



House of Commons
Public Accounts Committee

The National Offender Management Information System

Fortieth Report of Session 2008–09

*Report, together with formal minutes, oral and
written evidence*

*Ordered by the House of Commons
to be printed 29 June 2009*

The Public Accounts Committee

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The following member was also a member of the committee during the parliament:

Angela Eagle MP (*Labour, Wallasey*)

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Sian Woodward (Clerk), Lorna Horton (Senior Committee Assistant), Pam Morris (Committee Assistant), Jane Lauder (Committee Assistant) and Alex Paterson (Media Officer).

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Summary

In 2003, Lord Carter's Correctional Services Review recommended bringing together prisons and probation services and introducing 'end-to-end offender management'.¹ This change was designed to improve the supervision of individual offenders throughout their sentence by a single offender manager, whether the sentence was served in prison or in the community. The National Offender Management Service (NOMS), initially part of the Home Office and since May 2007, part of the Ministry of Justice, was created in June 2004 to bring this about. Some five years later, the information systems required to support offender management are still not in place.

C-NOMIS is a singular example of comprehensively poor project management, and roll out of the re-scoped programme has only just begun. The C-NOMIS project, initially envisaged by the Home Office for delivery in January 2008 for £234 million, was stopped in August 2007 because costs had trebled. The NOMIS programme was revised and scaled back to three offender databases for £513 million, for delivery by 2011.

The original concept was ambitious but still technically feasible. Problems at every level, however, led to an out of control programme which eventually NOMS could no longer afford. NOMS significantly underestimated the technical complexity of the project and the need to standardise ways of working to avoid excessive customisation. There was also poor planning, poor financial monitoring, inadequate supplier management and too little control over changes.

Costs and progress were not monitored or reported for the first 3 years after the inception of C-NOMIS, in part because the first Senior Responsible Owner overseeing the project did not have relevant project experience or training. The Project Board, the NOMS Board, the Home Office senior management and Ministers were all unaware of the true cost and progress before May 2007. NOMS cannot say in detail what £161 million to October 2007 was spent on.

NOMS has assured us that it has implemented the changes needed to deliver the revised NOMIS programme by 2011. However, there are significant challenges yet to address, including further contract negotiations with suppliers, and we look to NOMS to implement the new systems effectively and deliver the intended benefits.

On the basis of a Report by the Comptroller and Auditor General,² the Committee took evidence from NOMS on why the C-NOMIS project, intended to deliver a single offender management IT system across prison and probation services, failed badly and what NOMS has done to retrieve the situation through a redesigned NOMIS programme.

1 *Managing Offenders, Reducing Crime: A new approach*, Patrick Carter, Cabinet Office Strategy Unit, December 2003

2 C&AG's Report, *The National Offender Management Information System*, HC (2008–2009) 292

Conclusions and recommendations

- 1. The C-NOMIS project has been handled badly, resulting in a three year delay in programme roll-out, reductions in scope and benefit, and a doubling of programme costs.** The way the C-NOMIS project was managed and monitored was completely unacceptable. It is deeply depressing that after numerous highly critical PAC reports on IT projects in recent years, the same mistakes have occurred once again. We question the purpose of our hard work if Whitehall accepts all our recommendations but still cannot ensure a minimum standard of competence. In this report we make further recommendations for how other organisations can avoid the mistakes made on C-NOMIS through identifying risks, monitoring progress properly and taking action to mitigate risks as they emerge.
- 2. Planning for the C-NOMIS project was unrealistic, in part because of an over optimistic 'good news' culture which was not challenged with sufficient rigour by senior management with in-depth knowledge of the business.** Major projects should be reviewed at the outset, and periodically thereafter, by senior management with sufficient rigour and scepticism to ensure that proposals are well-focused, realistic and take full account of uncertainties in their budgeting and timescales.
- 3. The individuals who took the key decisions on C-NOMIS and were responsible for its monitoring and oversight have all retired or moved on, and no-one has been held to account for the estimated £41 million wasted due to delays and cost overruns.** It is not enough to wait for blame to follow failure. There needs to be proper performance management at all levels in organisations, with delivery of major projects to time and cost forming part of the annual performance objectives for the Senior Responsible Owner and Project Manager.
- 4. NOMS should have thought through its business processes and introduced new, standardised ways of working in conjunction with new IT support systems to deliver end to end offender management.** Before making a case for an IT-based solution, NOMS should have identified and planned the changes to its business needed to deliver end-to-end offender management. A plan showing how business change and new IT are to be integrated should be upfront in the Full Business Case for all major IT projects.
- 5. NOMS lacked the capacity at senior levels to manage this complex project effectively, and the Senior Responsible Owner did not have the right experience for the role.** Departments should assess and, where appropriate, strengthen their capacity to manage major projects. In particular, the Senior Responsible Owner should have sufficient relevant project management experience, training, capacity and support to perform the role effectively. If necessary, Departments should appoint a candidate from another government body or elsewhere.
- 6. Accountability arrangements changed several times over the course of the project and upward reporting was weak. Too much rested on the performance of a few key individuals to deliver success.** It should not have been possible for the project to drift for three years without those in charge being aware of it. Departments should

monitor key projects closely using reporting systems that are fit for purpose, based on actual evidence of performance, together with managers' reports and assessments.

7. **NOMS did not respond with sufficient vigour to the Gateway review in 2006 that raised serious concerns about the delivery of the project.** Accounting Officers should ensure that swift and robust action is taken when an OGC review identifies concerns or shortcomings in the management or progress of a project.
8. **The C-NOMIS project did not have a dedicated financial team, leading to poor budgeting and cost control, uncertainty over the extent of cost escalations and inadequate reporting of the financial position.** Avoidance of the problems experienced on C-NOMIS does not require new learning. The Treasury sets demanding standards for Accounting Officers and guidance is available: for example, the Treasury's *Managing Public Money*, and the *Doing the Business* guides issued as part of Treasury's financial management reform agenda. To avoid repeating the mistakes of the past, Departments must use existing guidance.
9. **NOMS still cannot easily match its spending on the NOMIS programme against what has been delivered.** To help it monitor costs against progress to date and to forecast time and cost to completion, NOMS should negotiate contracts which require suppliers to match expenditure against deliverables.
10. **Despite the intentions, there will not be an integrated information system providing a single offender record that will be accessible by all service providers who come into contact with an offender.** C-NOMIS was initially developed with the intention of having a single shared record for each offender. Now that there will be three databases, each recording different information about an offender, together with limited data sharing, it is essential that the programme is developed with the desirability for data sharing enhancements in mind. Once delivered, NOMS should assess the adequacy of its current limited data sharing capacity with its partners and third party providers.
11. **The business case for NOMIS makes no provision for the cost of carrying out data cleansing to remove duplicate records created by the merger of 42 existing probation databases.** NOMS should carry out an assessment of the potential effects of failing to amalgamate records, and of the likely cost and duration of the data cleansing effort required, including the implications for front line delivery of probation if cleansing has to be accommodated within existing probation service budgets.
12. **NOMS has promised substantial progress with the NOMIS programme and said that all of the Comptroller and Auditor General's recommendations will be clearly achieved should he repeat his review in early 2010.** We welcome this assurance and expect that improvements should be both made and easily identifiable to a future Committee hearing. To help demonstrate progress and improvement to its processes, NOMS needs to monitor the implementation of the NOMIS programme, and record and validate benefits and financial savings.

1 Learning lessons from C-NOMIS

1. The Comptroller and Auditor General's Report on the National Offender Management Information System (NOMIS) makes depressing reading. We have taken evidence on cases of poor decision taking and weak project management on many occasions. The same lessons have still not been learnt,³ making the management by the National Offender Management Service (NOMS) of C-NOMIS a prime example of how not to develop a project.⁴

2. At its inception in 2004, C-NOMIS was designed to deliver a single database to implement end-to-end offender management across the Prison Service and the National Probation Service. The scale of the delays shown in **Figure 1**. The original target for full implementation of C-NOMIS was January 2008. The current implementation date for the final part of the NOMIS programme is early 2011.⁵

Figure 1: Timeline for the NOMIS project

DATE	ORGANISATIONAL RESPONSIBILITY	KEY EVENTS	
June 2004	National Offender Management Service (NOMS) created, bringing together HM Prison Service and the National Probation Service within a single organisational structure, but still formally part of the Home Office	Start of the C-NOMIS project pilot phase	
June 2005		C-NOMIS project full business case approved	
December 2006		Prototype C-NOMIS application tested in HMP Albany	
May 2007		NOMS Board made aware of cost overruns for first time	
August 2007		Minister informed and imposes moratorium	
Sept-Nov 2007		Options for reducing scope of project assessed	
December 2007		Revised NOMIS programme approved	
January 2008		<i>Original target for full implementation of C-NOMIS</i>	
April 2008		NOMS established as an Executive Agency with its own Accounting Officer	
May 2010			Current planned date for full implementation of Prison NOMIS
February 2011	Current planned date for full implementation of Delius probation case management system		

