 2003		
	Case Information Database Enhancement Programme	Gate 3 Review September 2002	before RAG introduced	The Gate 3 Review team found that the development contingency for the project had been used up and emphasised the need for the prompt resolution of outstanding issues. The Review at Gate 4 identified a number of issues that needed to be addressed but found that the new system was robust enough to 'go live' on the stipulated date.
		Gate 4 Review January 2003		
Driver and Vehicle Licensing Agency	Partners Achieving Change Together (PACT)	Gate 0 Review September 2000	before RAG introduced	While the first two reviews were largely positive, the Gate 2 Review considered the project to be in a precarious position, noting that there was a substantial amount of work to be undertaken prior to inviting commercial proposals.
		Gate 1 Review November 2000	before RAG introduced	
		Gate 2 Review June 2001	before RAG introduced	
		Gate 3 Review April 2002		By Gate 3, while good progress had been made against the Gate 2 recommendations, no adequate agreed definitions for the commercial partnership model had been developed for the project. In particular provision for long-term value-for-money had not been secured, and as such the review team recommended the postponement of the announcement of their preferred bidder for the contract.
		Gate 4a Review November 2002		
		Gate 4b Review March 2003		
				The project underwent two separate Gate 4 (readiness for Service) reviews, a Gateway 4a covering the technical transition and a Gateway 4b covering the organisational transition. Issues at Gate 3 were addressed quickly by the project team with close Board involvement and at Gate 4a the project was on target for the successful transfer of services to the new supplier, with plans in place for the full implementation of the contract. Gate 4b indicated the potential for a strong partnership arrangement while noting some shortcomings in the supplier relationship.

## NOTE

This figure illustrates the outcome of Gateway Reviews for each of the five projects we examined. For example, the OASys project was reviewed at Gate 1 in October 2001 and at Gate 4 in June 2003.

Source: Office of Government Commerce and Departments

3.14 Two of the case study projects featured in this report have origins in previously failed projects. The National Audit Office reported on the difficulties encountered by the Immigration and Nationality Directorate in the implementation of its Casework Programme.<sup>18</sup> This sought to introduce new business practices based on a paperless decision-making system but ended in collapse and abandonment. If, however, the Gateway Review process had existed at its inception it is likely that these problems would have been avoided; the Casework Programme was a classic example of a "big bang" implementation which is now prohibited under the terms of Treasury Guidance issued in March 2004.<sup>19</sup> Furthermore, the reasons for its failure - notably its very extensive ambition, and the lack of a fully detailed understanding of how the project was to be realised before the contract was let - were not novel. Such factors are to be found in the joint NAO/OGC common causes of failure outlined in the Treasury Guidance - for example *"Too little attention to breaking development and implementation into manageable steps"*.

3.15 Similarly, the predecessor of the Payment Modernisation Programme was the Benefits Payment Card.<sup>20</sup> This project was fatally flawed and eventually abandoned due to differences in priorities among stakeholders, the lack of a realistic timetable for implementation, and an inadequate assessment of the project's risk. Given the application of Gateway reviews and the requirements of Treasury guidance, it would now be much more difficult to proceed, either because of the risk of a double red-gated review, or because of the difficulty an Accounting Officer would have in providing assurance that the programme did not suffer from a common cause of failure including, in the case of the Benefits Payment Card, a "lack of clear senior management and Ministerial ownership and leadership", and "a lack of skills and proven approach to project management and risk management".

3.16 There are clear differences between these earlier projects and their successors which can be summarised as follows:

- The current projects are now significantly less ambitious, involving less business process re-engineering;
- There is more senior-level scrutiny, with more rigorous and regular checking and review; and,
- There is clearer purpose and project definition, with the objectives of different stakeholders more clearly defined.

## Senior management oversight has improved

3.17 Evidence from the case studies indicates that, as result of the Gateway process, arrangements for control and oversight are strengthening. First the reporting arrangements are becoming more rigorous, with successive levels of scrutiny and review; typically involving a project or operational board with immediate responsibility for the project or programme, reporting to the departmental management board. Next, boards themselves are becoming more experienced and adept at understanding their responsibilities, and what actions they must take to respond to emerging risks. Case study bodies emphasised repeatedly that those tasked with the oversight of projects were now much more aware of their responsibilities than in previous years. Third, oversight has been assisted by the appointment of non-executive directors and other specialist advisors. Last, departments have recognised the need for closer internal monitoring of projects and programmes.

3.18 The scale and diversity of the Department for Work and Pensions' current projects and programmes for IT-enabled change is reflected in its scrutiny arrangements. For those projects that are mission critical, high risk or regarded as essential for the continuation of the Department's business, including both JobCentre Plus and the Payment Modernisation Programme, their Implementation Project Boards reporting through the Working Age Programme Board in the case of JobCentre Plus Implementation, and in the case of Payment Modernisation directly to a Departmental Change Board, chaired by the Permanent Secretary.

3.19 **Figure 32** summarises the programme management arrangements in the Driver and Vehicle Licensing Agency whereby each of its five programmes of projects is governed by a programme board, which reports to the Agency's Board of Directors at a monthly Change Programme Board and works closely with the Driver and Vehicle Operators Group<sup>21</sup> Modernisation Board (including the Director General and each of the agency Chief Executives). At the same time the Change Programme Board is assisted by the DVLA's Programme Management Office which provides techniques, tools and guidance and consolidates overall reporting, specifically of interdependencies, corporate risks and progress.

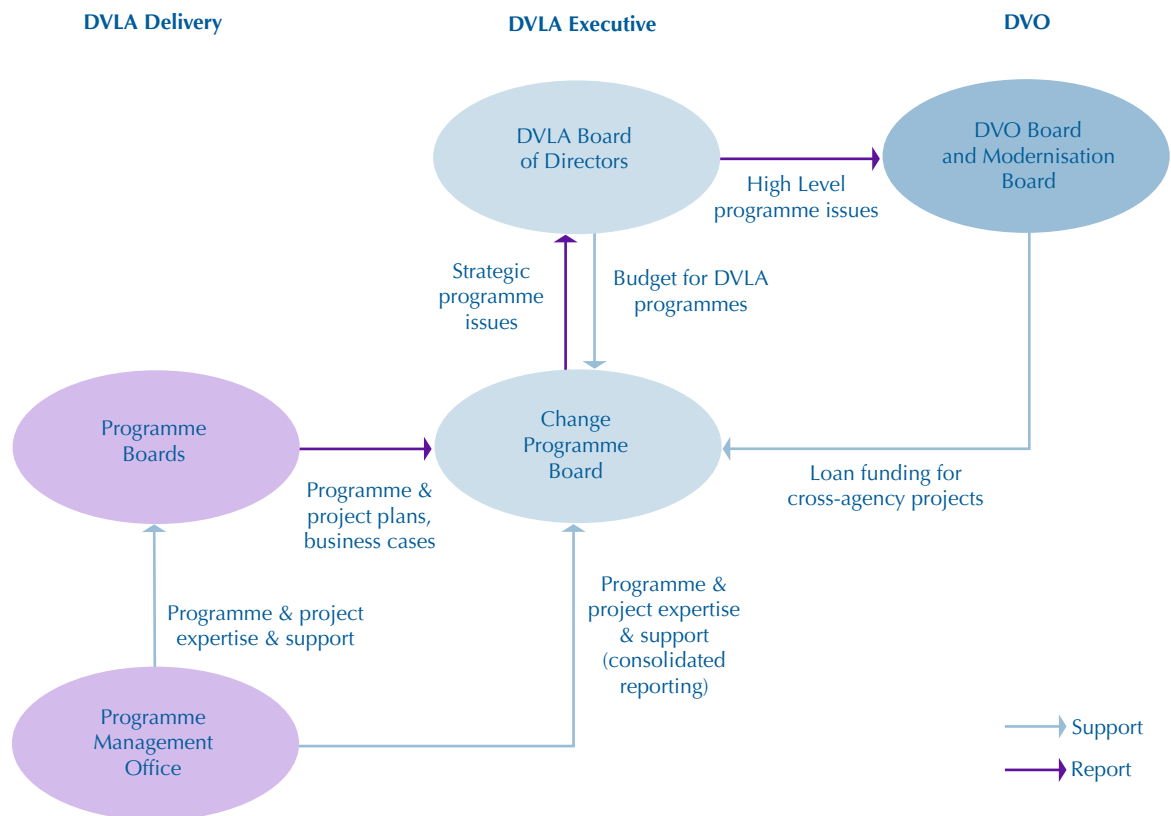
<sup>18</sup> *The Home Office: The Immigration and Nationality Directorate's Casework Programme HC 277 1998-99.*

<sup>19</sup> *Dear Accounting Officer Letter DAO(GEN) 07/04 30 March 2004 (see Appendix 2).*

<sup>20</sup> *The Cancellation of the Benefits Payment Card project HC 857 1999-00.*

<sup>21</sup> *The DVO Group comprises the Vehicle & Operator Services Agency; Driving Standards Agency; and the Vehicle Certification Agency as well as the DVLA.*

### 32 The Scrutiny and Programme Management Arrangements in the Driver and Vehicle Licensing Agency



Source: Driver and Vehicle Licensing Agency

3.20 In the Home Office a single Group Investment Board has been established, chaired by the Home Office's Director General, Resources and Performance to provide Board-level review and scrutiny of large projects (over £40 million lifetime costs), or those that are mission-critical. The Board examines the business case and associated documents for the types of projects described at two key stages of a projects lifecycle; issue of Invitation to Tender and Award of Contract.

3.21 Below the Group Investment Board, the Immigration and Nationality Directorate has established a Joint Approvals Committee in April 2004 which considers projects that are between £1 million and £40 million in value and are not mission critical. This Committee is chaired by the Finance Director and includes non-executive directors and independent advisers.

### Monitoring of projects is improving

3.22 In addition to increased scrutiny and oversight, case study bodies have also recognised the need for closer internal monitoring of projects and programmes, having put in place systems to review regularly performance and the means to take remedial action whenever required. Typically these follow Gateway methodology using, in particular, the Red-Amber-Green assessment mechanism.

3.23 In the Home Office, for example, Senior Responsible Owners are required each month to complete a structured report assessing progress against ten criteria on the Red-Amber-Green principle. A red against any one criterion means a red assessment overall and, if action is not already in hand, triggers a letter from the Accounting Officer. Reports are validated by the Home Office's Centre of Excellence - the Programme and Project Management Support Unit - which also compiles, each quarter, an analysis showing the status of all high risk and mission-critical projects overall for the Accounting Officer and Home Office Board.

3.24 The Department for Work and Pensions has developed a "Change Lifecycle Model" which sets out a framework to guide projects from initial formulation to delivery and benefits realisation. Projects are subject to five reviews in their lifecycle:

- Gate 0 on entry to the Change Programme;
- The Preliminary Design Review;
- The Critical Design Review;
- The Operational Readiness Review; and,
- The End Project Review.

In addition, there are a further two optional reviews which are particularly relevant to projects with a significant IT element: the Product Selection Review (undertaken between the Preliminary Design Review and the Critical Design Review) and the Technical Review (between the Critical Design Review and Operational Readiness Review).

3.25 Similarly, the Home Office's Programme and Project Management Support Unit has an Assurance team that undertakes internal "health checks" on mission-critical programmes and projects using gateway-style reviews. The Programme and Project Management Support Unit use external Senior Reviewers to conduct the health checks. These reviews can be triggered by an instruction from one of the oversight boards, the Unit itself, or the Senior Responsible Owner.

### More direct assistance is available to teams

3.26 To strengthen the project teams a number of the case study bodies have also introduced the role of a "Governance Manager" to act as a "critical friend" to the project - on the one hand reporting to the Centre of Excellence on current performance, while on the other, acting as a source of advice to Senior Responsible Owners, or directing them to such a source.

3.27 The Prison Service, with the Probation Service, has engaged this type of independent adviser to assist the OASys Programme Board, whose role includes making sure the team is aware of issues such as Gateway Review reporting, and other arrangements for scrutiny and oversight. In the Department for Work and Pensions there is a similar appointment which is standard for all mission-critical projects; with both the Payment Modernisation Programme and Jobcentre Plus projects having such a Governance Manager attached to them.

3.28 Evidence from the case studies indicates that the status and calibre of the messenger adds to the impact of Gateway Reviews. The DVLA, for example, placed particular emphasis on the quality of the members of the Gateway Review Teams. This meant that the "precarious position" described in Gate 2 in June 2001 was taken seriously by all parties.

3.29 An aim of the OGC remains to delegate responsibility for medium risk Gateway reviews to all departments by April 2006 but to remain responsible for mission-critical high-risk review activities and for the administration of accredited independent reviewers to staff review teams. A pilot currently in operation in the Department for Work and Pensions is assessing the capacity and competence of the Department to conduct its own Gateway Reviews for medium risk projects.

3.30 It follows that if the Gateway Process is extended, or reproduced for an internal review process, the calibre of review teams must be maintained if its success is to continue. The danger is that a loss of external challenge will dilute the impact of reviews and to avoid this, the OGC must exert continuing oversight and quality control over the teams performing reviews.

3.31 The Department for Work and Pensions also operates a Project Intervention Team which can be deployed to individual projects as an internal consultancy service. The team members are specialists in business change programmes and projects. Their assistance can either be requested by Project Directors, as a form of preventative action against emerging difficulties, or alternatively are triggered as a remedial measure when a project is assessed at red or consecutive amber by either internal or external Gateway Reviews.

### There is closer working between Internal Audit, Gateway Review and Project teams

3.32 A point made repeatedly to us by case study bodies is the developing relationship between internal audit, project teams and Gateway Review teams. Unlike Gateway Reviews, which offer periodic snapshots of the progress of a project or programme, internal audit can provide regular monitoring of progress and assistance to review teams. They can also check up that recommendations from Gateway Reviews are being addressed.

- 3.33 In the case of Jobcentre Plus the project team were keen to have Internal Assurance closely involved from the start, with a dedicated point of contact and a programme of work drawn up in advance. This method of close engagement with Internal Assurance has now become the model across the Department for Work and Pensions more generally, with a similar arrangement in place for the Payment Modernisation Programme.
- 3.34 Adopting such a close relationship allows the auditors to keep senior management in close touch with the progress of projects. In the Department for Work and Pensions for example, the Internal Assurance Service reports monthly to the Programme and Systems Delivery Change Board. Internal auditors can also act as a source of dissemination of good practice and lessons learned, as they migrate between different projects. On a larger scale, staff from the Department's Internal Assurance Services participate as members of OGC-led Gateway Reviews of projects in other departments; this experience gained when allied with OGC training allows the lessons from one department to be disseminated more widely and cost effectively.