Source: C&AG's Report

3 Qq 1-2

4 Q 81

5 Q 99

3. The original cost estimate rose from £234 million in 2005 to £690 million in July 2007 (Figure 2). NOMS agreed that, with hindsight, there had been a gross underestimate of costs and that the original cost estimates were badly prepared.⁶ Overall, the financial impact of the C-NOMIS failures, from the delays and re-scoping of the programme, is at least £41 million.⁷ NOMS did not seek to excuse the unnecessary expense and considers that despite the setbacks it had derived a lot of benefit from the programme.⁸

Figure 2: The estimated cost of the project almost trebled between June 2005 and July 2006

	ESTIMATED COST JUNE 2005 £M	ESTIMATED COST JULY 2007 £M	COST INCREASES £M
Application development (software licences, system build and testing)	51	206	155
System maintenance and support (to 2020)	128	243	115
Infrastructure (hardware including refreshes)	14	38	24
Implementation (data migration and staff training)	12	22	10
Project management	13	34	21
VAT	0	99	99
Contingency	0	32	32
Other (sunk costs, Management Information Systems, Contracted-Out Prisons)	16	16	0
TOTAL	234	690	456

Source: C&AG's Report

4. The current NOMS Accounting Officer tried, without much success, to account to us for the lack of progress on C-NOMIS and the project delays. It is worth noting that he was not personally responsible for the problems.⁹ The first Senior Responsible Owner and other senior people involved with C-NOMIS demonstrated a remarkable lack of insight and rigour, coupled with naivety and over-optimism. These individuals had retired or moved on before the scale of the problems with C-NOMIS emerged.¹⁰

6 Qq 84–85

7 C&AG's Report, para 18

8 Q 94

9 Q 13

10 Qq 77–80, 92

Figure 3: The NAO's assessment of C-NOMIS against the eight common causes of project failure

COMMON CAUSES OF PROJECT FAILURE	CAUSE OF FAILURE EVIDENT IN C-NOMIS?	COMMENTARY ON C-NOMIS PROJECT PERFORMANCE
Lack of clear link between the project and the organisation's key strategic priorities, including agreed measures of success	In part	We found a clear link between the objectives of the C-NOMIS Project and the strategic priorities of the NOMS Change Programme. Assumptions were tested during a pilot that also provided valuable lessons learned. However, project planning lacked both detail and robustness, and there was a failure to produce a single integrated plan representing all the planned tasks from across the individual work streams.
Lack of clear senior management and Ministerial ownership and leadership.	Yes	The Senior Responsible Owner (SRO) from project inception to April 2007 had little experience of major IT project delivery and insufficient time to undertake SRO responsibilities despite some reduction in her other responsibilities from September 2006. Until the moratorium, we found no evidence of Ministers involvement beyond them receiving standard summarised briefings. Leadership was compromised by blurred accountability between the project board and Offender Information Services (OIS) which led to reactive and indecisive decision making.
Lack of effective engagement with stakeholders	In part	Engagement with stakeholders was on an ad hoc basis. Early on, users were given the chance to voice their opinions of the C-NOMIS application and user groups were involved in development of the system requirements. There was little communication with stakeholders on project progress. With project plans failing to schedule engagement activities, many stakeholders were unsure how best to communicate with the project. When delays occurred, many stakeholders only found out at the last minute.
Lack of skills and proven approach to project management and risk management	Yes	The project suffered from a consistent shortage of skilled personnel, leading to a greater reliance on contracted-in staff. A lack of financial skills led to poor financial estimating and monitoring. Risks identified at the outset were not managed. Under the governance structure, the Programme Manager was the only reporter to the Programme Director, which led to a 'good news' culture.
Too little attention to breaking development and implementation into manageable steps	No	The project team's decision to undertake a software trial and an initial pilot implementation provided valuable learning. Breaking the development and deployment into manageable steps was sensible for a project as large and complex as C-NOMIS.
Evaluation of proposals driven by initial price rather than long-term value for money (especially securing delivery of business benefits)	In part	The original business case, on which the decision to proceed was based, had projected C-NOMIS would deliver a positive net present value, but costs were seriously underestimated. Despite recognition that the project was high risk and had a challenging delivery schedule, there was no contingency within the budget, suggesting either a desire to keep costs down to achieve the go-ahead or a high degree of optimism.
Lack of understanding of and contact with the supply industry at senior levels of the organisation	Yes	An existing framework contract within the Prison Service and an infrastructure renewal contract within the Probation Service constrained the level of engagement with external suppliers and restricted competitive procurement opportunities. Although the main delivery partner provided a detailed set of assumptions as part of their Best and Final Offer, there was no evidence of an assessment to determine whether requirements could be met by suppliers, given competing pressures from other sectors of the economy.
Lack of effective project team integration between clients, the supplier team and the supply chain.	Yes	The project selected existing suppliers as the main delivery partners, and did not seek a wider evaluation of their requirements from the market. Although suppliers were represented on technical governance boards, project delays adversely impacted working relationships and there was a lack of communication channels at a more senior level.

Source: C&AG's Report

5. In May 2005, as part of the C-NOMIS project approval process, the Home Office's Programme and Project Management Support Unit certified the C-NOMIS project as not

suffering from the eight common causes of project failure. Subsequent analysis of the underlying causes of the costs increases and delay by the National Audit Office indicated that C-NOMIS suffered from four of the eight common causes of project failure in full and three in part (**Figure 3**).¹¹

6. Prison and probation information requirements were quite different and each of the 42 probation areas had different ways of working. End-to-end offender management was little more than a concept, and what it meant in practice and the IT needed to support it had not been worked through. Rather than invest time and resources to develop and standardise the new ways of operating across its business areas, NOMS sought an IT system to unify the business and achieve end-to-end offender management. There was no sustained effort by NOMS to simplify and standardise its business processes reflecting management's misplaced confidence in C-NOMIS, their unrealistic expectations of what could be achieved by an IT solution and their underestimation of the time and costs to deliver it.¹²

7. From the outset those responsible failed to identify the modifications required to the software to meet NOMS' needs. The Home Office assessed it as broadly meeting the needs of the prison service, but as a North American product the software needed to be adapted for UK legislation. In respect of probation, there was a serious failure to understand the magnitude and cost of the changes which would be needed, even though the Home Office recognised at the start that the software met only 29% of the needs of the Probation Service.¹³ The estimated cost of developing the C-NOMIS application rose from £99 million in 2005 to £254 million by July 2007 due to customisation.¹⁴

11 C&AG's Report, para 22

12 Qq 87–89

13 Qq 82–83

14 C&AG's Report, para 11

2 Governance and leadership

8. NOMS was formed from the merger of two organisations with their own separate cultures, governance and resources. This fact put a severe strain on the capacity of NOMS' senior management's ability to manage a major project like C-NOMIS effectively.¹⁵ The C-NOMIS project suffered as a result of the change going on within the Home Office in 2004, including the creation of NOMS. The scale of change NOMS represented was underestimated, which was why the management capacity needed to drive a complex project and deliver a changed way of working was not put in at an early stage.¹⁶ As this Committee saw on a much smaller scale with the Revenue and Customs Prosecutions Office,¹⁷ basic financial management and various other disciplines must be properly in place right at the start of an initiative.¹⁸

9. There was a lack of clarity amongst Home Office and NOMS' senior management as to governance roles and responsibilities. NOMS' current Accounting Officer struggled to explain why the NOMS Board did not actively seek information on the progress and cost of the C-NOMIS project.¹⁹ Prior to April 2007 the thinking seems to have been that the Project Board was in charge of the whole project and could be relied upon to keep an eye on delivery and cost.²⁰ This is not enough. It is the responsibility of each department's Accounting Officer to see that public money is used responsibly. The Treasury sets demanding standards for Accounting Officers which include value for money and sound project management.²¹

10. Some of the problems experienced by the C-NOMIS project could have been mitigated had the original Senior Responsible Owner had the experience and time to fulfil the role properly. Home Office's senior management at the time was wrong to appoint somebody as Senior Responsible Owner who did not have the skills or relevant experience, without also providing support and allowing the post holder time to carry out their responsibilities.²²

11. The vacuum of leadership within NOMS contributed to confusion and created challenges for suppliers and the project team. The roles and responsibilities of the project team, the Offender Information Services (OIS) and NOMS business areas were unclear. For example, the part of NOMS responsible for administering the funding, the OIS, and the project team each thought the other was monitoring expenditure.²³ The Project Board, chaired by the Senior Responsible Owner, was too large to be effective and had little

15 C&AG's Report, para 2.20

16 Q 52

17 Committee of Public Accounts, Fifty-first Report of Session 2007–08, *Revenue and Customs Prosecutions Office*, HC 601

18 Q 52

19 Q 37

20 Q 33

21 Ev 18

22 Qq 74–76

23 C&AG's Report, para 2.21, third bullet

contact with the project team. It did not actively manage delivery and it did not discuss programme finance until April 2007, almost 3 years after the start of the C-NOMIS pilot phase.