## Our assessment

- 3.35 *Evidence from the case studies supports the general messages highlighted in Part 2; that **Gateway Reviews have introduced more rigorous scrutiny into IT-enabled projects**. They have focussed more top level attention on the management of projects and programmes, prompted the creation of processes to provide on-going scrutiny of projects, and the related means to tackle failings, such as the close and sustained involvement of Internal Audit. In the case studies featured here, all three Accounting Officers see Gateway reports, and this must become established practice across central civil government generally, with departmental Centres of Excellence monitoring and disseminating lessons from Gateway reports, and consideration of the results of reports becoming a routine agenda item for departmental boards and their related audit committees.*

## 2 The need for highly skilled and capable programme and project managers

- 3.36 The capacity and capability of the Civil Service to deliver mission-critical IT-enabled projects is one of the largest challenges facing central civil government. To tackle this, the OGC has developed a range of initiatives with the key aim to develop the range of skills necessary for those responsible for programme and project management to achieve success. These include:
- Guidance and advice (including the Successful Delivery Skills Toolkit);
  - Development and consolidation of skills (the Successful Delivery Skills Programme and the Programme and Project Management Specialism); and,
  - Centres of Excellence

### OGC guidance and advice is comprehensive but it can be difficult to access

- 3.37 The OGC's Successful Delivery Toolkit is designed to offer via the internet an easy means for departments to access a wider range of good practice. It was created in response to recognition that a lack of procurement expertise was an important factor in the failure of Government IT-Enabled Programmes. The Toolkit, however, faces the challenge of providing general advice and solutions for organisations ranging from the smallest Non-Departmental Public Bodies to the largest departments. Our recent study on Improving Procurement found that overall only some 45 per cent of the 86 largest spending departments, agencies and non-departmental public bodies had used the toolkit.
- 3.38 Evidence from the case study projects confirms that the Successful Delivery Toolkit is not acting as a successful portal into the good practice advice available from the OGC. We found that those people who were aware of OGC guidance were satisfied with its content, but reported difficulty in accessing information posted on the website. More importantly, it can be difficult for new and inexperienced users to know what advice is available, and how to make best use of it at the appropriate time. Part of the problem is that there is simply too much guidance available, which at times overlaps or contradicts itself. There is also a lack of co-ordination in the advice emanating from the different parts of the OGC which could be difficult to reconcile for a non-expert user.

- 3.39 For this reason both the Home Office and the Department for Work and Pensions discourage their staff from making direct use of OGC guidance, choosing rather to filter it first through their own channels, including the use of their own websites. Whilst during the PACT project the DVLA relied on informal links established during earlier procurement activity, it has now established formal links with OGC for Capability Assessment Tool returns and continues to provide reports on its own maturity in respect of its ability to ensure successful delivery of programmes and projects. It has established direct links with OGC as well as through the Department for Transport to implement the Programme and Project Management Specialism to improve its capability to deliver programmes and projects successfully, with external assistance. This initiative will extend the pool of specialist resources available within DVLA and provide a skills framework which will enable the development of staff through a four stage process using a combination of internal DVLA assessment and external accreditation.
- 3.40 The case studies share the view that if the OGC is to achieve its full potential as the institutional memory for best practice in government procurement it needs to develop more effective processes for the exchange of intelligence concerning failures and successes of projects.
- 3.41 The OGC has from its inception used the Department for Work and Pensions as one of its main sources of good practice, but it has also drawn on other sources of good practice elsewhere in central government. Its *Decision Map for Project Strategy and Procurement*, for example, contains worked examples from the Land Registry and Department of Health.
- 3.42 Nevertheless there remains some anxiety among case studies that not all the lessons from other projects are actively communicated between departments, despite there being useful information available. The Home Office, for example, has garnered good practice from other departments, in particular, a Business Success Model developed by HM Customs and Excise.
- 3.43 This evidence suggests that the OGC has not yet managed to develop a structure which provides a single or clear point of engagement for its clients. While this has not been a significant issue for the case study projects it may pose problems for those organisations coming new to the procurement of IT-enabled projects, without the body of skills and experience available to larger departments more familiar with engaging with the OGC. The issue for the OGC therefore is how to harness the right links with departments and agencies to garner good practice and then to be able to re-communicate it clearly to other bodies. OGC is currently seeking feedback from departments as part of a customer survey on how best it might do this.

## OGC could further promote and target its expertise

- 3.44 The case study organisations commented that the direct assistance often sought from the OGC tended to cover routine procurement activities, rather than specialist consultancy advice. The Immigration and Nationality Directorate found that the OGC lacked the skills to support it in the resolution of difficult contractual negotiations, and went directly to an outside provider for that particular advice.
- 3.45 This reluctance may not, however, necessarily mean that the OGC lacks appropriate expertise. It may be ignorance of what is available, or because project teams secure their own sources of advice through wider framework agreements. For example the Payment Modernisation Programme used an existing Departmental framework agreement to find key staff for the project team.
- 3.46 The evidence here suggests that the OGC could do more to promote itself as a source of specialist advice and expertise, whether providing it directly, or knowing where that expertise will be found. Departments and agencies may still wish to use their own means to secure staff but they should be able to demonstrate that they have benchmarked their actions against what is available from the OGC.

## OGC initiatives to develop skills and expertise have as yet only had a mixed response

- 3.47 Alongside advice and guidance the OGC has also introduced initiatives to increase the capacity and capability of programme and project managers. Most notably the Successful Delivery Skills Programme and, more recently, the Programme and Project Management Specialism.

The Department for Work and Pensions operates a "Project Professionals Group", a network of staff with project management roles who receive support in developing their skills and experience. There are currently over 370 Members of the Project Professionals Group, who are existing project specialists, as well as Affiliates and Associates for whom project management is less central to their job role. Members have undergone skills analysis to establish training needs, and each has a Professional Development Plan. Members may be assigned to specific projects across the Department to broaden their skills and experience, and are encouraged to work towards professional qualifications. The aim of this initiative is to support the Department's business change programme through increased professionalism, common standards and methodologies, and the intelligent deployment of programme and project management specialists.

3.48 For the first of these - the Successful Delivery Skills Programme - there was limited awareness in the five case study projects. For example none of the five case study project teams had participated in it. The more recent Programme and Project Management Specialism, launched in October 2003, has attracted more interest with 113 organisations registered and membership standing at 1,199 individuals by May 2004 but this remains a poor level of take up, particularly since over 25 per cent of the total comes from the Department for Work and Pensions (Figure 29, Page 33). Here the Department operates a Project and Professionals Group, mirroring the OGC's Project and Programme Management Specialism, and representing a major commitment by the Department to raise skills and capacity levels.

3.49 One rationale for the development of the Programme and Project Management Specialism is that there will be a cadre of experienced and qualified project professionals that can move from project to project. For this to work it is necessary to address the temptation for managers to retain their best project managers even though their projects no longer need their particular expertise, and also to take steps to avoid specialist skills and experience being dissipated through poor human resource and succession planning. In the Department for Work and Pensions the specialist project managers report to the Directorate of Project Management so that they can be redeployed according to demand for their specialist skills. This arrangement will be put to the test when the Payment Modernisation Programme draws to a close later this year; members of the programme team are keen that there should be an effective means to make sure their collective skills and experience are not lost, but re-focussed effectively.

3.50 While the OGC cannot become involved in the detailed succession planning and human resourcing policies of individual departments, there is a wider role here for the OGC to act as a point of contact and coordination between departments in re-deploying programme and project management expertise, possibly through secondment or staff transfer. In this way the expertise acquired on individual projects is not lost to central civil government more generally.

## Making the most of commercial expertise

3.51 A more immediate solution to skills shortages has traditionally been to buy in the expertise from specialist consultants and organisations. For example, neither the Prison Service nor its supplier, EDS, had the skills immediately available to manage a novel process for developing the software for the OASys project, so these were accordingly brought in from an established and trusted partner. Equally, key staff for the Payment Modernisation Programme project team were sourced commercially.

3.52 The challenge for departments is to set in place arrangements that do not rely on this short term solution, but ensure the development of skills through the long-term recruitment and retention of people with the skills to manage IT-enabled projects. As part of this it is important that there is a structured transfer of skills from the commercial sector. For example, the Driver and Vehicle Licensing Agency has secured this skills transfer from its supplier, IBM. Similarly, in the case of the Payment Modernisation Programme the skills acquired from the external provider will be transferred across under the terms of the contract.

3.53 More generally, the challenge for OGC is to establish the means to identify and deploy the gathering expertise across central government so that the reliance on commercially supplied support declines.

3.54 The low take up of the Successful Delivery Skills Training Programme meant that those managing IT-enabled projects were not making the most of this resource, potentially failing to increase this key management capacity. Research conducted by OGC indicated that departments were using other means to develop expertise, for example in obtaining skill from the commercial sector, or that their staff were undergoing training with alternative providers, such as the British Computer Society's Information Systems Examining Board,<sup>22</sup> as in the case with Driver and Vehicle Licensing Agency. More generally, as reflected in paragraph 2.28 the Successful Delivery Skills Programme has recently been revised in an effort to increase its take up.

22 British Computer Society Information Systems Examining Board Framework (2003) available at <http://www1.bcs.org.uk/link.asp?sectionID=436> (visited 14th January 2004).

## Centres of Excellence are starting to play a pivotal role

- 3.55 The introduction of Centres of Excellence by June 2003 was designed to establish the right "structure and culture" for successful project and programme management within departments (**Figure 33**). They provide a hub for the scrutiny and project management processes as well as for the development and dissemination of good practice advice and support.
- 3.56 Many Centres of Excellence now receive Gateway reports where individual Accounting Officers have introduced that ruling in their Department. Such oversight allows for good practice and lessons learned to be accumulated in one location with remedial action taken as necessary.
- 3.57 Evidence from the operation of the Centres of Excellence in the case study bodies also suggests that through the filtering of OGC advice they are developing an effective role in tailoring general advice to the specific needs of the project or programme, and in the same spirit, starting to act as the hub for the collection and dissemination of good practice generated from around the organisation.

### 33 Centres of Excellence in the case study organisations

The Department for Work and Pensions has adopted a devolved approach with nine business-focussed Centres of Excellence which are aligned with major activities, such as Jobcentre Plus, Pensions, etc and a corporate Centre of Excellence with general oversight. There is also a separate corporate Centre of Excellence.

The Home Office, pre-dating the wider OGC initiative, created a "Programme and Project Management Support Unit" in February 2003. This is responsible for the activities and functions of a Centre of Excellence. It sits under the Director General Resources and Performance, a directorate which also includes Finance, Performance Management, IT, Commercial and Procurement, Buildings and Estate Management. The Prison Service provides monthly reports to the Home Office Group Executive Board through the Programme and Project Management Support Unit for their Mission Critical and High Risk programmes and projects. Here the project team felt that they had already developed the immediate skills necessary to keep the project on track.

The Driver and Vehicle Licensing Agency has not made significant use of the Department for Transport's Centre of Excellence, preferring instead to use the OGC as the prime source of benchmarks and standards, supported by local expertise, as required. While the Project Management Office provides for the development and distribution of good practice there is also a separate Innovation Centre that is designed to maximise the transfer of skills from its private sector partner.

- 3.58 Many of those interviewed in the case study organisations also argued that since procurement expertise rests with those who are actively involved with "cutting edge" projects then it is likely that best practice will be found increasingly in departments or agencies, thereby strengthening the role for Centres of Excellence in supporting and developing this expertise.
- 3.59 Concern was expressed at the Senior Stakeholder workshop that Centres of Excellence might duplicate or confuse the role of the OGC in providing best practice guidance and as a result would not provide value for money. Evidence from the case studies suggests that this has not been the case, with added value being secured from guidance which is specifically tailored to the individual departments and takes on board the lessons learned by their previous projects. The success however of centres of excellence depends very much on the attitude of senior management; evidence from the two departments featured in this report suggests that they are taking this seriously, having put in place structures and processes designed to place centres of excellence at the very heart of the work to improve IT procurement.

## Our assessment

- 3.60 **Centres of Excellence are becoming increasingly effective and OGC needs to liaise with them to improve take up of its guidance and advice by departments.** *The initiatives that the OGC has put in place to improve the management of project and programmes represent a comprehensive set of tools and training. But take up of these has generally been low because i) guidance and advice is not always accessible to those who need it and ii) training and development initiatives could be made more relevant. Where, however, people have known how to seek out guidance and advice it has been useful, and where departments have committed to skills development, there has been noticeably higher take up of OGC initiatives. This suggests that the OGC should take further steps to understand how they can best liaise with departments and Centres of Excellence can help in this process. Rather than duplicating the work of the OGC Centres of Excellence are becoming an increasingly effective conduit, able on the one hand to shape OGC's initiatives to local need and on the other to communicate the lessons learned more widely.*

### 3 The need for effective engagement with suppliers

3.61 The establishment of a clear understanding of the respective positions between supplier and department, as well as the sharing of responsibilities, risks and benefits, are critical to successful delivery of IT-enabled projects. Failures of projects and programmes have been characterised by an apparently clear understanding of what is required of each party to start with, only for this to evaporate progressively as the project proceeds. Public sector customers and private sector suppliers often have different practices and requirements which if not properly understood at the outset, can lead to many of the problems associated with IT procurement. For example, when compared to business practices in the private sector, tendering for work in the public sector requires a large outlay of capital and business risk, often over extended periods of time.

#### OGC has worked closely with Industry to create frameworks for better joint working between departments and suppliers

3.62 At a strategic level, the OGC plays a key role in creating an atmosphere of better understanding between the public sector and industry. At the department level, the OGC supports the development of the partnership to allow for the management of risk and the transfer of liability in an appropriately devised contract. Finally, at the individual level, close working relationships and partnership have often been the key factor in the performance of a project. From the evidence of the case studies and suppliers it is possible to chart the development of these partnerships at different levels.

3.63 One of the potentially most important developments in recent years has been the strategic relationship between the OGC and Intellect, the trade body representing the information technology, telecommunications and electronics industries in the UK (Figure 34). The positioning of OGC and Intellect as representative voices of the public and private sectors has provided a framework for the establishment of a number of initiatives that aim to increase confidence between the two sectors.