12. There were also blurred external lines of accountability. From the project's inception until May 2007, NOMS was part of the Home Office. When NOMS was created in June 2004, the Home Office had already taken many of the key decisions that shaped the strategic concept and direction of a single end-to-end management system. By the time NOMS' initial business case was being submitted, NOMS had its own Chief Executive, who reported to the Home Office's Accounting Officer. It was NOMS Chief Executive who appointed the first Senior Responsible Owner.²⁴

13. A report by the Office of Government Commerce in July 2006, copied to most of the NOMS Board at the time, provided early warning that the project was failing. The NOMS Board discussed the problems but NOMS admitted that actions were not as rigorously followed through as they ought to have been. Although the NOMS Board failed to appreciate the full seriousness of the situation, it did instigate an investigation of the project's finances, which eventually led to the facts surfacing in 2007. Only then did the NOMS Board report the situation to ministers, recommending that a halt should be put on the whole of the programme and that the programme should be re-scoped.²⁵

14. When the NOMS Board became aware of the delays to the C-NOMIS programme, in May 2007, there was no internal process of reporting within the Home Office to alert senior management. NOMS' current Accounting Officer expressed regret for the poor governance and oversight exercised over the NOMIS programme by his predecessors. NOMS should not have been running a programme that had so little reporting to ministers or internally within the Department. There was weak programme management and control over the whole of the NOMS programme.²⁶

15. Problems with the NOMIS project were not brought to the attention of the Treasury until February 2009. In part, this reflects the overly optimistic internal reporting within NOMS (see Part 3) and the inadequate response by the NOMS Board to critical external reports by the Office of Government Commerce (OGC) in 2005, 2006 and 2007 that highlighted problems with the programme.²⁷

16. The current Senior Responsible Owner is better placed to manage the project and has relevant experience.²⁸ As NOMS' Finance Director,²⁹ she should have a much better appreciation of the need for the project team to obtain regular reports from suppliers³⁰ and the project team on emerging costs and progress, and prepare timely reports that compare

24 Qq 40–47

25 Qq 35–36

26 Qq 36, 65

27 Q 23; Ev 18

28 Qq 4, 37–39,

29 Q 139

30 C&AG's Report, para 3.19

the project cost to date with progress, highlighting variances, emerging risks and the steps taken to mitigate them.³¹

3 Strengthening financial control

17. NOMS did not plan or manage the C-NOMIS project with the financial and commercial awareness and control the Committee expects from a public sector body charged with stewardship of public funds.³² Budgeting was poor. NOMS acknowledged that initial estimates were overly-optimistic in terms of cost and delivery timescales.³³ The substantial costs associated with customising the selected software were under-estimated, and initial cost estimations did not include provision for VAT or contingency, and under-estimated other costs, such as live service support.³⁴

18. Financial management was almost non-existent. The project did not have a dedicated financial team until 2007 and no-one was actively monitoring the budget. As a result, NOMS cannot provide the detail to say what the £161 million used to October 2007 was spent on, although can say in broad terms that EDS was paid £87 million and the remainder went on a combination of payments to other suppliers and NOMS costs.³⁵ There was no overall plan bringing together the various delivery streams until July 2006.³⁶ Change control was also very weak, with around 800 requests for change in 2005 and 2006,³⁷ and no process for assessing the cumulative impact of the changes requested on the overall cost of the project.³⁸

19. Commercial awareness was lacking. Contracts were agreed with suppliers without testing the market through a competitive tendering process, and the contracts themselves were weak. Contracts were agreed on a time and materials basis, which did not provide sufficient controls or sanctions over poor performance.³⁹

20. Overall control was absent. The Project Board did not actively monitor delivery of the project and was unaware of the cost of the project, the progress made or the implications on project cost of the decisions it made. Major decisions were taken without proper authority. NOMS accepted that the lack of financial oversight by the Project Board was indefensible.⁴⁰

21. Internal reporting on the C-NOMIS project was inaccurate and overly optimistic for the first three years after its inception. The programme team running C-NOMIS reported that the programme was delivering on time and to budget, when it was not.⁴¹ If the first Senior Responsible Owner, her line managers and those responsible for running the

32 Qq 37, 94

33 Q 3

34 C&AG's Report, para 2.29

35 Qq 14–16, 140–143; Ev 18

36 C&AG's Report, para 2.27

37 C&AG's Report, para 2.8

38 C&AG's Report, paras 2.31–2.32

39 C&AG's Report, paras 2.16–2.19

40 Q 37

41 Q 33

programme had discharged their roles effectively, they would have been asking much more searching questions to uncover the true position.⁴²

22. Since 2007, when the C-NOMIS project was stopped and a revised NOMIS programme planned, NOMS has improved its financial controls considerably. NOMS assured us it was conscious of the need to have accurate costs and had considerably enhanced the accountancy input for the programme.⁴³ NOMS is also addressing the need to implement earned value analysis, to match cost against delivery, as it makes new contracts.⁴⁴

42 Qq 72, 73

43 Q 4

44 Q 4

4 The effect on people and services

23. Access to information in the prison and probation service OASys systems is key to understanding the risks posed by an offender, but sharing this data will be the last part of the system to be delivered. OASys is an assessment and planning tool which provides a detailed account of an offender's risks, sentence plan and follow up. Currently, there are two separate systems, one for probation and one for prison. Probation officers can receive prison OASys records. By early 2011, NOMS plans to introduce a single offender assessment system on a single database, accessible by both prison and probation staff.⁴⁵

24. At the outset, NOMS received funding from the Criminal Justice IT fund to support information exchanges with courts, the police and others.⁴⁶ As NOMS has been slow delivering NOMIS, partners such as the Parole Board, the Youth Justice Board and the Learning and Skills Council have developed their own IT systems to deliver the functionality they need.⁴⁷ NOMS acknowledged it did not have the money available to join NOMIS to, or use, partners' systems, and that some bodies will have incurred additional costs as a result of slippage on NOMIS.⁴⁸ A primary concern for NOMS, however, was that putting interfaces in place now with partner systems may overcomplicate the delivery of NOMIS. Instead, NOMS favoured the National Audit Office's recommendation that, within two years of implementing NOMIS, it should evaluate the effectiveness of the prison and probation data-sharing facilities and take early steps to plan any further expansion.⁴⁹

25. To keep costs down, NOMS plans to transfer probation area records into a single national database without first undertaking a data cleansing exercise.⁵⁰ The business case for NOMIS makes no provision for the cost of carrying out data cleansing to remove duplicate records created by the merger of existing prison and probation databases.⁵¹ This is because NOMS expects probation NOMIS to be more user-friendly than current systems, enabling probation staff to work more efficiently. It also anticipates that, over time, as probation areas search the database, probation staff will match and merge offender records to create a single record for each offender and gradually remove duplicate records.⁵²

45 Qq 98–99

46 C&AG's Report, para 3.13

47 Qq 101, 103

48 Qq 104, 106–107

49 Qq 101–102, 105

50 C&AG's Report, para 3.5

51 Q 108

52 Q 115

5 Progress to date

26. Much of the improvement to date in NOMS' management of the NOMIS project has its origins in the appointment in April 2007 of a new Senior Responsible Owner and, in April 2008, of the current Senior Responsible Owner, who has previous experience of delivering a complex project. NOMS is making progress recruiting to the project team, although it acknowledged the difficulty in attracting people to IT roles on Civil Service rates. The Senior Responsible Owner assured us that she has the resources needed to deliver NOMIS and she is optimistic that NOMS will implement the National Audit Office's recommendations. For example, NOMS is building in a capability within the NOMIS programme to assist probation areas to implement the business change recommendation. NOMS has also appointed a permanent qualified accountant to work on the programme, who is helping build more robust financial systems.⁵³

27. There are currently some delays, with some 60% of C-NOMIS deliverables two months late.⁵⁴ Roll out of the prison NOMIS element of the programme should have commenced on 22 May.⁵⁵ NOMS would not be drawn on the roll out dates for other parts of the programme, as there were still some contractual details to finalise with the delivery of some of the programme.⁵⁶

28. NOMS estimated that NOMIS will deliver cashable savings of £10 million a year over a ten year period, arising from the replacement of the outdated LIDS prison system with the prison NOMIS programme. It anticipated further cashable savings arising in due course, as the new probation IT system should be quicker and easier to use than the current arrangements.⁵⁷

29. NOMS is confident it has a sound business case for taking forward the refocused NOMIS project.⁵⁸ It anticipates, on the basis of the current estimates included in the business case, that is currently under consideration by the Treasury,⁵⁹ that the anticipated cashable savings and benefits from the NOMIS project represent the equivalent of a 9% rate of return on the estimated overall cost of the NOMIS project (£513 million).⁶⁰

53 Q 63

54 C&AG's Report, para 17

55 Q 8

56 Q 10

57 Qq 129–130

58 Q 56

59 Q 23

60 Ev 15

Formal Minutes

Monday 29 June 2009

Members present:

Mr Edward Leigh, in the Chair

Mr David Curry

Nigel Griffiths

Keith Hill

Mr Austin Mitchell

Geraldine Smith

Mr Williams

Draft Report (*The National Offender Management Information System*), proposed by the Chairman, brought up and read.

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

Paragraphs 1 to 29 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Fortieth Report of the Committee to the House.