#### 34 What is Intellect?

Intellect is the trade body representing the Information Technology, Telecommunications and Electronics industries in the UK. Its membership consists of 1000 companies employing more than 1.1 million and accounting for around 10% of GDP. Intellect's aim is to improve the environment in which its members do business, promoting their interests and providing them with high value services.

Source: Intellect 2003 and [www.intellectuk.org](http://www.intellectuk.org)

3.64 At an industry level, a Senior IT Forum was set up following the publication in 2000 of the Cabinet Office report "*Successful IT: Modernising Government in Action*" and the Computing Services & Software Association (now Intellect) report "*Getting IT Right for Government*". The aim of the Forum is to 'identify and address joint systemic issues that occur in the acquisition and implementation of Government IT-enabled projects'. The Forum is jointly sponsored by the OGC and Intellect, and membership consists of an equal number of senior representatives from Government and the IT industry. Beyond simply providing a means for regular dialogue between the two sectors, this forum has undertaken initiatives to build more open relationships in which Government and Industry can start to understand better each other's objectives and environment. These include:

- **Senior Responsible Industry Executive (SRIE).** The Forum has created a Senior Responsible Industry Executive role as an industry equivalent who works with the Senior Responsible Owner to ensure that the two organisations work together to deliver successfully the objectives of the project (Figure 35 compares the roles and responsibilities for the two positions).
- **The Government Procurement Code.** The Forum has been working with the OGC to develop a code of practice that sets out the core values and behaviours for central civil government's supply chain, including government organisations, suppliers and their suppliers, and promotes a spirit of partnering in these arrangements (Figure 36).
- **IT Supplier Code of Best Practice.** Intellect has developed the first *IT Supplier Code of Best Practice*. The Code, through its Ten Commitments (listed in Figure 37), establishes standards of professionalism for all providers of information systems and services to government. The code states a number of things suppliers can do to demonstrate they are competent and effective in doing their job and, as such, can be seen as a document for suppliers, complementary to the Government Code of Good Practice for departments, published by the OGC in 2001, and revised in October 2002. A system that assesses compliance with the *IT Supplier Code of Best Practice* would allow departments to be aware of the record of present and potential suppliers and more effectively navigate the market. It would also allow suppliers an incentive to generate business benefit by distinguishing themselves from competitors.

**35 Comparison of Senior Responsible Owner/Senior Responsible Industry Executive responsibilities**

Responsibility	Senior Responsible Owner	Senior Responsible Industry Executive
<b>Project and programme goals</b>	Overseeing development of brief for change and business case. Responsible for securing necessary investment.	Understanding customer’s culture and business goals and strategic importance to the customer
<b>Project or programme organisation structure and logical plans</b>	Ensuring that supplier resources are committed accordingly. Ensuring a coherent organisation structure and logical plans. Establishing and maintaining a collaborative relationship with the Senior Responsible Industry Executive to align the governance of the two organisations.	Understanding the joint project organisation structure and ensuring a fit between the two organisations. The Senior Responsible Owner and the Senior Responsible Industry Executive will agree where the Industry Executive fits in with joint governance structure. Establishing and maintaining a relationship with the customer that best suits the nature of the change and the culture of the two organisations
<b>Monitoring and control of progress</b>	Monitoring and controlling progress at a strategic level. As issues arise, providing advice, decision-making and communication with senior stakeholders, including the Senior Responsible Industry Executive.	Monitoring overall progress success through dialogue with the Senior Responsible Owner. The supplier project manager will provide regular updates on progress and will engage Senior Responsible Industry Executive for advice and decisions requiring communication through the Senior Responsible Owner. The Senior Responsible Industry Executive will be responsible for escalating and solving supplier issues.
<b>Formal closure and post implementation review</b>	Formally closing project or programme and ensuring that lessons learned are documented. Planning of post programme/project review(s) when the entire benefits realisation process will be assessed. Ensuring that the post implementation review takes place and benefits have been realised.	The Senior Responsible Industry Executive will assist the Senior Responsible Owner with relevant areas of project closure and review.
<b>Problem referral</b>	Referring serious problems upwards as necessary and to suppliers with the Senior Responsible Industry Executive. Ensuring that the communication processes are effective and linkages are maintained. Regular dialogue with Senior Responsible Industry Executive to minimise problems by timely resolution.	Referring serious problems to the Senior Responsible Owner or senior management within the supplier organisation as necessary. Responsible for ensuring internal supplier communication processes are effective. Regular dialogue with Senior Responsible Owner to minimise problems by timely resolution.

Source: Office of Government Commerce/Intellect (2001)

**36 The Government Procurement Code**

- **Fairness.** The members of the supply chain will act fairly during the competitive processes and throughout the business relationship;
- **Honesty and openness.** The members of the supply chain will be honest and open when conducting business with each other;
- **Efficiency and effectiveness.** The members of the supply chain will contribute to improving the efficiency and effectiveness of central civil government’s commercial activities;
- **Professionalism.** The members of the supply chain will work to a high standard of professionalism.

Source: Office of Government Commerce

3.65 It was noticeable in our interviews with both departments and suppliers that awareness of these initiatives was low. When specifically questioned on Senior Responsible Industry Executives, none of the five case study project teams were aware of this role. This suggests that the benefits of higher level OGC initiatives are not filtering down to programme or project teams.

## 37 IT Supplier Code of Best Practice - The Ten Commitments

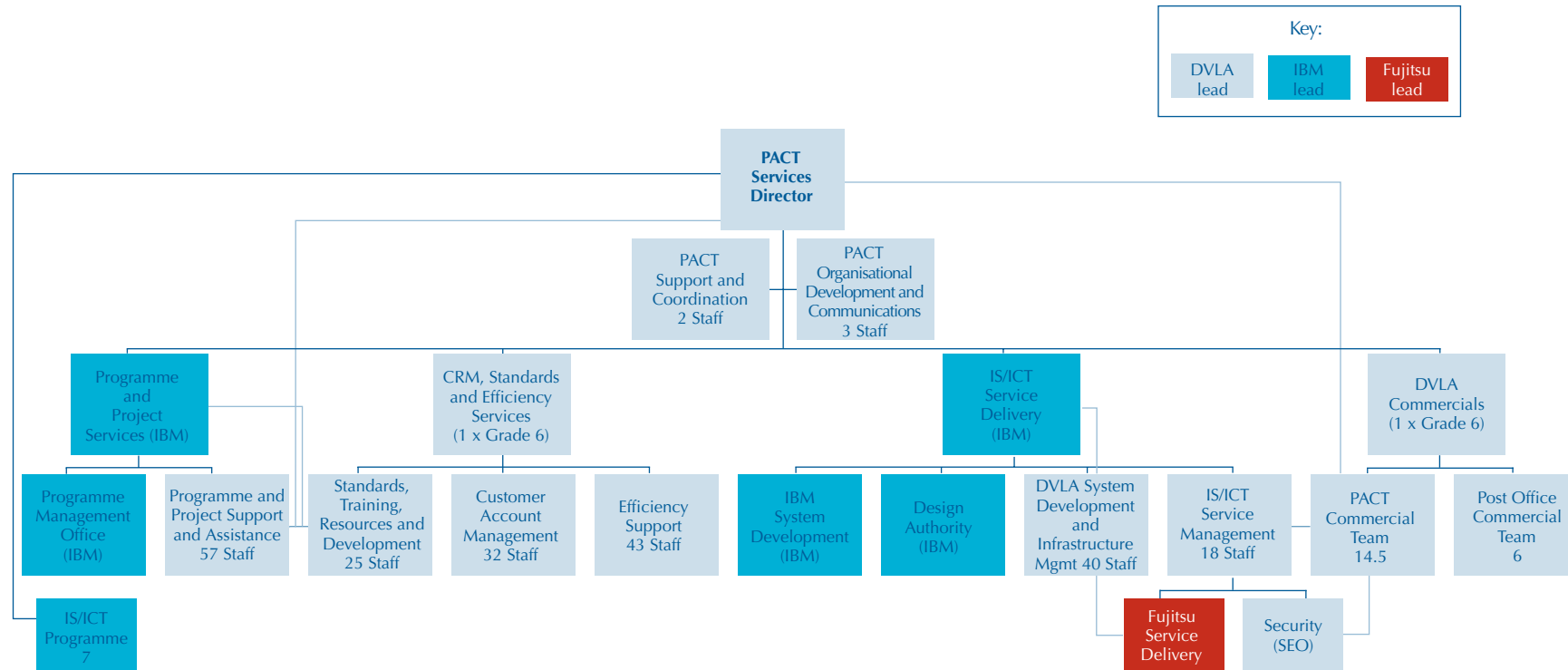
- 1 We will strive to build and maintain an effective relationship with the Customer, founded on mutual trust and openness, with a clear understanding of each other's goals and interests.
- 2 We will make every reasonable effort to ensure we develop and agree with the Customer a full and robust understanding of the requirement and its broader business context as a firm foundation for our proposals.
- 3 We will be ready to offer constructive challenge whenever we believe improvements could usefully be made to the shaping or delivery of a programme, with the aim of ensuring an improved solution.
- 4 We will only bid what we believe we can deliver with a high degree of confidence and on business models that can be sustained for the planned life of the programme.
- 5 We will declare all relevant assumptions that we make during the course of a programme (and make clear their implications) in particular those that relate to information or services provided by the customer.
- 6 We will ensure that all aspects of the programme are managed to a high degree of professionalism, using an agreed methodology and, wherever appropriate, with a clear focus on delivery of business benefits.
- 7 We will rigorously identify, analyse and manage risks and we will seek to agree solutions with the Customer that offer the best ownership and risk mitigation strategy.
- 8 We will provide sufficient transparency throughout the supply chain that subcontractors can shape their offerings and manage their work appropriately and the Customer has suitable visibility at all levels.
- 9 We will only nominate individuals for specific roles or as team members whom we judge to have the necessary authority, skills and experience and are expected to be available. Their contribution to Customer satisfaction and successful programme delivery will be encouraged and recognised.
- 10 We will encourage our staff to acquire and maintain appropriate professional standards and individual competencies. We will work towards a common and agreed framework for specific roles and associated competencies.

Source: *Intellect (2003)*

### Effective partnership can stimulate innovation

- 3.66 IT-enabled programmes must contain a significant element of business re-engineering and change management if they are to achieve the marked improvements in services that are now being sought by Government. In these circumstances the establishment of a clear understanding of the respective positions between supplier and department, as well as the sharing of responsibilities, risks and benefits, are critical to successful delivery of IT-enabled projects.
- 3.67 OGC guidance recommends the establishment of Joint Project Boards, with senior representation of both departments and suppliers. In the case of Jobcentre Plus the chair of the Programme Steering Group alternated between EDS and Jobcentre Plus. This helps to ensure that strategic decision-making is conducted in a collaborative and joint manner. Similarly, in the case of the Driver and Vehicle Licensing Agency, their Executive Board has a representative from the supplier (IBM) with full executive authority and the same status as directors - although excluded from Board discussions in respect of the financial aspects of the contract itself. **(Figure 38).**
- 3.68 The desire to secure partnership that delivers business improvement is behind the innovative thinking in the Driver and Vehicle Licensing Agency's Partners Achieving Change Together project. This began as a re-tendering for the provision of the Agency's IT services together with some of its wider business requirements with a conventional relationship between client and supplier. Fundamental considerations that emerged during the development of this contract, together with the arrival of a new Chief Executive, was the catalyst for the re-launch of the project as a vision of a transformed agency delivering services in partnership with the private sector. In particular it became clear that:
- The scale of the provision of e-services to the public would entail a fundamental shift in the supporting systems needed;
  - The length of the contract needed would involve at least two generations of technology change; and,
  - The scale of the changes would require a significant degree of programme, process change and management support to the organisation.

## PACT Services Directorate



This figure illustrates the integrated management structure of the PACT project, with supplier (IBM) staff reporting to agency (DVLA) managers, and DVLA staff reporting to IBM managers.



3.69 An early conclusion was that although the traditional contract approach of detailed service specification appeared to be low risk, in practice it was not. The extent of change involved would go to the root of any contract and pose major threats to delivery because of the procurement timescales and management resources required. The procurement approach was therefore changed to place the whole emphasis on capability to deliver transformational change through joint working. As a consequence the contract between the Agency and IBM allows for flexibility in the provision of additional services, as systems and business development allow. In this case the combination of such flexible arrangements with adequate contractual safeguards required complex negotiations - the Agency's contract is 512 pages long.

### The need to manage better the market for the procurement of IT-enabled projects

3.70 As noted in the OGC report *Increasing Competition and Improving Long-Term Capacity Planning in the Government Market Place*, there is potential for value for money gains to be made if departments engage with the market before starting a particular programme or project.

3.71 This is particularly the case in the IT market place, where the public sector share of the overall UK spend is 55 per cent. Given this opportunity for demand-side influence from departments, and that in 2002-03 five companies accounted for 60 per cent of government IT contracts, the OGC report concludes that 'the public sector needs to make a more systematic and strategic approach to the markets in which it operates'.



### The need for a Commercial Director

3.72 A more systematic and strategic approach to the marketplace will require greater exchange of information between departments about likely demands on industry capacity and about the performance of individual suppliers. A lack of commercial astuteness has been often cited as the reason for poor IT procurements with departments simply lacking the knowledge to know what is feasible and realistic. In recent years there has been a slow but increasing trend towards the appointment of a Commercial Director within departments, as recommended by the 1999 Gershon review<sup>23</sup>, to address this issue and this is reflected in the case study organisations. For example, in the Home Office there has been a recent appointment of a commercial director with a private sector background who reports through the Director General, Resources and Performance, to the Home Office Board. A private sector partner has been appointed to the board of the Immigration and Nationality Directorate. At the DVLA such skills were already available in that the CEO, Finance Director, and PACT Services Director all have commercial experience from outside the public sector and each played a major role in the contract development.

3.73 Better engagement with the market may also require a willingness to legitimately influence market structures to ensure both competition and security of supply. For example, conscious efforts to place contracts with a range of smaller firms can enhance the productive capacity of the public sector supply side as a whole and decrease the very high level of concentration. This can be accomplished by at least three specific measures: preference for new, local and/or innovative suppliers; dual-sourcing arrangements where feasible; and clauses in prime contracts to reduce entry barriers for subcontractors. Nevertheless, such initiatives are not without risk, as illustrated in **Figure 39**.

23 Peter Gershon *Review of Civil Procurement in Central Government (1999)*.

**39 Benefits and risk from early market engagement sounding**

	Benefits	Risks
<b>Department</b>	<ul style="list-style-type: none"> <li>■ Influence the market to meet future government need</li> <li>■ Verify (potential) existence of market</li> <li>■ Counteract incumbent advantage</li> <li>■ Check/improve feasibility of requirement</li> <li>■ Investigate alternatives</li> <li>■ Identify likely suppliers/consortia</li> <li>■ Clarify arrangements, requirement to improve internal and external understanding</li> <li>■ Reduce procurement cost, time</li> </ul>	<ul style="list-style-type: none"> <li>■ Possible misdirection, distorted information about requirement, technology, basis for selection</li> <li>■ Potential for 'capture' by strong suppliers (including dominant incumbents)</li> <li>■ Distortion of market, competition</li> <li>■ Possible use of pre-competitive forum for predation, collusion, pre-emptive exercise of market power</li> <li>■ Reduce incentive for forward investment</li> <li>■ Increase procurement cost, time</li> </ul>
<b>Supplier</b>	<ul style="list-style-type: none"> <li>■ Advance clarity reduces expected cost of bidding (lower overhead, better selection)</li> <li>■ Expanded set of opportunities</li> <li>■ Incentive to undertake specific innovative activities</li> <li>■ Improved forward planning for capacity, research</li> <li>■ Results in clearer specifications</li> <li>■ Opportunity to clarify uncertainties, get input into specification, before time and communication limits of formal procurement process bind</li> <li>■ Chance for new entrants to counteract incumbent advantage and/or get 'on the screen' for prime contractors</li> </ul>	<ul style="list-style-type: none"> <li>■ Cost of participation (may be large for new entrants, SMEs)</li> <li>■ Potential disclosure of intellectual property</li> <li>■ Disclosure of bargaining position to rivals, potential partners, clients</li> <li>■ May undermine incumbent incentive to develop improvements in advance of re-tendering</li> </ul>

Source: RAND Europe; Office of Government Commerce <sup>24</sup>

3.74 Following early market engagement, it is important that departments have a clear specification of their requirements when approaching potential suppliers. The importance of requirement specification in the procurement process was emphasised in interviews with suppliers. If the specification is ambiguous or unrealistic, then the supplier may decide not to tender for a contract. This was illustrated in the National Audit Office report, *New IT systems for Magistrates' Courts: the Libra project* (2003), that noted that ICL renegotiated the contract twice due to unrealistic expectations regarding revenues and funding. Given the small number of dominant suppliers, this 'adverse selection' has had a major impact on type and quality of bids made for major IT-enabled projects. If major suppliers refuse to bid for specific projects or concentrate in certain areas, this would leave IT projects short of suppliers that have the necessary technical and management skills. In order to address this issue, in December 2003 Intellect began its Concept Viability service, detailed at **Figure 40**, which should lead to clear specification of requirements and early market engagement. In particular, the workshops held as part of

this service were welcomed by EDS as a useful opportunity to shape procurements at an early stage to ensure the procurement process is robust and achieves best value for money.

**40 Intellect's Concept Viability Service**

**Stage 1:** Department submits a short written description of business need to Intellect

**Stage 2:** Intellect invites a selection of companies to comment on the proposal based on either selection of participants (jointly agreed between departments and Intellect), **or** those companies identified by Intellect as having relevant expertise

**Stage 3:** Workshops to exchange information between departments and suppliers, facilitated by Intellect

**Stage 4:** Intellect prepares a Concept Viability Assessment based on collated responses from suppliers

**Stage 5:** Concept Viability Assessment is made available to all interested suppliers prior to commencement of official procurement process

Source: Intellect

## Opening the market to smaller organisations

3.75 A related issue is whether contracting with large suppliers or long-term incumbents unduly restricts entry of new or small enterprises offering specific employment, innovation and value for money advantages. To support innovation and value for money, some departments are developing new tendering and procurement processes and ways of specifying requirements. To solicit innovation the Driver and Vehicle Licensing Agency project tender specified a possible future programme (Electronic Vehicle Licensing) as a 'test problem' to be addressed by tenderers.

3.76 In cases where the scale and duration of procurement permit, an alternative is 'dynamic dual sourcing'. In such an arrangement, teams made up of departmental and supplier personnel compete to develop designs. Following design competition, the procurement is divided into components, two suppliers are selected and assigned (on the basis of the original competition) shares of each supply contract. Periodically, supplier performance is reviewed and shares adjusted. As discussed in more detail in Appendix 4, the possibility of future adjustment provides competitive incentives.

3.77 Subcontractors' role in major IT-enabled projects is usually part of the technical and managerial capability of individual tenders. When they are brought in at later stages of projects, the technical quality and professionalism of individual subcontractors is often vetted by departmental IT or project managers. Subcontractors often have both technical and non-technical roles. In the case of the OASys project for the Prison Service, both the department and supplier brought in subcontractors specialising in Rational Unified Process, a particular systems analysis and design method demanded by the project team. In the case of the Case Information Database Enhancement Programme, a subcontractor was brought in to help manage the work of the primary contractor.

3.78 The OGC have taken initiatives to tackle these issues. It has established a set of 32 current key suppliers across central civil government covering IT (where 11 key suppliers are identified), Telecommunications, Professional Services, and Construction and Facilities Management market sectors using the following criteria:

- The size and spend across government;
- The criticality of the supply of the goods or services to the delivery of government business;
- The lack of easily available substitutes;
- Market share and strategic influence; and,
- The extent of their business on a multi-department basis.

3.79 The OGC aims to use it to foster better working relationships with these key suppliers in order to improve their performance across government. Where necessary they will seek to bring pressure to bear by ensuring that the suppliers' senior management teams have a clear understanding of where they are failing and by actively encouraging departments to take into account suppliers performance elsewhere in government when awarding contracts.

## Our assessment

3.80 ***There has been close and sustained engagement between the OGC and the IT Industry although the benefits of this have not yet filtered down to individual programmes and project teams.*** This engagement, in particular with Intellect, has resulted in a comprehensive range of initiatives and frameworks designed to improve the understanding and relationship between suppliers and departments and these initiatives are being taken account of at a corporate level.

3.81 *The development of effective partnership between departments and suppliers can lead to flexibility and innovation in delivering business requirements, but this needs to be carefully thought through with close engagement between department and supplier. Where Joint Project Boards have been put in place this has led to a much clearer shared view between departments and suppliers of how best to meet the emerging needs of business change and service improvement.*

3.82 *Early market engagement by departments helps facilitate innovation and value for money in contracting arrangements. It remains the responsibility of departments to enter the IT marketplace as intelligent customers with a clear understanding of their requirements and the means to determine for themselves the competency of their potential suppliers. To do this requires both technical and commercial leadership at departmental board level.*

# Appendix 1

## Case Studies

The Driver and Vehicle Licensing Agency is an Executive Agency of the Department for Transport that aims to improve road safety and general law enforcement by maintaining registers of drivers and vehicles, and to collect vehicle excise duty.



### Partners Achieving Change Together Project

**Contract Value:** £550 million

**Supplier:** IBM Business Consulting Services and Fujitsu Services

**Timescale:** September 2000 - December 2002

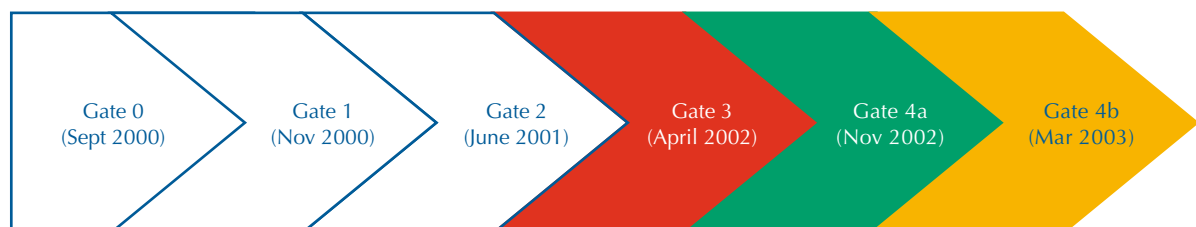
**Current Status:** The procurement project is complete, and the contract let to the suppliers commenced in September 2002. This is a partnership agreement under which both parties have since worked closely in developing Agency initiatives.

### Project Aim

- 1 The Driver and Vehicle Licensing Agency's IT contract project commenced in October 1998 with the aim of re-tendering the DVLA's Information Technology/ Information and Communication Technology services. IT strategy is central to the delivery of services by the DVLA, which is effectively an information management organisation holding data on some 39 million drivers and 32 million vehicles. In October 2000, following continuing work to scope the future requirements of the contract the project was re-focused and became the **Partners Achieving Change Together Project**. This revision of the Agency's requirements reflected the challenges faced by the Agency in terms of developments in business direction and the shift to the provision of e-services to the public.
- 2 Specifically, the project was a procurement exercise to appoint a strategic business partner to support the development and implementation of the Agency's long term strategy and delivery. This role included the provision of IT systems to the Agency, and the delivery of e-services to both the DVLA and to the wider family of Department for Transport Agencies within the Driver & Vehicle Operator (DVO) Group. The procurement project ran from 2000-2002 and culminated in a new supplier delivering IT systems as well as providing considerable design and management support to the Agency's delivery initiatives which include the introduction of an Electronic Vehicle Relicensing System, and a 'Smart tachograph' system for monitoring the driving and rest times of drivers of commercial vehicles.

### Contract

- 3 The contract is a wide ranging strategic partnership designed to deal with the current and planned activities of the Agency as well as building in the capacity for new services in the future. Three companies were short-listed in May 2001 following a competitive tender exercise advertised through the Official Journal of the European Communities (OJEC). IBM Business Consulting Services (formerly PWC Consulting) and Fujitsu Services (formerly ICL) were selected and the contract commenced in September 2002. The contract covers delivery of IT services for the next 10 years (extendable by a further 3 years) with Fujitsu providing system development, maintenance and support. This is a 'transform and operate contract' which will see the supplier and customer work together to develop the Agency's business processes in order to reduce costs and develop new delivery channels.
- 4 The project costs for setting up and managing the procurement contract to March 2003 were just under £4 million. The procurement contract value at sign was £301 million (excluding the significant development programme which although not guaranteed within the contract could double the contract value over the full term). Fujitsu's share of the contract is worth £200 million over the 10 years.



## Scrutiny

- 5 The project has passed through OGC Gates 0-4 as outlined above. The three earliest gates took place before the introduction by OGC of the 'Red-Amber-Green' project status. The project team found the Gateway Review process very helpful, in particular in bringing out clearly the barriers to successful implementation at Gate 3 where the project was assessed at red. Here the review team found that continuing value for money had not been secured due to a lack of transparency of the commercial arrangements. The result of this Gateway Review served as an immediate prompt to both the Agency and bidders, with a Project Board meeting called to discuss the recommendations of the review and subsequently requesting further information from the contract bidders. This included target profit margins, profit share schemes, and commitments to full open book accounting. Armed with these details the Agency was able to announce its preferred bidder. As a result of this successful resolution the DVLA is currently looking at establishing a corporate value for money strategy following the lead of the PACT contract mechanisms developed in response to the OGC Gate 3 Review.
- 6 External scrutiny is supported by internal corporate governance structures, for example the DVLA's Efficiency Support Group conducted a Post Project Review Report (equivalent to OGC's Gate 5 Review) following the closure of the project. This review examined whether the benefits of the project as set out in an earlier Benefit Delivery Plan had been achieved, and looked to identify any lessons learned with applicability to other procurement projects.

## Skills

- 7 The Agency has a mixture of public and private experience on their Board - including two qualified accountants and a legally qualified director at the time of the procurement. It has significant experience of major procurements. The Agency has also made extensive use of external advisors in letting the contract, including procurement, legal and financial specialists. In tendering for procurement advisers the project team used the S-Cat catalogue run by ogcbuying.solutions. The project team felt that they should have upgraded internal resources earlier during the transition process from the previous suppliers as there was in-filling necessary from IBM staff, although this input helped to co-ordinate the project management capacity and improve the awareness of existing skills.

## Good Practice

- 8 The OGC had a representative on the Project Board who was able to advise on best practice, and the project team felt that the experience of the external Gateway teams allowed them to tap into good practice elsewhere in government. Moreover the Gateway reviewers felt they had learned some lessons with applicability to upcoming projects within their parent departments. The project team also made some limited use of the Supplier Intelligence Service during the procurement process and staff have also attended OGC run 'supplier seminars' where customers using the same suppliers can meet to discuss their performance. Generally, however, they did feel less inclined to go to OGC directly for advice than in the past when one of the OGC's predecessor organisations had a designated client director assigned to the Agency. The

project team did not make use of the Department for Transport's Centre of Excellence during the procurement, but has since set up an equivalent Agency body, STRAD (Standards, Training, Resource and Development), which interfaces regularly with the Centre of Excellence. This body refreshes quality standards and monitors internal capability, and has a direct reporting line to the Change Programme Board, which is chaired by the Agency's Chief Executive, and the Agency's Audit Committee in respect of risk management.

## Implementation

- 9 There is a strong emphasis on joint working in the contract which is based on the principles of senior management sponsorship, principled negotiation and joint business planning. In particular this partnership has been taken forward in terms of staffing structure, including;
  - An IBM representative with expertise in business change sits as a full member of the Executive Board;
  - A common Programme Management Office overseeing joint programme management of change;
  - A joint design authority specifying delivery solutions and specifications;
  - Joint innovation facilities to shorten development timescales; and,
  - Away-days where both sides have developed joint success criteria for the future.
- 10 The Agency's wider organisational structure also changed in line with the new contract and the partnership working approach it entailed. This included the re-structuring of the Development Directorate into PACT Services Directorate which embodies the principles of joint working at a number of levels.
- 11 The Agency sought to ensure continuing value for money through the life of the contract, and flexibility of the contract was one of the stipulated desired project benefits. This flexibility was secured by contract terms which allow mini-competitions wherein suppliers other than IBM can bid for projects. Although to date the Agency has tended to use IBM when letting contracts for new projects not all the work has gone to the firm. The Agency has utilised third parties to carry out independent value for money assessments of IBM bids.

## Current Status

- 12 The Agency's systems management moved from its previous contractors to IBM and Fujitsu in December 2002, which was three months ahead of schedule. This transition passed off smoothly both internally and in terms of the maintenance of services provided to external organisations such as the police, courts and local authorities. The PACT Procurement Project is now officially closed. Six major change projects have since been launched, with all but one delivered to time and budget, with the first major project - Electronic Vehicle Re-licensing - going live in February 2004. The next major milestones for the PACT project are the delivery of the new driver licensing systems and a technology refresh to be completed in 2005.