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

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 8 July at 3.30 pm]

Witnesses

Wednesday 6 May 2009

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Mr Phil Wheatley, Director General, **Ann Beasley**, Director of Finance and Performance, National Offender Management Service, Ministry of Justice

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Oral evidence

Taken before the Committee of Public Accounts on Wednesday 6 May 2009

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Angela Browning
Mr David Curry

Mr Austin Mitchell
Dr John Pugh
Mr Alan Williams

Mr Tim Burr, Comptroller and Auditor General, **Mr Martin Sinclair**, Assistant Auditor General and **Ms Aileen Murphie**, Director, National Audit Office, gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL THE NATIONAL OFFENDER MANAGEMENT INFORMATION SYSTEM (HC 292)

Witnesses: **Phil Wheatley**, Director General and **Ann Beasley**, Director of Finance and Performance, National Offender Management Service, gave evidence.

Q1 Chairman: Good afternoon, welcome to the Committee of Public Accounts. Today we are considering the Comptroller and Auditor General's Report *The National Offender Management Information System*. We welcome Phil Wheatley again to our Committee. He is the Director General of the National Offender Management Service in the Ministry of Justice. Could you please introduce your colleague?

Mr Wheatley: Ann Beasley, who is Director of Finance and Performance in the National Offender Management Service.

Q2 Chairman: Mr Wheatley, you know that I have a very high opinion of you personally, but this is a dreadful Report: a delay of two years; a project which was supposed to cost £234 million which in fact is costing the taxpayer £513 million; it was supposed to deliver a single database and there will be three separate databases. You will come with the classic defence line, will you not Mr Wheatley, that of course you were not there, it is all in hand now, you have learned the lessons, in the sort of school that Permanent Secretaries learn when they come to this Committee. However, I have had all this before and I just do not know whether there is any point really carrying on frankly. I put this to Sir David Normington who is past master at this in 2006. I said "Sir David, how can we have confidence in your Department that they can introduce any complex system? For instance, you are now working on probably the largest IT project ever, namely the introduction of identity cards" et cetera. Sir David, soothing tone "My aim is to ensure that the lessons are learnt from this problem. We are building up the capability in the Home Office to deliver identity cards. We have recruited a chief information officer, a very senior IT person to lead the identity card project. We have a very good project in place to

deliver that" et cetera. We have been told all this before. Why did these problems re-occur, the same old lessons have not been learnt; over ambitious, weak project management and all the rest. Give us an honest answer.

Mr Wheatley: I would hesitate to answer for ID cards for which I am not responsible.

Q3 Chairman: No, we are talking about this one.

Mr Wheatley: On this project, there is no doubt that it was badly run in the early stages and we identified those problems which became clear in 2006 and in 2007 they were very clear; it was clear this was overspending, over complex and had probably been seen largely as an IT programme rather than a business change programme, which it really is. As a consequence of that we stopped the project, the Minister made a statement to the House and said that mistakes had been made, that this was not working well and that there was a moratorium, we were re-addressing the project on more limited aims which we will achieve and which is what I am now trying to deliver on. The programme does have a net present value of about £81.3 million, there is a business case which has just received Treasury approval and we are delivering a programme which will give us real gains and which uses the taxpayers' money wisely. That is not to say it was well run in the early stage: it was not.

Q4 Chairman: How are you now going to be sure we have accurate reporting of costs against progress? You are now the accounting officer and you are responsible.

Mr Wheatley: I am very conscious of that and the need to have accurate costs. We have considerably enhanced the accountancy input for this programme; we are continuing to do that, we are running a complex series of spreadsheets on each of

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the projects which form part of the programme. They interrelate and allow us to record changes in costs and to account for how we are using money. We have more to do to get in a value analysis as we make new contracts. I am not saying we have got it perfect but I am in a position to have accurate accounts and the key thing is that I have made Ann Beasley the SRO. She successfully delivered the Phoenix Programme which gave us shared services.

Q5 Chairman: The original SRO had never run an IT project, is that right?

Mr Wheatley: I think that is probably right. She has left the Civil Service.

Q6 Chairman: I know she has left now; I am not going to deal with her.

Mr Wheatley: She had probation experience which I am sure would not have included anything on this scale.

Q7 Chairman: You have given us the reassuring words. Why then do I read, in paragraph 3.19 of the Comptroller's Report, "There is a gap in financial controls between the Project manager and supplier as information such as expected cost and time to completion is missing"? Why do I read there that there is a gap? This is not a report written several years ago.

Mr Wheatley: I am saying we have made improvements to financial controls and are continuing to do so. We introduced further changes in January of this year and as we get the new contracts they will include earned value analysis as part of that.

Ms Beasley: In addition to the improved cost model, the other thing that helps us is the new structure of the programme which is much more divided into projects and within projects into phases of projects, which allows us to control the costs much more clearly for development of applications, deployment and things like that. The other key thing in controlling costs of the programme is to get control of the number of changes. One of the reasons why the original programme costs grew was the large number of change requests. We now have a very tight grip of changes.

Q8 Chairman: Again we see in paragraph 17, "There are currently some delays, with some 60% of C-NOMIS deliverables two months late, but both the supplier and NOMS are confident of delivering the full application by April 2009". These problems are still fairly up to date.

Mr Wheatley: They are. The planned delivery—and these are our current plans and we have every reason to think they will be met—is roll-out from 22 May. We are within a few weeks of that. We have no reason to think that will not happen. I am always cautious on these big programmes because they are complex, big programmes.

Q9 Chairman: You say it is a complex big programme, but we are talking about 80,000 in prison, 216,000 in supervision. We are talking about a clientele of 300,000 and three databases. It is not an impossible project to deliver.

Mr Wheatley: No; it is big but not impossible. I am not saying it is impossible. I am saying that from my point of view I am cautious about what I promise the Committee because I realise I keep coming back.

Q10 Chairman: Do not make too many promises because I want you to come back in a year or two's time and explain what you have done. We will hold you to anything you say like I hold Sir David.

Ms Beasley: We still have some contractual things to tie down with the delivery of some of the programme; some of the projects require us to make contracts. On the prison NOMIS programme we are ready to roll on 22 May and we are confident we will do that. It looks as though that is a sound product, it has been well tested and we are rolling it out. We are not going big bang, which I fear as a way of doing IT programmes.

Q11 Chairman: You have your board, the NOMS Board. Why did you not get a better grip on the project? You had the project board and the overall board which you now run as it were. What was going wrong then?

Mr Wheatley: I have looked back and read the report and tried to understand what was going wrong. In the early stage of NOMS there was a clear vision that it would be extremely helpful to have a joined-up database to help join up the system. It is probable that was seen too much as simply providing an IT product which would then support changed working rather than thinking how to change working at the same time. There was probably over-enthusiasm for what looked like a good solution and not enough heavyweight programme management grinding away at the detail honestly. I cannot work out why that was with certainty but it would certainly include the SRO's previous experience. I have chosen Ann to do this because she has experience of running big IT-enabled programmes. It is better if you build up that experience than go straight in.

Q12 Chairman: This is scandalous. The NAO found, paragraph 3.17, at the end of October £161 million had been spent but they were unable to determine what the money had been spent on. This is scandalous frankly.

Mr Wheatley: I am not seeking to defend that. I think that is indefensible as a position to be in for the Department. At the time, to have spent that amount of money and not be clear what they had spent it on so we could not later audit through it and tie it down to detail is obviously wrong and I would not seek to defend it. I am seeking to make sure that as we do it, that criticism can never be made again.

Q13 Chairman: I personally think the accounting officer should be held to account. Has anybody been disciplined? Has anybody received a bonus for this?

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Has anybody been sacked? Has anything happened? Has there been any consequence for anybody's career?

Mr Wheatley: As you know, there are limits to what I can say about individuals. I can say that all the key players in this no longer work for the Department. They have mainly retired or, in one case, left because the restructure meant there was no longer a place for that person. As far as I can make out, nobody has benefited wrongly out of their involvement in this.

Q14 Chairman: It seems that the grip on EDS was very weak. This is in paragraphs 2.16 and 2.18. Why was this? It is laid out here and I do not need to repeat it. It talks about confusing management structures, "EDS staff were not of the necessary quality". We have dealt with EDS many times before and they are not entirely our favourite people.

Mr Wheatley: EDS is one of the contractors we use. They supply our base system, the Quantum system on which we built our computer applications. We find that we get reasonable service out of them but, like any contractor, you have to manage them. They have to be managed well.

Q15 Chairman: And they were not.

Mr Wheatley: I do not think they were managed well.

Q16 Chairman: How much have we paid them?

Mr Wheatley: I could not tell you in total. We would probably have to write separately to pull out the numbers.

Q17 Chairman: Give me a rough idea. I want this in public session. I want to know how much EDS have got out of this.

Mr Wheatley: From my point of view, we were not managing them well during that period.

Q18 Chairman: How much have we paid EDS?

Mr Wheatley: I cannot tell you at this time.

Q19 Chairman: We know from paragraph 3.17 that we paid them £1.2 million to get out of this contract. The second bullet point says "Additional costs incurred by EDS after the moratorium, amounting to £1.2 million". We paid them just for going away; in fact they have not even gone away.

Mr Wheatley: We only paid them contractually what we had to pay them. It would be easy for me to say this is all the fault of the contractor. I do not think it is just the fault of the contractor. The Department did not manage the contractor as well as we should have. We are now getting delivery out of EDS and by using the EDS Syscon contracts we have, we are utilising what would otherwise be some costs which would be wasted.

Q20 Chairman: The OGC told you what was going wrong in July 2006. Did you immediately take action?

Mr Wheatley: Action was taken in July 2006.

Q21 Chairman: Enough action?

Mr Wheatley: That action discovered eventually the extent of the problem. With the benefit of hindsight, looking back on that, that action was not as fast and as decisive as it should have been.

Q22 Chairman: No, it was not, that is the honest truth. Treasury, what did you do about this? Were you being told the truth of what was going on?

Ms Diggle: We were not aware of this project for quite some while. We were eventually shown the business case for it. I am just checking the date for you.

Q23 Chairman: We read in paragraph 2.24 "Between October 2004 and July 2006, OGC performed three Gateway reviews, two of which received a red RAG status". That should have set alarm bells ringing in the Treasury. Was any action taken or were you asleep on the job?

Ms Diggle: The Treasury does not take part in every single Gateway review. The Treasury were shown the business case for the prison NOMIS part of the project in February this year and it was cleared just a few days ago. We now have the business case for the full project, which we are looking at.

Q24 Chairman: Let us just look to the future now. The whole point of this was that we were going to get a single database. We were going to track offenders all through the process. You now have three databases. Are we just back to square one after spending all this money?

Mr Wheatley: No, the answer to that is that we are not; I am sure about that. We probably have a better solution than the rather over-hyped single database. We have a replacement for the prison system. The LIDS system which prison officers are using was installed in the 1980s. It is a pre-Windows system. It is local inmate databases and not a national system. It applies to each prison individually, has very limited functionality and uses a computer language which computer programmes do not use any more and the spare parts for some of its hardware are not available. We must replace that. We are replacing it with a good system which has been used in North America and is now customised to deal with our legal position; it calculates our sentences, which obviously are not North American sentences. It gives us a good product. With probation we will have the Delius system which is the best of the probation systems rewritten and turned into a national system. We are building again on an existing system which we know works and by running a national system, moving from 42 separate databases, two centres with one backup, we will get a much smarter product and it is one which the Probation Service know and understand.

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Q25 Chairman: Eventually.

Mr Wheatley: The data share system which we put in will share the data we need to share. Actually we do not need to read each other's records. A probation officer does not want to know a prisoner has bought a large battery.

Q26 Chairman: So we did not need to embark on this ambitious project from the word go.

Mr Wheatley: The OASys product, which is the crucial one, is going to be a single product under this scheme and that is the system by which we risk assess prisoners and offenders in the community. As a single scheme available to both services, that gives us the vital join-up.

Q27 Mr Bacon: May I start with Treasury where the Chairman left off? You mentioned quite reasonably that the Treasury does not take part in every OGC review.

Ms Diggle: Correct.

Q28 Mr Bacon: It is correct still, is it not, that the OGC is a creature of Treasury and the advisory board of the OGC is chaired by a Treasury minister? Is that still the case? It used to be chaired by the Chief Secretary.

Ms Diggle: I would have to check on that; OGC is certainly part of the Treasury.

Q29 Mr Bacon: Yes, that is what I thought. If it is true that the Treasury does not take part in every OGC review, does the Treasury find out about all red flags?

Ms Diggle: Not necessarily because the report of a Gateway review goes to the SRO. Then, within each separate department it is for the department to work out the protocol. Very often Gateway review results are reported to the managing board of a department.

Q30 Mr Bacon: Do you think it might be a good idea for the future if all OGC red flags were made known to the Treasury?

Ms Diggle: I am hesitating about that because quite often Gateway reviews are done on fairly small projects.

Q31 Mr Bacon: You could rank them in a spreadsheet with the big ones at the top and the small ones at the bottom. It would not be difficult, would it?

Ms Diggle: No. Whether departments would be able to do that I do not know. It might be a useful discussion.

Q32 Mr Bacon: One hopes they have the capacity internally to use a spreadsheet.

Ms Diggle: Yes, one hopes so.

Q33 Mr Bacon: Mr Wheatley, this is one of the worst reports I have read and I know that we have covered a lot of ground over the last few years but this is still quite extraordinary. May I start with paragraph 8 where it says "Between the start of the project and May 2007"—I gather that should actually be August

2006—"the NOMS Board did not ask for or receive any other more specific reports on project progress"? Why was that? Was it because it was taken on the NOMS Board that the C-NOMIS Project Board were in charge of the whole thing and could be relied upon to keep an eye on it?

Mr Wheatley: I think that was the thinking at the time. Because the programme team who were running the programme said that it was delivering on time and to budget and reported it was green, the flag which would have alerted the NOMS Board simply did not work.

Q34 Mr Bacon: Because it was a green flag.

Mr Wheatley: Because it was a green flag.

Q35 Mr Bacon: So because the project team and the programme management team who were running the project said it was okay, there was nothing in the system that flagged up that actually they were saying something which was untrue, except the OGC looked at this several times in 2005 and again in 2006 and in 2007 found that delivery milestones remained incomplete. There was somebody looking at it, namely the OGC, but that was not flagged up either; it certainly was not flagged up to the Treasury and nor were the findings of the OGC flagged up to the NOMS Board, were they?

Mr Wheatley: The August 2006 report was copied to most of the board. I have checked that and it was copied to most of the board and action was taken on it. The action, with the benefit of hindsight, was probably not as rigorously followed through as it should have been, although it began to work on the finance, because that was one of the big holes in it. It identified that there were real financial problems which then surfaced at the beginning of 2007 and it was the NOMS Board who, when seeing the extent of the problem, reported it to ministers and recommended that a halt should be put on the whole of the programme, it should be rebased, and that is what we have been pursuing since that point.

Q36 Mr Bacon: This presumably is covered on page 9 by "When delays occurred, many stakeholders only found out at the last minute". That presumably came to ministers.

Mr Wheatley: I am not defending the flow of information during that early period.

Q37 Mr Bacon: May I go back to paragraph 8 because the last sentence really is the most extraordinary one, probably one of the most extraordinary in any report I have read like this. "Whilst the Project Board met at least once every two months, it did not actively monitor delivery of the project and was unaware of the full extent of delays or the implications of decisions it made upon project cost". One has to ask, if the Project Board did not actually monitor delivery of the project, what was it there for?

Mr Wheatley: I share your amazement is the answer to that. It is indefensible. I am not trying to defend it and in leading the programme at the moment, I am

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making sure and Ann Beasley is making sure that we have a firm grip on what is happening and that that is reported through to the new agency.

Q38 Mr Bacon: Ann Beasley, you now chair the Project Board, is that right?

Ms Beasley: Yes.

Q39 Mr Bacon: And you are now the SRO.

Ms Beasley: I am.

Q40 Mr Bacon: The SRO at the time presumably also chaired this Project Board which did not appear actually to monitor delivery. As you mentioned earlier, and I do not wish to pursue this, that SRO has now left the Service. There is still another question which is: why did an SRO get appointed who did not have any experience of delivering what you yourself called a complex big programme? Who appointed her?

Mr Wheatley: She would have been appointed in 2005 at the beginning of the NOMS programme.

Q41 Mr Bacon: Who appointed her?

Mr Wheatley: I will get the dates right because it is a key thing. She would have been appointed by the then permanent secretary responsible in June 2004. As NOMS began she was the Chief National Offender Manager and she would have been appointed by the permanent secretary responsible at that point who would have been Martin Narey.

Q42 Mr Bacon: When you say “permanent secretary” who do you mean?

Mr Wheatley: The then person in charge of the whole of this programme.

Q43 Mr Bacon: The then person in charge of NOMS.

Mr Wheatley: Yes.

Q44 Mr Bacon: You do not mean the Permanent Secretary of the Home Office, you mean the person in charge of NOMS.

Mr Wheatley: At that time, if you remember, there were three permanent secretaries in the Home Office.

Q45 Mr Bacon: There was Sir Leigh Lewis. There was a lot of coming and going.

Mr Wheatley: Sir Leigh Lewis, Martin Narey

Q46 Mr Bacon: There was Sir John Gieve until 2006.

Mr Wheatley: Absolutely right.

Q47 Mr Bacon: But it was Martin Narey who appointed her.

Mr Wheatley: Yes, Martin Narey. She was appointed after external competition with the Civil Service Commission in the usual way. There was nothing unusual about the appointment to the job.

Q48 Mr Bacon: The point was that it is wrong to appoint somebody to a post they do not have the skills to perform in and then expect them to perform. Quite obviously, as it says in the Report, this

individual did not have experience of managing a major IT project, so you cannot be surprised at the result you got but there was still some culpability in the appointment surely?

Mr Wheatley: I am not seeking to defend the appointment. It was the appointment to the job she was doing for which she did have the skills and probation background to be the National Offender Manager. It is leading an IT project which with the benefit of hindsight . . . Certainly when I have ever put somebody in charge of an IT project I try to make sure I put somebody in charge of an IT project who has some experience. You obviously have to gain experience somewhere, but preferably not with a project as big and novel as this.