### KEY POINTS

#### The Agency:

- has established a joint management and organisational structure with its supplier around a key commitment to partnership working;
- set up a flexible contract designed to adapt to business needs through the life of the 10 year contract; and,
- responded promptly to a 'Red' OGC Gateway Review, convening a Board meeting with its suppliers and taking the necessary action to secure a 'Green' assessment at the next Gateway.

Jobcentre Plus is an Executive Agency within the Department for Work and Pensions. The aim of Jobcentre Plus is to help more people into work, to help employers to fill their vacancies, and to provide people of working age with the help and support to which they are entitled. Its purpose is to contribute to the Government's aim of tackling poverty, reducing unemployment, promoting growth and opportunity, and modernising government.



### Jobcentre Plus Implementation Programme

<b>Cost:</b>	£2.2 billion
<b>Supplier:</b>	EDS and BT Syntegra
<b>Timescale:</b>	2000 - 2006
<b>Current Status:</b>	The project is on time and on budget, with the roll-out of modernised facilities now having passed the halfway stage.

### Project Aim

- 1 Jobcentre Plus replaced the former Employment Service and the Working Age functions of the Benefits Agency in April 2002 and is central to 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. This shift in the focus of delivery is manifested in changes to the Agency's business processes towards greater customer contact by telephone, a new system to manage face-to-face customer contact, and a redesign of the physical environment of Jobcentre premises. The **Jobcentre Plus Implementation Programme** is an IT-enabled programme to implement these services across the Jobcentre Plus network.
- 2 The project aims to modernise client-facing facilities through the roll-out of approximately 1,000 integrated, refurbished offices across the country, replacing Social Security Offices and Jobcentres. These will provide access to relevant employment information for both Jobcentre staff and their clients through a range of channels, including online vacancies and through Jobpoints - kiosks with interactive computer terminals where people can search for vacancies.

### Contract

- 3 The programme used existing PFI contracts with EDS and BT Syntegra to deliver the IT enabled elements of change. This included the IT Partnership Agreement with EDS, originally signed in 1998, and which provided a strategic partnership and flexibility to deliver the individual components of the programme. Similarly, BT Syntegra's services were provided under the terms of the 2001 ACCORD Agreement.

- 4 The full cost of the roll-out of the Jobcentre Plus Implementation Programme to 2006 is £2.2 billion, a programme cost which includes the rationalisation of the relevant parts of the Department for Work and Pensions' estate. The IT component of this programme is worth £120 million and has been awarded in phases to meet Programme objectives. It builds on the Modernising Employment Services contract by extending the utilisation of jobpoints as well as installing the appropriate technical infrastructure to support the new systems.

### Scrutiny

- 5 The Jobcentre Plus Implementation Project has undergone four OGC Gateway Reviews and intends to request repeated Gate 5 Reviews in order to assess whether the benefits envisaged at the outset of the project are apparent. The first of these reviews took place in May 2004, and the next is scheduled for March 2005. The Gateway reviews have added weight to the scrutiny of the project. In particular the Reviews are mandated to be sent to the Permanent Secretary of the Department for Work and Pensions. The project team have asked for particular reviewers to conduct the Reviews where they have found their previous input helpful.



- 6 Corporate Governance structures support this external scrutiny through a business 'Change Lifecycle' which sets out the full series of stages to be followed by projects, with expected outcomes and a schedule of internal gated reviews. This complements both OGC's Gateways and other internal methods of scrutiny. In particular Internal Assurance have been involved with the project from the outset, agreeing a permanent work program of reviews (OGC have identified the model used here as good practice for other organisations to follow). In addition the project is subject to internal review from both the Estates and Product Design and Development teams. Recommendations of both internal and external reviews are collated in an umbrella 'Assurance Action Plan' with details of how they are to be addressed.

## Skills

- 7 Senior project staff are members of the Department for Work and Pensions' Project Professionals Group, a network of project staff who receive central support to develop skills and experience and work towards professional accreditation. The project team has used this group to access skilled staff and match them to specific areas where they have experienced a resource shortfall. Membership of this body confers membership of the OGC's Programme and Project Management Specialism and the Department has used an external consultancy in the academic sector to undertake assessment of staff skill sets. The project team have also engaged external consultants to obtain technical IT expertise and for the purpose of price-checking during the procurement process.

## Good Practice

- 8 The Department for Work and Pensions' Programme and Systems Delivery Group has provided considerable support to the project team, including an annual review of the project business case. This group is responsible for the Department's main Centre of Excellence and has strong links to the OGC. In addition the Jobcentre Plus Centre of Excellence, (one of nine that sit below the main Centre of Excellence), and the Department's Procurement Unit have actively supported the project team at a business level. The project pre-dates the implementation of the Successful Delivery Toolkit and the project team have not used the OGC Good Practice products consistently, outside of those which provide direct support to the Gateway Review process, such as the Risk Potential Assessment for classifying the risk of new projects. However, the project team have benefited from developing a relationship with one particular contact in OGC who has become a touchstone for consultation on the project.

## Implementation

- 9 The Project Board meets quarterly to assess progress against the project aims, and reports directly to the Jobcentre Plus Board. At critical stages of project implementation it also reports into the Working Age Programme Board and the Departmental Change Board, which is chaired by the Permanent Secretary. The roll-out of the project to individual Jobcentres relies on effective local management with required meetings between local managers and suppliers. The partnership with two different suppliers has meant the need for greater openness and has in turn stimulated stronger competition between the two when new contracts are tendered.

## Current Status

- 10 The project has delivered the agreed number of sites on time and on budget. As at June 2004 over 9,000 Jobpoints are now deployed in Jobcentres and Jobcentre Plus offices and, on a pilot basis, in other locations. Given the rapid pace of the roll-out there is a need for the project team to guard against the risk that the controls and support frameworks do not keep apace. The project underwent an OGC Gate 5 Review in May 2004 which conferred Amber status. The three amber recommendations referred to the consistency of performance, defining the end-to-end business process, and clarity in defining delivery.

### KEY POINTS

#### The Project team:

- established close links with Internal Assurance Services (Internal Audit) from an early stage, agreeing a programme of project reviews;
- made use of the Department's Project Professionals Group to source skilled programme and project management staff where in-house skills shortages were identified; and,
- developed channels to access OGC best practice guidance, both indirectly through Departmental Centres of Excellence, and directly through the development of a key contact relationship.

The Department for Work and Pensions is responsible for the Government's welfare reform agenda. It delivers support and advice through a network of services to people of working age, employers, pensioners, families and children and disabled people.



### Payment Modernisation Programme

- Cost:** £465 million
- Supplier:** Atos Origin UK
- Timescale:** October 2002 - May 2005
- Current Status:** The project is on course for completion by March 2005, with 10 million benefit accounts already paid directly. The project team estimate that 93 per cent of recipients will be paid directly against a target of 85 per cent.

### Project Aim

- 1 The aim of the **Payment Modernisation Programme** is to enable the Department for Work and Pensions to meet the eighth objective of their Public Service Agreement with HM Treasury. This is to; *"Make significant progress towards modernising welfare delivery so that by 2005, 85 per cent of customers have their benefit paid into their bank accounts"*. The benefits for the DWP of introducing direct payment systems are faster processing, a reduced risk of fraud, reduced costs, and a greater flexibility for clients who can withdraw benefits in part rather than encashing their full value.
- 2 The move away from paper based methods of benefit payment to Automated Credit Transfer is taking place over a two-year period from April 2003-2005. It involves the conversion of potentially 15 million current client accounts (as well as new accounts) to direct payments through a process known as 'informed choice' whereby they receive by letter and telephone advice about ways to convert from order book and giro to bank and Post Office accounts. Through the Universal Banking programme (which is funded by the DWP in partnership with the Treasury, the Department of Trade and Industry and the banking industry) the Post Office can provide a Post Office Card Account service to customers which they can use to receive direct benefit payments.
- 3 There is no legal compulsion for recipients to convert to direct payment and the Department has recognised that there will be a residual group of customers who will be unable or unwilling to supply bank details (so-called 'exceptions'). Provision has been made for these customers under the Cheque Payment Project which

will go live in October 2004 and will migrate Order Book customers to cheque payment, with the phasing out of Order Books to be completed by May 2005. The challenge for the Department's front-line business units and those in the Inland Revenue, Northern Ireland Social Security Agency and Veterans Agency who manage the various benefits (Pension Credits, Child Benefit, Income Support, Jobseeker's Allowance, Retirement Pension, Carers Allowance and Attendance Allowance) will be to ensure the number of exceptions is minimised.

### Contract

- 4 The contract involves the provision of 'informed choice' to current and new benefit recipients, and ensuring that their bank account data is successfully transferred to existing departmental systems to allow their benefits to be paid directly into bank accounts. This is undertaken through a one-off two year service outsourced to SchlumbergerSema (now Atos Origin UK) through a DWP procurement framework. Following a tender exercise this contract was awarded in August 2002 with an operational start date in October that year. The use of call centres is the main component of 'informed choice' and data management processes are delivered via call centres with a sub-contractor.
- 5 The full Payment Modernisation Programme cost is £465 million and the authorised expenditure as at June 2004 stood at £200 million.<sup>1</sup> The value of the contract with Atos Origin UK at sign was £100m.

<sup>1</sup> DWP Departmental Report June 2004.

## Scrutiny

- 6 The Payment Modernisation Programme underwent a joint OGC Gate 2 and 3 Review in April 2002, before the 'Red Amber Green' marking system was introduced. In the view of the project team Gateway Reviews carry weight by drawing in senior stakeholders, thus helping the Senior Responsible Officer, Project Director and Project Manager to push their work. Their success is seen to depend on the capability of the reviewers themselves and the programme team have repeatedly requested the same lead reviewer to ensure consistency across Gates. There is a further OGC Gateway Review planned which will be a Gate 0 review (Gate 0 is a repeatable Gate for programmes) which will make a strategic assessment of the Cheque Payments Project and client group readiness for this system.
- 7 In addition, as part of the Department's 'Change Lifecycle' Model every new stage of the project goes through a schedule of internal gated reviews undertaken as part of their internal governance structure. The programme team have worked closely with the Department's Programme and Systems Delivery Group which maintains this model and ensures compliance with internal governance standards. For example the programme team underwent a stakeholder review on the design of the Cheque Payments Project in June 2004 in advance of the proposed OGC Gate 0 review. Here 36 stakeholders had the opportunity to challenge the 'Red-Amber-Green' status conferred by the project team against the aims of the project. They can grade component parts of the project independently and the project is given an overall Red, Amber or Green status following their input.
- 8 Corporate Governance structures are complemented by the work of DWP's Internal Assurance Group, a member of whom is assigned to the Payment Modernisation Programme and has agreed the overall work programme, including the terms of reference for any internal assurance reports. Internal Assurance have, for example, identified issues in relation to dealing with missing and rejected payments, (the latter of which is estimated at just over 0.1 per cent). Together these internal processes are designed to bring any problems to the surface quickly and lead to recommendations and action points which need to be addressed before the project goes through to senior approval.

## Skills

- 9 All Grade 6 and Grade 7 programme staff are members of the Department's Project Professionals Group which maps directly onto the OGC's new Programme and Project Management Specialism. Within the department there is a central group of around 370 specialist programme and project managers, as well as associate members and affiliates.

- 10 With a lack of key skills the Department brought in a strategic partner to populate key roles in the programme team (including a project manager to steer the programme through the procurement process), and used some other specialist contractors. In engaging external assistance the programme provided for a skills transfer into the Department and are currently piloting an e-learning package with staff which will advise on managing contractors and ensuring skills transfer. The programme team are currently looking at the feasibility of retaining a core of staff to capitalise on 'group skills' when moving on to other projects.

## Good Practice

- 11 The Department operates nine Centres of Excellence aligned to business areas as well as one overarching corporate Centre of Excellence within the Programme and Systems Delivery Group. The Payment Modernisation Programme is aligned to the financial Centre of Excellence, but as a mission-critical project it is also subject to oversight from a departmental Change Board which ensures that it meets OGC's requirements for senior buy-in on mission-critical projects. The Department is currently piloting an intranet database to disseminate good practice lessons from internal and external reviews of projects, Internal Assurance reports and project closures.

## Implementation

- 12 The project operates with a strong partnership approach, with external suppliers (including a sub-contractor) sitting on project boards. Responsibility for the conversion of recipients' details to Direct Payment lies with the supplier - Atos Origin UK - with the DWP providing them with the details of customers to invite to convert through 'informed choice'. The DWP, however, have a conversion manager supplied by the Department's procurement unit overseeing the process, as well as a Service Level Manager who provides input at the business level even though DWP are procuring a managed service. In addition DWP have a direct communication line into the main sub-contractors. Only once have issues between the contractor and supplier required escalation to Atos Origin UK senior management.
- 13 The responsibility for data supplied into the client conversion process lies with the Departments' business groups rather than PMP. PMP estimate that the details of over three million current clients will be passed back to these bodies to chase. Nevertheless the project team estimate that there will be less than two million exceptions to the direct payment system at project close.