Q49 Mr Bacon: May I just ask you about paragraph 2.29 on page 23? It talks about the finance team and the fact that there was no dedicated finance team appointed. It says there was no dedicated finance team in place “The lack of a dedicated financial team before 2007 led to significant cost components being underestimated”. If you were running a project of this size that uniquely was going to be hundreds of millions of pounds—and obviously it doubled—would the appointment of a dedicated financial team not be one of the first things you did to control the costs and to make sure changes were controlled? Why was this not done?

Ms Beasley: Yes, it would.

Q50 Mr Bacon: Why was this not done?

Mr Wheatley: We have been looking ever so carefully to try to work out why it was not done. Again, I think the scale of the programme was not appreciated by those who were running it and the importance of good financial information was plainly not appreciated otherwise, as you point out, there would have been a proper financial system in place to account for the expenditure and there was not. It is a failing.

Q51 Mr Bacon: When you say that the scale of it was not appreciated, do you mean the number of people the database had to cover or the amount of money involved?

Mr Wheatley: I do not think the scale of the change which is involved in putting in a new database, in a new way of working in what was envisaged as a new service, or at least combination of services, was appreciated. I think it was seen in people’s minds at the time as an IT project delivering a database and actually it is a lot more than that. You are making change happen, as this report brings out, in the Prison Service and in 42 separate probation services. It is the change in the way of working and the way they have worked previously as we joined up offender management that we are now working on. We are now working hard to get that join-up in offender management which helps to protect the public better.

Q52 Mr Bacon: What is odd about this is that it is all so obvious. We have seen these sorts of problems before and indeed there is a table going through eight

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of the common causes of project failure on page 9 where most of the problems which could occur occurred. Then in paragraph 2.21 it talks about some very, very basic problems which could easily have been identified such as “The project was too large for the structure” “Roles and responsibilities were not clearly defined”. There was a vacuum of leadership; the project team did not work together. This all grew out of the creation of NOMS from June 2004 onwards. Is there not a basic lesson here whenever Government are creating a new organisation of any kind? We have seen this before on a much smaller scale; we saw it with HMRC Prosecutions Office. A new organisation is put in place but the basic management for financial management and for HR and for various other disciplines was not put in place. Is there not a basic lesson when a new organisation is put in place like this that these things have to be thought about right at the start, irrespective of the area of government? The central failing here was that that was not done.

Mr Wheatley: Again you are right, you cannot make major organisational change without making all the changes that go behind it which involve a lot more detail than the people who do not deliver the detail simply do not realise. I think the scale of change we were making was underestimated, which was why the management capacity needed to drive a complex project and deliver the changing way of working simply was not put in at that early stage. Within the department that was realised eventually and belatedly, but it was realised. We had not realised there was a problem here, the problem was flushed out finally in detail by the NOMS Board in May of 2007 and action taken and announced to Parliament. We have been open about the failure and this report goes forensically through that failure and it reveals a real failure.

Q53 Mr Bacon: What really interests me is why it took so long for those failures to be flushed out. It was not flushed out by the Home Office itself, it was not flushed out for a long time by NOMS, it was not flushed out by the OGC in a way which got the attention of either the NOMS Board or the Treasury itself, although they did do some good work.

Mr Wheatley: Yes, OGC did identify the problem.

Q54 Mr Bacon: Why, either do these things not get flagged up, or, when they are flagged up, do they not get taken notice of? That is really what fascinates me.

Mr Wheatley: It is very difficult to speculate on. I think this was a big project and people were enthusiastic about creating the change; they really wanted to make real change which reduced re-offending, made the public safer. The big vision was shared by lots of people who thought this was a really good vision but it was not sufficiently grounded in detailed work about the practicalities of making it happen and to some extent you are asking really a wider question about NOMS. The reshaping of NOMS to take account of more practicalities is really what brought us together as a new agency at the beginning of 2008 and that new agency recognises that making the whole series of link-ups

required to make the public safer requires lots of detail and complexity if it is going to work properly. We are now trying to deliver that. We are succeeding in delivering that and we will grind away, as I find change often requires, at making that happen.

Q55 Chairman: When will the final parts of the programme be delivered?

Mr Wheatley: In 2011 is when we expect to get to the end of that.

Q56 Angela Browning: If we look at page 17, figure 6, the breakdown of cost forecasts, we can see on this particular page exactly what happened to projected costs after the NOMS Board and then ministers were informed and they had a moratorium. It is quite astonishing to see the way those costs rocketed up in July 2007. If I just look at project management for example, it went up from £13 million in 2005 right up to £34 million in 2007. That is a huge increase, bearing in mind that at this point the project was going pear shaped and was way behind schedule as well. Even so, £13 million on project management is still a considerable sum of public money. What accountability was there for the failure of project management, because that is what it was, at £13 million in June 2005? Did nobody think to account for that sort of money?

Mr Wheatley: We are not failing to account for it. What you have here is what they estimated it would cost in June 2005 and what, as we did the full analysis on the programme, knowing it was in difficulties, we estimated the total cost would be if we persisted in doing it in the way it was being done. The real costs have come down to £513 million as the current cost estimate and we have taken £177 million out of this cost as we have rebased the programme. What you have is the estimate. If we had ploughed on doing it in the way which we recognised was not a sensible way, we would have spent £690 million. That is what was going to happen. We stopped, we have taken £177 million out and there is still, in spite of having spent that sort of money—£513 million is still a lot of money—a sound business case for what we are doing. It still gives a net present value of over £80 million and an internal rate of return of 9%. It still looks like a sensible thing to do for the public.

Q57 Angela Browning: I want to come in a moment to what you are doing now and what you are going to do in the future, but I am just trying to get my mind round how so much money could have been spent in key areas, particularly on things like project management and on procurement of these IT systems. On the opposite page, page 16 at paragraph 2.4 we have very clearly the five points, the five main areas which contributed both to the costs and the delay. Anybody looking at that list and then relating that to the costs which have been spent to date still has no clarity as to why it was not discovered earlier that this project was going wrong. If the NOMS Board has been a board of directors under the Companies Act they would have all been struck off by that stage, would they not, even for failure to know what was going on?

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Mr Wheatley: The £690 million was not spent. It would have been spent if we had carried on. It was not money which had been spent; it was money which would have been spent if we had persisted in doing it. The amount of money which also shows in the report as being a direct result of not running this programme well is just over £41 million, which is what the NAO's estimate is of what has been lost as a result of bad programme management and delays in delivery. That is a substantial amount of public money. In the August of that year—when we began in May—we identified what was going wrong, we took determined action, we stopped spending money immediately, there was a moratorium on the programme and the Minister reported back to Parliament at the beginning of January 2008. We are now doing what the Minister said we should do and we are delivering a programme which has been reduced in scope and does not suffer from the defects which the early programme did, which had too much change going on in it, was too ambitious and was not rigidly controlled with good programme management.

Q58 Angela Browning: Let us move on then to what you are doing now and in particular, on page 8, paragraph 23 of the NAO Report on value for money the concluding sentence, although they recognise that yes, you are starting to make some changes and you yourself have said you have got a grip on this, the final sentence says “Although programme management has improved considerably in the last 18 months, weaknesses remain” on value for money. Tell us what those weaknesses are.

Mr Wheatley: Things that we know we need to do more of. We need to continue to strengthen our financial management. The more we have a firm analytical grip on what we are spending the better and there is a lot to do on that.

Q59 Angela Browning: In what way?

Mr Wheatley: We also have contracts to let, this is work in progress, and we need to make sure those contracts are let in a satisfactory way.

Ms Beasley: The fieldwork was done for this report in July/August of last year, so we have moved on considerably in that time, largely in strengthening the structure of the programme and being much clearer about what the individual projects are going to deliver and by when and by improving the financial management. We have invested in project management like testing and all the project assurance that was lacking from some of the earlier work that was done. We have addressed a lot of the weaknesses which were found in a report which was substantially based on where we were in the autumn of 2008.

Q60 Angela Browning: Could we move then to paragraph 21 on page 8 where the NAO report about weaknesses that remain, particularly in resourcing business focus and, worryingly, financial forecasting, because clearly financial forecasting was very weak in this project and yet that still remains on the record

here. The final sentence in this paragraph says “Whilst NOMS has made significant improvements to financial controls, it still lacks the means to match spending against deliverables although it is pursuing this shortcoming in its current contract negotiations with potential suppliers. Is that now fixed?”

Mr Wheatley: We have not got to contract on all of the deliverables.

Q61 Angela Browning: When you do will that sentence apply or will you feel confident that you have dealt with it? It is listed still as something that is current.

Mr Wheatley: We think that is a perfectly proper assessment of what the NAO looked at at the time. We are continuing to address those weaknesses and we expect to succeed in addressing them. We expect to deliver this on its new budget and deliver the benefits that this project undoubtedly has, benefits that will give the public greater protection.

Q62 Angela Browning: Where are we now? May 2009. If the NAO were to come back and do another report, suppose they were to come back in the early part of next year, 2010, would you hand on heart say that the recommendations in the NAO Report, of which I have only mentioned two, would all be met?