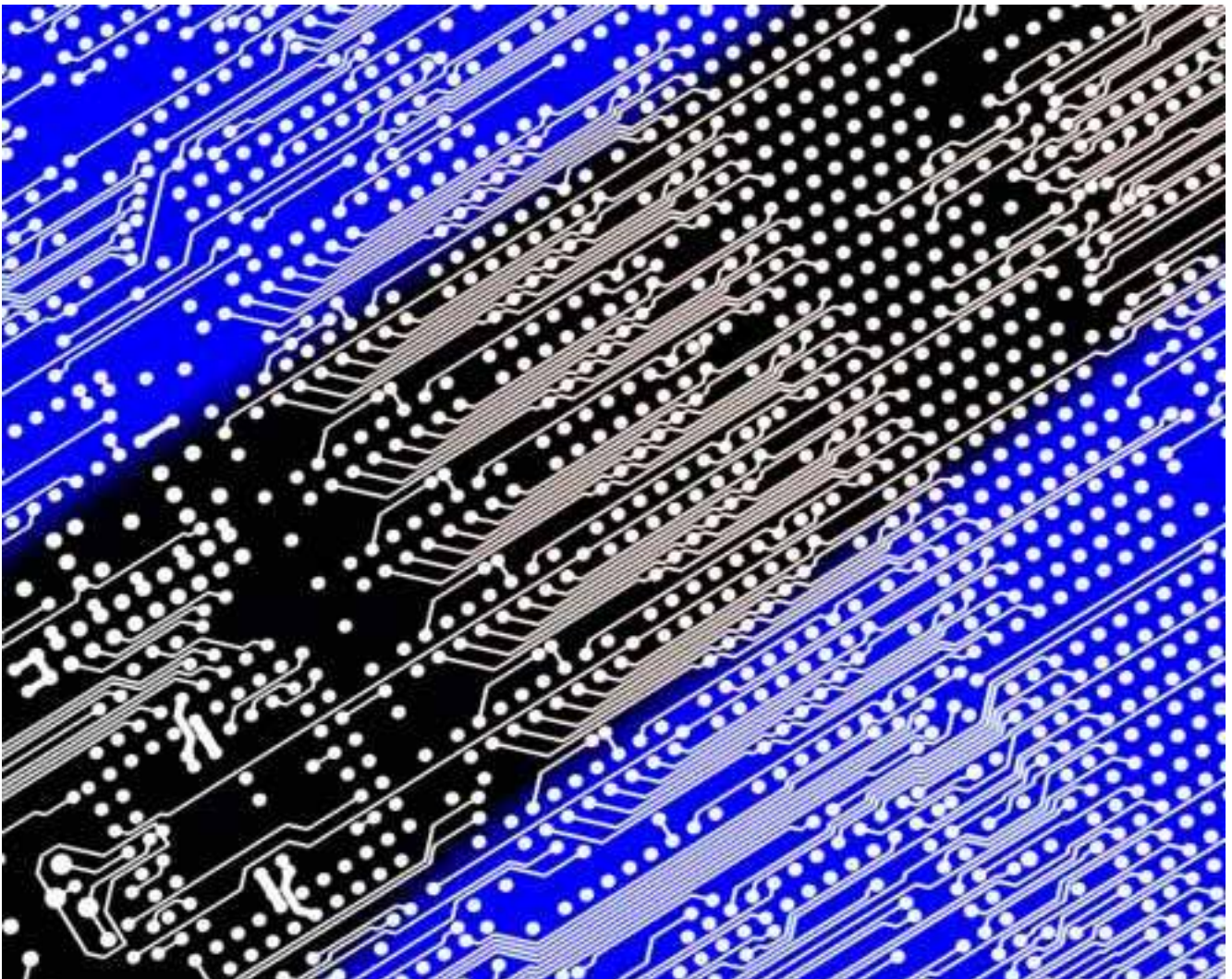
## Current Status

14 The Payment Modernisation Programme commenced on time with benefit systems successfully aligned to the outsourced suppliers IT system. From April 2003 Direct Payment became the normal method of payment for new benefit applicants and as at June 2004 65 per cent of benefit accounts (some 10 million) were being paid directly to recipients' bank accounts. The programme remains on target to complete on time and within budget. May 2005 will be the final date that any recipient will be able to cash an order book foil for payment of benefits, and DWP have a strategy for programme closure at this point, with the subsequent focus to be on benefits realisation.

### KEY POINTS

#### The Project team:

- has managed the project in line with the Department's 'Change Lifecycle' of internal reviews, working closely with the Department's Programme and Systems Delivery Group;
- includes members from both the supplier and their sub-contractor, and links with the delivery of the managed service have been maintained by appointing operational staff from the Department; and,
- have put in place the mechanisms to secure skills transfer where they have engaged external specialists to assist them.



The Home Office is responsible for internal affairs in England and Wales. It works to build a safe, just and tolerant society, to enhance opportunities for all, and to ensure that the protection and security of the public are maintained and enhanced.

The Immigration and Nationality Directorate regulates entry and settlement in the United Kingdom in the interests of sustainable growth and social inclusion.



### Case Information Database Enhancement Programme

**Cost:** £36 million

**Supplier:** Siemens

**Timescale:** April 2002 - July 2003

**Current Status:** The Case Information Database was deployed at ports and other Immigration and Nationality Directorate locations across the country, with some 10,000 users by July 2003.

### Project Aim

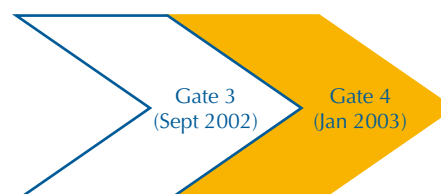
- 1 The **Case Information Database Enhancement Programme** makes available to the whole of the Directorate the facilities of the Case Information Database. The Database itself was developed in a little over a year, between January 2001 and March 2002, as an interim solution after the abandonment of the earlier and much more ambitious Casework Programme. (This sought to introduce new business practices based on a paperless decision-making system for asylum applications which proved not to be feasible, with the Home Office concluding that it was too complex and out of touch with their working practices).
- 2 The Database allowed, for the first time, the case records of asylum seekers to be stored and accessed electronically, but with the actual asylum decisions being made on the basis of paper records. The Database represents a major improvement in the accessibility of records and a significant increase in the availability of management information. This, in turn, has the potential to allow better control and screening at ports and a reduction in the time taken to make and serve asylum decisions and to process cases through to appeal.
- 3 The basis of the Enhancement Programme was a review of the benefits realised by the Case Information Database. Under the direction of the Directorate's Change Control Board the need was identified for enhancements to the Database in order to support the implementation of new policy objectives on asylum.
- 4 The Programme makes a significant contribution towards the Directorate's business targets of a reduction in the cost of supporting asylum seekers by £300 million per annum, and processing of 75 per cent of initial asylum decisions within two months of the application.

### Contract

- 5 In March 2002 the Home Office and Siemens Business Services agreed a revised contract to develop and operate the Case Information Database until October 2003, (subsequently extended until October 2004). The Enhancement Programme occurred within the terms of that contract with a value of £36 million in April 2002. SchlumbergerSema (now Atos Origin UK) provided client-side support including contract monitoring and technical and security assurance. In 2003 the Home Office started a competitive tendering exercise for the award of a new contract to manage and enhance its computer network and, within this, to support and maintain the Case Information Database Enhancement Programme. In August 2004 the six-year, £200 million, contract was awarded to Atos Origin, who will take up their responsibilities in November 2004, when the current contract with Siemens expires.

### Scrutiny

- 6 No Gateway Reviews were carried out on this project until Gateway 3 (the investment decision) in September 2002. This identified outstanding pressures from the complex web of supplier, technical and business inter-relationships, but concluded that the project would succeed if key personnel remained in post and the correct implementation strategy was adopted. This expectation was confirmed by the Gateway 4 (Readiness for Service) Review in January 2003. This found that, while there remained numerous issues to be resolved, these had been recognised and were being addressed by the project team.



## Skills

- 7 Following the agreement of the revised contract in March 2002, the Directorate decided to bring together all its IT support functions into a single unit called Business Information Systems and Technology Directorate, strengthening its capacity to provide IT services and support and, at the same time, providing closer integration with business need.
- 8 To maximise the benefit of the Enhancement Programme the Directorate recognised that it was necessary for all users to be fully trained but had insufficient capacity to achieve this in-house so, following a competitive procurement, employed Atos Origin to provide training and support for the staff using the new system. Atos Origin provided up to 30 trainers to help staff get the most from the new system and deployed a team of eight to act as local implementation managers.

## Good Practice

- 9 In the Case Information Database Enhancement Programme project the Immigration and Nationality Directorate has adopted good practice in avoiding a "big bang" approach by seeking an incremental improvement over existing systems. In contrast to the earlier more ambitious, but unsuccessful, Casework Systems, the Case Information Database Enhancement Programme has not been combined with extensive business process re-engineering.
- 10 To reduce the risks of overruns of the timetable or budget a decision was made that no additional major enhancements to the Case Information Database Enhancement Programme would be added once the Stage 3 review of the business decision had taken place.
- 11 The senior managers of the Immigration and Nationality Directorate were strongly supportive of the project which they regarded as crucial to delivering overall targets and objectives. They did not, however, have active involvement in the preparation of the benefits realisation on which the case for the project was based. For this reason the Chair of the Senior Users Group had to have the authority to ensure that senior business managers reached an agreed set of requirements for the new database. The business managers had in turn to take responsibility for making effective use of the database to deliver the wider benefits on which was based the business case for the project.

## Implementation

- 12 Initially the Database was only available to 6,000 staff based in Croydon and Liverpool. Following a review of its benefits by the Directorate's Change Control Board, chaired by the Senior Responsible Owner, the Database Enhancement Programme was commenced in April 2002. This led to an enhanced version being released to those staff in November 2002. A further release of the Database occurred in the early part of 2003 extending its availability to more than 10,000 staff across the country.
- 13 The effectiveness of the final release to all users was assisted by extensive and systematic work to cleanse data when it was assembled from old computer systems.

## Current Status

- 14 By July 2003 the Case Information Database Enhancement Programme had been deployed to the user communities at ports, induction centres, the National Asylum Support Service, Reporting Centres and Local Enforcement Offices. Since that time a continuous programme of enhancement has been undertaken to meet the needs of the business, including enhanced reporting facilities.

### KEY POINTS

- The Department's Board engaged more closely with the project following the abandonment of the Casework Programme and has rationalised the organisational structure to better match skills to project management activities, and IT provision to business need; and
- The Project team put in place a gradual and progressive implementation, avoiding any radical departures from existing systems and the risks associated with a 'big bang'.

Her Majesty's Prison Service is an Executive Agency of the Home Office. It serves the public by keeping in custody those committed by the courts. Their duty is to look after them with humanity and help them lead law-abiding and useful lives in custody and after release.



### The Offender Assessment System

- Cost:** £11.7 million
- Supplier:** EDS
- Timescale:** April 2001 - December 2004
- Current Status:** Full implementation of the OASys system is being delivered on time in HMPS and is due to be completed by the end of 2004. At the time of the study it had been provided to 2000 staff in 83 of 133 establishments.

### Project Aim

- 1 The **Offender Assessment System** (OASys) is a comprehensive offender risk, needs assessment and sentence planning instrument to provide systematic, reliable and evidence-based structure to the established sentence management process within HM Prison Service. It has been developed in parallel with a National Probation Service (NPS) system in order to provide an integrated assessment and sentence planning process linking probation supervision with custody in Prison Service establishments. This supports the management of custodial and community sentences to protect the public and to reduce the risk of re-offending.

### Background

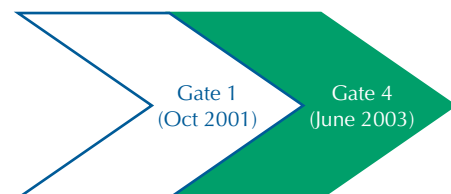
- 2 The purpose of OASys is to provide a means of estimating reconviction risk as well as providing a unified view of sentence or supervision plans. In this way OASys combines actuarial risk assessments (based on past behaviour) with the exercise of professional judgement by the assessor. The system is a key element in improving evidence-based sentence plans for those offenders over the age of eighteen. The system was introduced as a paper-based pilot before being translated into an IT-based system. While this project has been developed independently of the equivalent project in the Probation Service, the Service is co-ordinating with the Probation service on the wider implications of the programme with an aim of piloting the joining of the two systems in July 2004. The pilot was delivered in July and the department advise that it is currently working successfully.

### Contract

- 3 The contract management for OASys flows from the Prison Service's 12 year PFI outsourcing deal with EDS for ICT services. Under this EDS provides the Prison Service with a managed Information and Communication Technology service and is also the Service's preferred supplier for application development and business change. The value of the PFI contract at signature was £200 million. The initial OASys proposal from EDS received in December 2002 covered the base functionality and support for three years and was worth £3.4 million. Additional functionality and support requirements including connectivity with the Probation Service have increased the IT costs to £11.7million.

### Scrutiny

- 4 The joint Prison and National Probation Service Offender Assessment System was the subject of a Gateway 1 Review in October 2001. This found that the programme was ready to proceed but that it needed to address the differences in the timescale and environment into which the system would be introduced in the two services. The OASys project for the Prison Service completed a favourable Gateway 4 review in June 2003 which confirmed that it was ready for service.



## Skills

- 5 A challenge throughout the project has been the forward planning of resource requirements to ensure adequate numbers of staff with the appropriate skills. This has been compounded by the lack of available technical expertise in the Prison Service. As a consequence there has been a high reliance on external consultants.

## Good Practice

- 6 In late 2003, the Prison Service OASys Project Board commissioned an interim review of the project to capture the lessons of good practice before some key members of the project team moved on. This was achieved by means of a questionnaire sent to staff and consultants who had had a significant role in the project.
- 7 The IT system roll out has been supported by training that has been extensive and well received. At the time of the study this had been provided to 2,000 staff in 83 out of 133 establishments. The remaining establishments are to receive training on the new system by the end of 2004. This high quality training was achieved by a small central team delivering all training over a lengthy roll-out period. Co-operation from EDS was essential in providing technical support at each site where training took place. The Service recognises the need to introduce quality control to ensure this standard is maintained in subsequent phases of the project.

## Implementation

- 8 A joint Prison and Probation service business case was prepared in April 2001 and opened the way for the parallel development of IT based offender assessment systems. The decision was taken to undertake separate implementation in each of the two services because of their different operational needs and IT technologies.
- 9 The project used an iterative development process which required the design team to engage continuously with those with operational knowledge of the business needs for the system. This was successful in meeting tight deadlines while at the same time helping to ensure that the product met the demands of its users. For this to succeed it was necessary for staff to be empowered to make and commit themselves to rapid decisions together with some flexibility in financial control. This was successful because of the commitment of senior managers to the project. Only in this way was it possible to avoid uncertainty and therefore delay.

- 10 The business commitment is high since the Senior Responsible Officer is the Director of Operations for the Prison Service. A joint Prison Probation Programme Board co-ordinates the overall programme to join the two systems. Within the Prison Service there is a separate Prison Service OASys Project Board. This commissioned an interim review of the project late in 2003 since, with the successful completion of the main phase of the project, key members of the project team were moving on. This was achieved by means of a questionnaire sent to staff and consultants who had had a significant role in the project.

## Current Status

- 11 In December 2003 the lessons learned had been incorporated into a second release of the software and the project was running on budget. At the time of the study this had been provided to 2,000 staff in 83 out of 133 establishments. The link with Probation Service systems will take place with the introduction of a third release of the software which has now been specified and scheduled for piloting in July 2004. The pilot was delivered in July and the department advise that it is currently working successfully.