Mr Wheatley: I think they would find substantial improvements. Because we will be letting contracts over a period of some time, they may not find all the contracts let; it depends where we are in the letting of contracts to deliver.

Q63 Angela Browning: It is not only the letting of contracts which has been identified as a weakness, is it?

Mr Wheatley: What we actually build into the contracts is one of the ways of dealing with some of the weaknesses.

Ms Beasley: If you are looking at the recommendations, one of them is around the business change in probation as we implement the national Delius solution. We have made considerable progress there because it is actually a product which is now already used by 40% of probation users. We are building in a capability within our programme to assist probation areas in that change process. I do think we will have addressed the business change capability recommendation. In terms of financial controls, when the fieldwork study was done we did not have a permanent qualified accountant working on the programme, we had a contractor. We now have a permanent qualified accountant who is building much more robust systems that we did not have during the time of the study. We have made progress in terms of recruiting to the team. It is always difficult because we are attracting people to IT roles on Civil Service rates; that is always difficult. We do believe now that we have the resources that we need to undertake the study. I think, if you were to come back in a year's time, I would be optimistic that the NAO would conclude that we had met the recommendations.

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Q64 Angela Browning: The NAO do recognise at paragraph 20 that you have “worked hard to address past weaknesses” and we are all aware that some of these are the historic weaknesses now that you have inherited. It is worrying that this Report still flags up current weaknesses. Are you confident that if you were to be assessed again in the early part of next year all those weaknesses would have been addressed?

Ms Beasley: Yes; very substantially they would.

Q65 Angela Browning: It would be a good idea if we could put that to the test. Just going back to figure 1 on page 5 where we get the chronology of what has happened to this project, we heard from the Treasury representative that the Treasury only heard very late in the day, in the same way that, according to this chart, in August 2007 the Minister was informed of what was happening and imposed the moratorium. Why do you think it was that prior to that happening, when the NOMS Board became aware in May 2007, there was no internal process of reporting within the Home Office who then had ownership of it, as I understand it, for there to be nobody to be alert to the fact that this was all going very badly wrong? For three years nobody seems to have known what was going on. Do either of you know why that should be?

Mr Wheatley: It is wrong. We should not have been running a programme that had so little reporting to ministers or internally within the Department, so little clarity about the problems it was experiencing. It was plainly a weakness of programme management and control over the whole of the NOMIS programme. It should not have happened. I am not sure precisely why, other than the things we have already identified. I think that the SRO responsible did not have experience of running this sort of programme before and it is unfair to expect somebody who does not know about running this sort of programme to leap up to the plate of what is quite a big and complex programme although not undeliverable. That probably occurred because people were seeing this as a desirable and relatively simply IT change and it was much more than that because it required different ways of working from two services and should have been seen as a much more important business change programme which was IT enabled rather than IT led.

Q66 Chairman: You keep on about the history but our members’ brief tells us on the roll-out that internal audit has already raised concerns about the ability of the programme to meet the cost models, given the reliance on unvalidated cost figures and a low level of contingency.

Mr Wheatley: Sorry, whereabouts is that?

Q67 Chairman: It is in our members’ brief which you have not read. We have read it.

Mr Wheatley: My view at the moment is that this is a programme we are getting under control. Like most programmes you get that do not arrive in a perfect condition you do not instantly wave a magic wand over them.

Q68 Chairman: Have you seen this audit?

Mr Wheatley: I am not sure which internal audit you are referring to.

Ms Murphie: I do not know immediately.

Q69 Chairman: Well it is in our members’ brief, so it must be right.

Mr Wheatley: I am not sure what the date of it is.

Chairman: It is unfair then. You can do us a note on that.¹

Q70 Mr Williams: May I start by saying that we accept 100% that you in no way are responsible for the mess which was created and you are only here and having to deal with it and carry the can. Is it not incredible, almost unbelievable, that for three years nobody senior knew what was being delivered for the money spent? For three years. Who should have asked?

Mr Wheatley: I think the answer is that people did ask and were told out of the reporting system as it was that actually the programme was all going well.

Q71 Mr Williams: A qualitative statement is not an answer to a specific question about the cost.

Mr Wheatley: I am not trying to dodge it.

Q72 Mr Williams: I said I do not hold you responsible.

Mr Wheatley: The initial information that people were being given was good news. This was allegedly delivering. They should have asked much more searching questions; I am not trying to dodge that. I am not saying anything other than, as I sit here today and look at all these papers and think about it, that it is not possible for me to defend a position in which people were not asking those searching questions. I have to say it is wrong.

Q73 Mr Williams: I am not asking you to defend it. I am asking who should have asked. Surely there was someone who should have been asking these questions.

Mr Wheatley: From the start of the project, the SRO running the programme properly should have been asking much more searching questions. The SRO’s line managers, those responsible for the overall management of the programme should also have been asking more searching questions, all with the benefit of hindsight as I am sitting here today, but they should have been.

Q74 Mr Williams: But that raises another question of who lacked responsibility? Who on earth would appoint an SRO without relevant experience, with little support and no time to carry out their responsibilities and then expect them to deliver on a programme like this? Who failed that time? Who appointed the SRO?

Mr Wheatley: In answer to the earlier question I explained when the appointment was made it was a Civil Service Commission overseen appointment of somebody for a job.

¹ Ev 14

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Q75 Mr Williams: Are you saying the Civil Service Commission made it?

Mr Wheatley: No, I am saying it was a proper external appointment.

Q76 Mr Williams: How could it have been a proper appointment of somebody who did not have the experience, did not have the time and did not have the backup?

Mr Wheatley: The person concerned became the National Offender Manager through that process. That did not mean that the job of being SRO for this programme has to be given to that post-holder. It was given to that post-holder, that was a decision taken by the then managers of NOMS. With the benefit of hindsight, it was not a right decision; I am not seeking to defend it and we have been through the work of the individuals.

Q77 Mr Williams: No-one is asking you to.

Mr Wheatley: The people concerned are no longer working in the Civil Service.

Q78 Mr Williams: It reminds me of a situation we were in some years ago when we called back out of retirement the chairman of a health authority to a hearing in May because there was such a mess-up. I asked him when he first heard of the date of the hearing. He said "Two weeks before Christmas". I asked him when he resigned and he said "One week before Christmas". That seems to be what has happened here. Everyone seems to have disappeared. They have all gone into the sand and nobody is responsible.

Mr Wheatley: No, I am not saying nobody is responsible; that is not what I am saying.

Q79 Mr Williams: But you are not telling us who.

Mr Wheatley: I am responsible, I am the person here answering for it and I am the accounting officer.

Q80 Mr Williams: No, you are not responsible, you are accountable. That is a different matter. You are accountable; you are not responsible for the situation. There is a difference between the two and I do not want you condemning yourself with your own words, that would not be right.

Mr Wheatley: I am not trying to dodge the accountability I have because I am plain about that; I am here to account for it. The people who were doing the job at the time have all left the Civil Service, they left, in one case years ago and in fact in all cases years ago actually. They have not been part of the recovery phase and they did not leave because of the scale of the problem but they left before the scale of the problem was discovered. One has been restructured out, a job no longer required, and the other key player took a job elsewhere outside the Civil Service.

Q81 Mr Williams: I am going to list a couple of things and ask whether you agree with them and as they are in the Report I think you probably will. I have been on this Committee now for about 20 years and I do not think I have ever come across such a

comprehensive set of failures one piled on top of the other. It is a fact, is it not, that the NOMS management significantly underestimated the technical complexity of the problem? This is in paragraph 11.

Mr Wheatley: That is perfectly right.

Q82 Mr Williams: NOMS started off underestimating that. Secondly, it "... did not adequately explore other potential solutions and underestimated the cost of customising the software". Pretty fundamental stuff, is it not? It "... underestimated the cost of customising the software it had already selected for the Prison Service" although it only seemed to meet 29% of the need of the Probation Service. That is correct, is it not?

Mr Wheatley: Yes, it is correct.

Q83 Mr Williams: Bewildering but correct.

Mr Wheatley: In using this particular product, which was a North American, mainly Canadian, product, it had a lot of functionality which was appropriate for prisons; not the technical functionality which comes with our sentencing system and our police system which are quite different from the Canadian one, so that needed customising. There was some underestimation of the extent to which we would have to make adjustments because of our different legislative background and the legislation was changed in the interim as well which meant further change. On the probation side, although it had a functionality for a probation service, there was a gross underestimation of the scale of change required.

Q84 Mr Williams: I will come to that point in a moment. The estimated cost of developing the application rose from £99 million by £155 million; it trebled to £254 million. It trebled because of customisation. That is a staggering increase, is it not?

Mr Wheatley: The original cost estimate was well under what it should have been; a gross underestimate.

Q85 Mr Williams: But no-one seems to offer any explanation why it was.

Mr Wheatley: Plainly it was a mistake; it was done badly. There was a failure to work out the extent to which things would have to change to operate both for the prison side, where we were required to change to cope with our legislation which was primarily the reason for the change, and on the probation side there was a serious failure to understand the changes which would be needed on probation. Again, I cannot defend it. I am not trying to defend it.