### KEY POINTS

- The Project Board have undertaken an interim review following the completion of the main phase of the project to capture good practice internally prior to the project team being disbanded. This review has been communicated to the Home Office's Centre of Excellence; and
- The extensive training required to support the project has been rolled-out jointly with the supplier.

# Appendix 2

## Dear Accounting Officer Letter

1 Horse Guards Road London  
SW1A 2HQ

**Brian Glicksman**  
**Treasury Officer of Accounts**

For enquiries about distribution of this and other DAO letters, please contact

Mangai Rajasingham  
Tel: 020-7270-5362  
Fax: 020-7270-4311

[mangai.rajasingham@hm-treasury.x.gsi.gov.uk](mailto:mangai.rajasingham@hm-treasury.x.gsi.gov.uk)

[www.hm-treasury.gov.uk](http://www.hm-treasury.gov.uk)

all extant DAOs are found at <http://www.hm-treasury.gsi.gov.uk/fmra/accounting/dao/dao.htm>

30 March 2004

Dear Accounting Officer

DAO(GEN)07/04

DELIVERING SUCCESS IN GOVERNMENT ACQUISITION-BASED PROGRAMMES & PROJECTS

### Summary and Purpose

The purpose of this letter is to advise Accounting Officers:

- that procedures introduced in January 2003 by the Office of Government Commerce to improve the delivery of IT-enabled programmes and projects are now extended to all acquisition-based programmes and projects;
- that, as a result, the responsibilities of Accounting Officers outlined in DAO (GEN) 01/03 to assure their major IT-enabled projects against common causes of project failure are now extended to cover all major acquisition-based projects.

The list of common causes of project failure against which Accounting Officers are asked to assure their projects has been updated by OGC and NAO to reflect this broadening of scope and is enclosed at Annex 1.

### Action and Contacts

- 1 A Major Project is defined as one that scores 41 or more on the Gateway Risk Potential Assessment or is prioritised as Mission Critical.
- 2 Accounting Officers are asked to:
  - a note the expansion of scope of the procedures introduced in 2003 from IT-enabled to acquisition-based.
  - b ensure, from the date of this letter, that all Mission Critical and High Risk acquisition-based projects do not suffer from any of the common causes of failure as identified by the OGC and NAO.
  - c draw this letter to the attention of appropriate staff in their departments and Executive Agencies, to the attention of the Chair of their Audit Committee, and to the attention of staff in their NDPBs.
  - d note that enquiries about the actions described above should be addressed to the OGC Service Desk on 0845 000 4999, [ServiceDesk@ogc.gsi.gov.uk](mailto:ServiceDesk@ogc.gsi.gov.uk)

- 3 DAO (GEN)01/03 detailed six actions agreed by Ministers to strengthen the delivery of IT-enabled Government programmes and projects. Ministers decided in December 2003 that these actions will apply to all acquisition-based programmes and projects. The revised actions are:
- a Departmental Programme/Project Management Centres of Excellence to cover all acquisition based, and all mission critical and/or high risk programmes/projects, including agencies and NDPBs.
  - b Accounting Officers to provide assurance on all mission critical and high-risk acquisition-based projects, that they do not suffer from the common causes of failure identified from OGC and NAO experience.
  - c Mandate no big-bang implementations and developments (i.e. mandate modular, incremental implementations and developments) for IT-enabled programmes and projects, unless approved by central scrutiny group (Chief Secretary to the Treasury, Minister for e-Transformation, OeE, OGC).
  - d No government initiative (including legislation) dependent on IT to be announced before analysis of risks and implementation options has been undertaken.
  - e Prioritise all acquisition-based programmes and projects as Mission Critical, Highly Desirable or Desirable.
  - f All mission critical and high risk acquisition-based programmes and projects, to have a clearly identified: (i) responsible Minister and (ii) Senior Responsible Owner, and Project Manager, with good, relevant track records.

## Next Steps

- 4 The arrangements developed for confirming Accounting Officer assurance of IT-enabled projects will now extend to encompass other acquisition-based projects. OGC advises that following a Gateway 1 review of a Mission Critical or High Risk acquisition-based project, Accounting Officers should satisfy themselves that the project does not suffer from any of the common causes of failure. Having done so, a signed note to this effect should be placed on the relevant project file.
- 5 Where Mission Critical and High-Risk acquisition-based projects have already completed a Gateway 1 review (business justification), but have not gone live, this assurance check should be completed by 1 May 2004.
- 6 The Gateway criteria are being amended so that subsequent Gateway reviews will check for the existence of the appropriate record. The absence of such a record will result in an automatic Gateway recommendation that the project should not proceed until this requirement has been met.
- 7 Separate guidance is being issued to Departmental Centres Of Excellence to cover these new arrangements.
- 8 This letter replaces DAO (GEN) 01/03, which is hereby cancelled.

Yours sincerely

Brian Glicksman  
Treasury Officer of Accounts

## Annex 1

### NAO/OGC agreed list of common causes of project failure

- 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 Too little attention to breaking development and implementation into manageable steps.
- 6 Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits).
- 7 Lack of understanding of and contact with the supply industry at senior levels in the organisation.
- 8 Lack of effective project team integration between clients, the supplier team and the supply chain.

### Questions to ask

#### 1 **Lack of clear link between the project and the organisation's key strategic priorities, including agreed measures of success.**

- Do we know how the priority of this project compares and aligns with our other delivery and operational activities?
- Have we defined the critical success factors (CSFs) for the project?
- Have the CSFs been agreed with suppliers and key stakeholders?
- Do we have a clear project plan that covers the full period of the planned delivery and all business change required, and indicates the means of benefits realisation?
- Is the project founded upon realistic timescales, taking account of statutory lead times, and showing critical dependencies such that any delays can be handled?
- Are the lessons learnt from relevant projects being applied?
- Has an analysis been undertaken of the effects of any slippage in time, cost, scope or quality? In the event of a problem/conflict at least one must be sacrificed.

#### 2 **Lack of clear senior management and Ministerial ownership and leadership.**

- Does the project management team have a clear view of the interdependencies between projects, the benefits, and the criteria against which success will be judged?
- If the project traverses organisational boundaries, are there clear governance arrangements to ensure sustainable alignment with the business objectives of all organisations involved?
- Are all proposed commitments and announcements first checked for delivery implications?
- Are decisions taken early, decisively, and adhered to, in order to facilitate successful delivery?
- Does the project have the necessary approval to proceed from its nominated Minister either directly or through delegated authority to a designated SRO?
- Does the Senior Responsible Owner (SRO) have the ability, responsibility and authority to ensure that the business change and business benefits are delivered?
- Does the SRO have a suitable track record of delivery? Where necessary, is this being optimised through training?

#### 3 **Lack of effective engagement with stakeholders.**

- Have we identified the right stakeholders?
- In so doing, have we as intelligent customers, identified the rationale for doing so (e.g. the why, the what, the who, the where, the when and the how)?
- Have we secured a common understanding and agreement of stakeholder requirements?
- Does the business case take account of the views of all stakeholders including users?
- Do we understand how we will manage stakeholders e.g. ensure buy-in, overcome resistance to change, allocate risk to the party best able to manage it?
- Has sufficient account been taken of the subsisting organisational culture?
- Whilst ensuring that there is clear accountability, how can we resolve any conflicting priorities?

#### 4 **Lack of skills and proven approach to project management and risk management.**

- Is there a skilled and experienced project team with clearly defined roles and responsibilities? If not, is there access to expertise, which can benefit those fulfilling the requisite roles?
- Are the major risks identified, weighted and treated by the SRO, the Director, and Project Manager and/or project team?

- Has sufficient resourcing, financial and otherwise, been allocated to the project, including an allowance for risk?
- Do we have adequate approaches for estimating, monitoring and controlling the total expenditure on projects?
- Do we have effective systems for measuring and tracking the realisation of benefits in the business case?
- Are the governance arrangements robust enough to ensure that "bad news" is not filtered out of progress reports to senior managers?
- If external consultants are used, are they accountable and committed to help ensure successful and timely delivery?

#### 5 **Too little attention to breaking development and implementation into manageable steps.**

- Has the approach been tested to ensure it is not 'big-bang' for example in IT-enabled projects?
- Has sufficient time been built in to allow for planning applications in Property & Construction projects for example?
- Have we done our best to keep delivery timescales short so that change during development is avoided?
- Have enough review points been built in so that the project can be stopped, if changing circumstances mean that the business benefits are no longer achievable or no longer represent value for money?
- Is there a business continuity plan in the event of the project delivering late or failing to deliver at all?

#### 6 **Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits).**

- Is the evaluation based on whole-life value for money, taking account of capital, maintenance and service costs?
- Do we have a proposed evaluation approach that allows us to balance financial factors against quality and security of delivery?
- Does the evaluation approach take account of business criticality and affordability?
- Is the evaluation approach business driven?

#### 7 **Lack of understanding of and contact with the supply industry at senior levels in the organisation.**

- Have we tested that the supply industry understands our approach and agrees that it is achievable?
- Have we asked suppliers to state any assumptions they are making against their proposals?

- Have we checked that the project will attract sufficient competitive interest?
- Are senior management sufficiently engaged with the industry to be able assess supply-side risks?
- Do we have a clear strategy for engaging with the industry or are we making sourcing decisions on a piecemeal basis?
- Are the processes in place to ensure that all parties have a clear understanding of their roles and responsibilities, and a shared understanding of desired outcomes, key terms and deadlines?
- Do we understand the dynamics of industry to determine whether our acquisition requirements can be met given potentially competing pressures in other sectors of the economy?

#### 8 **Lack of effective project team integration between clients, the supplier team and the supply chain.**

- Has a market evaluation been undertaken to test market responsiveness to the requirements being sought?
- Are the procurement routes that allow integration of the project team being used?
- Is there early supplier involvement to help determine and validate what outputs and outcomes are sought for the project?
- Has a shared risk register been established?
- Have arrangements for sharing efficiency gains throughout the supply team been established?

*If any of the answers to the above questions are unsatisfactory, an acquisition-based project should not be allowed to proceed until the appropriate assurances are obtained.*

### Explanatory Notes

- An acquisition-based project is one which has a significant element dependent on the supply of goods and/or services by a third party supplier or suppliers. Whilst it is not essential for the goods or services to be provided by a single supplier, the contribution of the third party supplier or suppliers should be considered significant if a failure to deliver on their part attracts public criticism.
- A high-risk project is one which scores 41 or more against OGC's Gateway Risk Potential Assessment framework.
- A project is defined as a unique set of co-ordinated activities with a finite duration, defined cost and performance parameters and clear outputs to support specific business objectives.
- By value for money is meant "the optimum combination of whole-life cost and quality, fitness for purpose to meet user requirements" (Government Accounting).

# Appendix 3

## Methodology

The techniques used to provide a value for money examination of how government departments procure IT against the background of the Office of Government Commerce's creation in April 2000 can be classified into six information sources:

- A review of the literature on the procurement of large IT systems, assessing international and private sector practice;
- Face-to-face interviews with departments;
- Face-to-face interviews with suppliers;
- Face-to-face interviews with other stakeholders;
- A think piece on Competition and Procurement;
- Case studies of government departments/executive agencies (Department for Work and Pensions, Driver and Vehicle Licensing Agency, Prison Service, and the Home Office Immigration and Nationality Directorate) and suppliers (EDS, BT Syntegra, IBM, Atos Origin UK and Siemens).
- Senior stakeholder workshop

### A review of the literature on the procurement of large IT systems

In reviewing the literature, we targeted industry and government bibliographical sources dealing with IT procurement in both the public and private sectors, allowing us to identify specific best practices and trends.

### Consultation with the Office of Government Commerce

We undertook desk research and interviews with the Office of Government Commerce, interviewing Heads or Directors responsible for the major OGC initiatives, such as Successful Delivery Skills Framework, Centres of Excellence and Gateways. In addition we had access to other data on the size of the market for mission-critical IT as well as satisfaction ratings for Gateways.

### Consultation with departments/agencies

We undertook desk research on a range of government departments and agencies and undertook semi-structured interviews with departmental heads of Centres of Excellence, equivalents or representatives. The purpose of the interviews was to generate a list of the issues to evaluate/explore in the case studies and to select the case study departments.

### Consultation with suppliers

We undertook desk research on five suppliers to government and undertook semi-structured interviews with key staff in these companies. The purpose of the interviews was to generate a list of the issues to explore in the case studies and to help select the case study departments.

### Consultation with other stakeholders

We spoke to a number of other individuals and organisations including Intellect, the trade body for the information technology, telecommunications and electronics industries.

### Think piece on market dependence on a small number of suppliers

Jonathan Cave, a Research Leader of RAND Europe, part of the project team and Professor of Economics at Warwick University, wrote a piece on the market implications of depending on a small number of suppliers for IT projects. This is available in Appendix 4.

## Case studies of three government departments/executive agencies

To evaluate the issues identified in the literature review, and consultation with departments and suppliers, we focused our analysis on five major IT projects. These were:

- Payment Modernisation Programme
  - Department for Work and Pensions/Atos Origin UK
- Jobcentre Plus Implementation Programme
  - Department for Work and Pensions/EDS and BT Syntegra
- Offender Assessment System (OASys)
  - Prison Service (Executive Agency of the Home Office)/EDS
- Case Information Database Enhancement Programme
  - Home Office/Siemens Business Services
- Partners Achieving Change Together Project (PACT)
  - Driver and Vehicle Licensing Agency (DVLA)/IBM Business Consulting Services and Fujitsu Services

For each case study we reviewed key documents such as the results of Gateway Reviews, business plans and documentation concerning the IT/IS strategies of the case study Departments. We also spoke to individuals, from departments and suppliers, responsible for the project; and reviewed other information as available. We also undertook interviews with representatives from the OGC.

## Consultation with senior stakeholders

A senior stakeholder workshop was held to gather views from authoritative senior level representatives of government and industry, to validate emerging findings and establish where areas of strong consensus existed and where they did not.

# Appendix 4

## Competition and Procurement

Jonathan Cave is a Research Leader at RAND Europe and member of the Project Team. He is also Senior Lecturer in Economics at Warwick University.

Healthy competition is the lifeblood of commerce - it ensures (or at least increases the likelihood of) efficiency, fairness and innovation. But what is competition? It is useful to distinguish forms, effectiveness and hoped-for effects - particularly when government is itself a market participant. Public-sector concerns affected by procurement activity include the value for money achieved by the procurement, the competitive health of the supplying sector (and those linked to it), the distribution of returns to supplying activity and the pace and direction of innovation.

The following discussion addresses these objectives from the market perspective and briefly develops policy implications.<sup>1</sup> The discussion is linked to the specifics of IT procurement.

### Markets

Government procurement is a market activity<sup>2</sup> in which supply-side competition can improve quality, timeliness and innovation and drive down price. Secondary considerations include minimising deadweight loss (lost gains from trade due to the exercise of market power) and such societal goals as achieving an equitable distribution of profits and supporting employment, human capital development and maintenance of supply capability adapted to evolving public needs. These considerations are related to the primary objectives: deadweight loss and average production cost are minimised in perfectly competitive markets and dynamic efficiency assured by marginal cost pricing and free entry. This linkage can fail when markets are imperfectly competitive, and/or participants are not equally informed. Moreover, the logic of procurement policy dictates that equity considerations be justified in efficiency terms - for example, allocation of procurement contracts to possibly less-efficient firms may be justified by resulting innovation or increased employment.

A first consideration is allocational efficiency - whether alternative arrangements could make all parties better off. While monopoly power is inefficient in this sense, 'countervailing monopsony power' or bilateral monopoly<sup>3</sup> can produce a range of different outcomes, and price leadership by either side can lead to large inefficiencies - especially when government, in effect, uses what it procures to provide downstream outputs in markets where it holds monopoly power.<sup>4</sup> If contracting leads the parties to maximise their *mutual* return, inefficiency is reduced, but not eliminated. Galbraith's claim that buyer power is more significant than seller competition in forcing competitors to behave efficiently suggests that one 'solution' is buyer co-ordination. This is most effective at improving outcomes when government itself supplies its services at marginal opportunity cost. Such power should thus be accompanied by close negotiation and might not be appropriate where budget or political pressures force government to depart from strict marginal cost pricing to users and taxpayers. Co-ordination works best if government demand represents a substantial fraction of total demand (i.e. procurement co-ordination generates market power) and demand is inelastic (i.e. there are few substitutes for procured goods and services).

A second question is whether goods are produced at lowest average cost (productive efficiency). With increasing returns to scale, competition is not guaranteed to lead to efficiency. In the 'natural monopoly' case where demand is small relative to the scale at which unit cost is minimised, competition may be undesirable. The ideal policy depends on the size of total demand and the effectiveness of directly regulating market activity.

A third concern is innovation and investment. There is an extensive literature analysing the extent to which competition: encourages innovation; favours process (cost reduction) or product (value enhancement) innovation; and forces the supply side to share improvements with the demand side. Innovation requires firms to invest now for future profits. These future profits in turn depend on the extent of monopoly power. The tension between static allocational efficiency (hurt by market power) and dynamic investment efficiency where monopoly profits increase the

<sup>1</sup> The policy discussion considers procurement procedures and contracting. A third perspective, developed in Laffont, J.-J. and J. Tirole (1994) *A Theory of Incentives in Procurement and Regulation*, MIT Press, sees procurement as a form of regulation where the roles of regulator and buyer are combined.

<sup>2</sup> This approach underlies for example the December 2003 OGC report to the Chancellor of the Exchequer: *Increasing Competition and Improving Long-Term Capacity Planning in the Government Market Place*.

<sup>3</sup> See for example Scherer, F. (1990) *Industrial Market Structure and Economic Performance*, Houghton-Mifflin, pp 519-22.

<sup>4</sup> Where this 'double marginalisation' problem threatens, steps to raise competition in supply markets should be preferred to using 'countervailing market power'.

attractiveness of innovation<sup>5</sup> is one societal reason for intellectual property (which extends monopoly power). Finally, competition itself erodes monopoly power, as Schumpeter's 'creative destruction' implies.

The relevant questions for procurement are the extent to which government specifications 'follow the market', whether government support for R&D in advance of competition favours useful innovation or market dominance and whether innovation will increase dependency on the incumbent. Correctives are likely to include technological neutrality or 'open-system' requirements,<sup>6</sup> 'design competition' tendering procedures on major procurements and some form of compulsory licensing or IPR options in procurement contracts.

In the specific context of IT procurement a further consideration is 'network externalities' - each user benefits from the adoption of new technologies by all other users. On the demand side, the main problem is one of *co-ordination* - choosing compatible approaches. This can lead to two sorts of inefficiency - *excess inertia* (everyone waits to see what others will do) and *excess momentum* (everyone adopts an inferior technology because they expect others to do likewise). Buyer co-ordination can help to minimise these problems.<sup>7</sup>

Finally, IT markets exhibit strong supply-side network externalities of interoperability - competition may drive supply-side standardisation and co-ordination. The low (often very low) marginal costs of production after the first unit lend an element of natural monopoly. All these factors promote 'tipping equilibrium' - which means effective competition on the supply side may be fragile. Moreover, the incentives to adopt compatible standards may not be efficient and it may be better for government (in partnership with industry) to develop standards in advance of market competition.<sup>8</sup>

The competitive health of such markets cannot be measured merely by the number or size distribution of firms. It is perfectly possible for many firms to share a standard 'owned' by a single firm;<sup>9</sup> on the other hand, potential competition may make even monopolised markets deliver adequate efficiency and innovation. To support diversity it may be well to co-ordinate procurement without pooling it. Aggregating demand may magnify technological risk, economic distortion and dependence. If clients share experience, the possibility of winning additional (as opposed to longer or larger) orders may suffice to keep suppliers 'on their toes'. Buyer communication regarding future requirements can:

- lead to joint specifications, saving on joint R&D costs, improving interoperability and even enhancing capability;
- allow aggregation of expenditures to give public clients more demand-side clout;
- promise larger production runs, allowing firms to achieve economies of scale (hence lower cost, faster overall delivery and greater overall reliability) and provide incentives for firms to invest a bit more 'up front'.

Buyer communication regarding past experience can:

- strengthen reputation effects - underperformance costs future as well as current business;
- (by comparing *different* suppliers' past performance) create a yardstick for evaluating offers - it gives an idea of what a given supplier is really capable of delivering, and whether offers are up to market standard - essential when there are only a few bidders;
- provide an incentive for firms to overcome problems rather than dropping out of the market or concentrating on less mission-critical items - especially if the process recognises and rewards firms that 'turn around' following bad experiences.

## Some further policy implications

Where market failure results from asymmetric information, policies fostering information exchange among suppliers in advance of competition and modifications to tendering procedures can improve outcomes. Where successful procurement involves mutual innovation, appropriate division of risks and contractual incentives can increase the odds of successful outcome. Moreover, a judicious combination of 'smart' procurement and contracting can balance narrow contractual objectives (faster, cheaper, better) with cross cutting or far-sighted interoperability, employment and competitiveness goals.

Information exchange might take the form suggested in the December 2003 OGC Report, which recommends co-ordination of government purchasing activity; information pooling by departments; and clear communication of future demands to the supply side. To further ensure that requirements are clearly developed and feasible, innovation is encouraged and competition is efficient and effective, OGC guidance<sup>10</sup> supports pre-competitive engagement with the market. In theory, such engagement can minimise informational rents, reduce the distorting impact of incumbent advantage, improve the realism of procurement planning and provide competitors with as much certainty as possible.<sup>11</sup>

5 Arrow, K. (1962) 'Economic welfare and the allocation of resources for inventions' in *The Rate and Direction of Inventive Activity*, R. Nelson (ed.), Princeton University Press.

6 The Brazilian government has been especially proactive in this aspect of IT procurement.

7 Farrell, J. and G. Saloner (1985) 'Standardization, compatibility and innovation', *RAND Journal of Economics*, 16, 70-83.

8 Katz, M. and C. Shapiro (1985) 'Network externalities, competition and compatibility', *American Economic Review*, 75, 424-40.

9 The need to increase switching costs may drive incumbents to 'capture' producers of complementary goods through proprietary standards or interfaces.

10 Draft guidance on Early Market Engagement Sounding.

11 According to the 'linkage principle' of auction theory the expected cost of procurement falls if the payment is linked as closely as possible to information affiliated with the winner's information.

On the other hand, 'countervailing market power' has its own costs. Co-ordination of demand-side information (exchange of information about potential bidders, co-ordination of requirements) may strengthen 'lock in' and supply market concentration. This may be exacerbated by pre-competitive information exchange.

Most procurement arrangements lie between the extremes of open markets and negotiating specific contracts. The theory and practice of auction design have advanced the understanding of such tendering procedures in at least three areas.

First, genuine competition is essential to successful tendering. It is better<sup>12</sup> to accept the result of an auction with one more bidder than to exercise maximum market power (by making a take-it-or-leave-it offer based on all information revealed) to the winner of a smaller auction. In other words, competition may be more important than strategic bargaining power.

Second, the optimal tendering procedure (or performance of specific procedures) is affected by bidder asymmetry:<sup>13</sup> dominant firms can<sup>14</sup> even drive out new entrants offering greater value for money to the government. Taken together, these two observations urge tendering procedures that encourage entry - for instance, an initial ascending multi-round auction followed by a final sealed-bid tender when the number of active bidders has fallen<sup>15</sup> or precommitment to a default supplier if the number of bidders is insufficient.

Third, collusion may be a greater problem for large-scale public tendering than monopoly. The likelihood is reduced - but not eliminated - when market structures are unconcentrated (i.e. when there are many participants of similar size). Careful design of tendering procedures and vigilance in searching out collusion<sup>16</sup> can greatly improve procurement performance.

Performance and communication incentives are embedded in procurement contracts. Dependence on a single supplier magnifies the scope and impact of information asymmetry and can lead to lock-in. Superior incumbent information about government demand, pre-existing relationships or legacy dependencies raises entry barriers and weakens efficiency incentives. If two suppliers can be allocated shares of total contract volume that reflect past performance and are required to share information as part of the contract, continual improvement during the contract is encouraged and the 'endpoint effect' whereby the supplier either overinvests to win the continuation contract or underinvests in anticipation of losing the business<sup>17</sup> is limited.

Moreover, dependence on a single supplier throughout government (perhaps as an unintended consequence of inter-government exchange of information) may weaken the credibility of contractual monitoring and enforcement by limiting external benchmarks and increasing opportunity costs of imposing penalties. The tendency of incumbents to win repeat business is not necessarily bad, because long-term (or repeated short-term) contracts improve some incentives - suppliers can anticipate return on up-front investment in innovation and deeper partnership with the government client. On the other hand, in developing sectors such as IT where the 'learning curve' drives down costs as a function of experience suppliers may use government contracts to cut costs in advance of open-market competition<sup>18</sup> or lock in advantages in bidding for future contracts. These gains are real - 'smart' contracting can ensure that they are productive and do not convey unfair advantage.

The recommendations are to follow 'smart procurement practice' in maintaining multi-stakeholder project teams throughout the life of the contract, to limit the extent and nature of risk transfer, to ensure that IP and exit arrangements are carefully drafted and to consider, where possible, the use of multiple-sourcing arrangements to maintain competitive pressure during the contract lifetime.

Contractual forms provide efficiency and innovation incentives of varying power, from (low-powered) cost-plus to (high-powered) fixed-price contracts. Low-powered contracts provide the least incentive to reduce costs, but the greatest to invest in innovation - hence they tend to prevail early in the procurement lifecycle. The outside competitive environment influences both the need for and the effectiveness of such incentives.

Finally, 'good practice' combines framework contracting (to strengthen consistency and economise on evaluation delays and costs) and prime contracting (in which value chain risks and management are passed to a private partner). Both approaches raise competition issues. Framework contracts must be carefully structured to ensure healthy competition to enter the framework and within the framework. Similarly, prime contractor selection should be competitive (e.g. via a suitable auction mechanism) precisely because the prime contractor will assume some responsibility for subsequent competition to supply - it may be useful to specify the mechanism(s) to be used for allocating subcontracts in the prime contract or to include incentives to ensure open subcontracting that encourages innovation, efficiency, interoperability and sensible risk-taking.

12 Klemperer, P. and J. Bulow (1996) 'Auctions vs. Negotiations' *American Economic Review*, 86, 180-94.

13 Mechanism design also depends on government and supplier risk aversion and on the statistical relation among bidders' information.

14 For example, through 'jump bidding'.

15 This is the 'Anglo-Dutch' procedure recommended by Klemperer.

16 See Bajari, P. and G. Summers (2002) 'Detecting collusion in procurement auctions', *Antitrust Law Journal*, 70, 143-70.

17 This is standard procedure in US DoD large systems procurements (e.g. cruise missiles). It has also been used in private-sector UK supply procurement.

18 This was alleged against Texas Instruments in the US.

# Appendix 5

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# Appendix 6

## Glossary of terms and abbreviations

<b>COE</b>	Centre of Excellence
<b>CSF</b>	Critical Success Factor
<b>DWP</b>	Department for Work and Pensions
<b>DVLA</b>	Driver and Vehicle Licensing Agency
<b>EDS</b>	Electronic Data Systems Corporation
<b>Gateway Reviews</b>	Reviews of civil Central Government procurement projects and programmes at key decision points by a team of trained reviewers, independent of the project team
<b>IBM</b>	International Business Machines Corporation
<b>Information Technology</b>	Computer or telecommunications hardware and software
<b>Information systems</b>	The combination of computer and telecommunications hardware and software, organisational structure and management processes designed to create, maintain, manage and dispose of information, whether in paper, analogue or digital form
<b>Intellect</b>	Information Technology Telecommunications and Electronics Association - the trade body for information technology, telecommunications and electronics industries in the UK
<b>NAO</b>	National Audit Office
<b>OASys</b>	Offender Assessment System (Prison Service)
<b>OECD</b>	Organisation for Economic Co-operation and Development, a Paris based International Organisation
<b>OGC</b>	Office of Government Commerce

<b>OJEC</b>	Official Journal of the European Communities
<b>PAC</b>	Public Accounts Committee
<b>PACT</b>	Partners Achieving Change Together Project (DVLA)
<b>PFI</b>	Private Finance Initiative
<b>Procurement</b>	The process of purchasing goods and services, from identification of the need for the item to payment
<b>PMP</b>	Payment Modernisation Programme (DWP)
<b>PPM</b>	Programme and Project Management
<b>PSA</b>	Public Service Agreement
<b>RAG</b>	Red, Amber, Green - a colour coding system introduced to Gateway Reviews in June 2002
<b>SBS</b>	Siemens Business Services
<b>SME</b>	Small/Medium Sized Enterprise
<b>SRIE</b>	Senior Responsible Industry Executive
<b>SRO</b>	Senior Responsible Owner
<b>STRAD</b>	Standards, Training, Resources and Development (DVLA)
<b>VFM</b>	Value For Money