Q86 Mr Williams: I am not asking you to.

Mr Wheatley: To some extent I am sharing your disappointment and amazement at the scale of failure that took place.

Q87 Mr Williams: Confronted with a situation where there were two not compatible systems and two different sets of work practices, instead of trying

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to rationalise the work practices and then fit an IT system to it, they tried to cobble together an IT system which would take a mess and somehow miraculously unscramble two mixed messes.

Mr Wheatley: That is my point actually. This should not have been seen as an IT solution. We should have been working on changing the business.

Q88 Mr Williams: Exactly. They should have.

Mr Wheatley: So it was an IT-enabled business change not a simple IT change which will deliver the goods. There was too much belief in what IT was going to deliver and an underestimation of the extent of the costs which would be incurred. To be fair, because we are now about to deliver the prison version of NOMIS; it is a good product and the money we sank into customising it to work in our country seems to have paid off and we are getting a system which offers good functionality and brings us into the modern age away from a pre-Windows local inmate database and will enable us to run prisons more efficiently, it has some real cashable savings—we think up to 2020 at least £100 million—and lots of improvements to functionality and greater efficiency in the way that we work. Eventually it is going to give us a good product so that is not wasted money.

Q89 Mr Williams: I understand that but we are looking at how we got there and it says NOMS made no sustained effort to simplify and standardise business processes and you have just agreed that was so.

Mr Wheatley: That is right; absolutely right.

Q90 Mr Williams: Has the person who was responsible for that gone?

Mr Wheatley: Yes, is the answer. They are the same people. They are no longer in our employment.

Q91 Mr Williams: Do you mean it took a lot of people to make this much of a mess? It would be difficult for one person on his own to think it all out, would it not, or unthink it all out?

Mr Wheatley: It did not take a lot of people. As usual it is key managers and what key managers do that makes a really big difference and I accept that is the case.

Q92 Mr Williams: We are told that in June 2005 the full business case was approved. In May two years later the board was made aware of the cost overruns for the first time; two years later. Then, three months later, in the August, the minister was involved. How many of them managed to get out before the minister who was going to receive this report had it land on his desk?

Mr Wheatley: Nobody left. The people who were discovering the changes are the people who are still there. The process of identifying what was wrong with the programme, reporting to ministers, sorting it out, has been a long process. We have taken charge of that in the agency further down the process but that began at an earlier stage and the key people who

were involved at that stage are all in position. They were the people who were discovering the problem and were fixing it.

Q93 Mr Williams: If you were in charge in the Civil Service College of setting up a course and teaching people how not to develop a project, can you think of any project you have come across which would be a better example than this one?

Mr Wheatley: Not in ones I have been closely involved with; you of course have more knowledge about other projects which have gone wrong.

Q94 Mr Williams: Even with 20 years' knowledge, in scales of money it has been different but in scales of comprehensiveness of incompetence it is largely unmatched.

Mr Wheatley: I am not excusing the decision-making. In terms of the damage to the public purse that has been caused, and damage has been caused to the public purse, the scale is just above £41 million which is a substantial amount of public money. We have managed to pull from that situation a lot of benefit and we will, in spite of having made that unnecessary expense—which is what it is—still deliver something which gives the public value, delivers a genuine value and makes sense. It is not to excuse the unnecessary expense, but it is to say that this is going to deliver what we need to do the business.

Q95 Chairman: We have the Comptroller and Auditor General here, we have a senior officer in the Treasury, we have a director general in a major government department, can we not get this imprinted on the hearts and minds of the Civil Service in future that it should appoint a project officer who actually has some experience, who has the time to do the job? It is pretty simple stuff, is it not? It is not rocket science is it?

Mr Burr: I do not think so, no.

Ms Diggle: Indeed.

Q96 Chairman: Shall we try to do that in future?

Mr Wheatley: I will be anxious for us to share the lessons of this.

Q97 Chairman: We could make a major difference. We could get project officers who had some experience of running a project and knew how to do it.

Mr Wheatley: I certainly agree that is a good idea.

Q98 Mr Mitchell: We were told by the Carter report that the aim is going to be end-to-end offender management. It sounds a marvellous idea to follow them through and indeed that was proclaimed as the purpose when NOMS was set up in 2004. It seems to me that you cannot do that without a computer system which is going to allow you to provide that information and follow them through end to end but we are now told that the system will not deliver the core aim of a shared database to provide a single offender record accessible to all. You cannot do effective end to end management.

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Mr Wheatley: That is not right. The main system we are using to plan for offenders and assess their risk and put the sentence plan on and follow up is called OASys and it is a separate system. Currently two separate systems, one probation OASys and one prison OASys with an interchange between the two systems, do allow us to exchange information. It is not a perfect system; the change is a bit clunky in IT terms but it does work and out of this programme we will deliver a single OASys system on a single database.

Q99 Mr Mitchell: When?

Mr Wheatley: The timescales for that will be by 2011.

Ms Beasley: Yes; early 2011.

Mr Wheatley: By 2011 we will produce the joined-up system but actually at the moment a probation officer can receive the prison OASys by electronic means—it arrives as a record.

Q100 Mr Mitchell: You are still likely to get cock-ups and mistakes, are you not?

Mr Wheatley: It is not as good as the single system will be but it does work and allows the exchange of information.

Q101 Mr Mitchell: Has it not also let down a lot of other people in the sense that the partners, like the Parole Board which gave evidence to us earlier on, the Youth Justice Board and the Learning and Skills Council, and you were funded to develop interchanges with all of them, have now had to develop their own systems?

Mr Wheatley: That is fair comment. Because we have been slow delivering other people have put in place systems which give them the functionality they need at the moment. We have also got to be careful as we get to the end delivery because with all these IT systems you could always think of people you should join up with.

Q102 Mr Mitchell: Yes, but now you have extra expense and you have duplication of activities and you have more potential for mistakes.

Mr Wheatley: You also have the potential, if you allow too many people to join the database, that it becomes over-complicated.

Q103 Mr Mitchell: But that was the original intention.

Mr Wheatley: It was the original intention that we would be able to share more information.

Q104 Mr Mitchell: You did not abandon that intention because you thought it was a mistake to have too many people having access. You abandoned it because you did not have the money.

Mr Wheatley: We did not have the money and we are now thinking carefully with the money we do have about whether in all those cases it makes sense to achieve join-up or to use the existing systems they have put in position.

Q105 Mr Mitchell: When will you decide whether you are going to join it all up with the systems which they have developed themselves at their own expense?

Mr Wheatley: The proposal is, and the recommendation in the Report is a perfectly sensible one, that we ought to be looking down the line two years at whether we should be achieving more join-up and that is a sensible approach. We agree with the recommendation.

Q106 Mr Mitchell: Do we know what the extra expense is in them developing their own systems?

Mr Wheatley: No, we do not know what the extra expense is of them developing their own systems.

Q107 Mr Mitchell: But there is one.

Mr Wheatley: There will have been some for some of them.

Q108 Mr Mitchell: I see from paragraph 3.5 on page 24 that to keep costs down now you are “... transferring probation area records into a single national database without the data cleansing anticipated in Option G” and you expect “... over time, single offender records will be created as probation areas gradually remove duplicates”. So they are going to have to work through it, are they not, and pick out the duplication and correct the errors? There is a big job there.

Ms Beasley: One of the reasons why the original C-NOMIS solution was very expensive was the cost of data cleansing within probation. The solution we have now adopted has a national application, but it allows all the records, whilst it sits within one database, to be flagged relevant to that area. It is not so much data cleansing which will be required as dealing with duplicate records.

Q109 Mr Mitchell: It is still dirty data.

Ms Beasley: It is duplicate records. What a probation officer will be allowed to do will be to search the databases for the other probation areas to see whether there is a record relevant to their offender and merge that with the record they wish to create.

Q110 Mr Mitchell: The mind boggles. This is going to have to go on in all the areas and they are going to have to go through and clean up their data gradually. Are they being allowed extra money for doing this? Is a budget set aside for it?

Mr Wheatley: Just thinking about how this will work, if you are dealing as a probation officer in Grimsby with somebody you know well from the Grimsby area, you would not dream of searching round the rest of the world when you had known him for years.

Q111 Mr Mitchell: That is true.

Mr Wheatley: If you took somebody you had not seen before who previously lived in Liverpool and had antecedents from Manchester as well on his police record, you might well search. That is a

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sensible thing, to search where it makes sense rather than engage in a general data-cleansing operation which costs a lot of money. These are balances.

Q112 Mr Mitchell: At the moment if you are a probation officer in Grimsby you are being fired frankly, because they are cutting down the numbers so substantially that you are not going to have the people to do this reading out of the data, cleansing of the data, that you presuppose is necessary.

Mr Wheatley: It is less onerous than you think. The vast majority of people probation deal with are plainly from the area, are often well known to probation officers.

Q113 Mr Mitchell: It is end to end and they have been other places and they have been shunted around the system.

Mr Wheatley: It will be possible to search. You will not have to search yourself, the machine does it for you and then you will be able to merge records; you can draw on what comes out from Liverpool or wherever else it happens to be they have been.

Q114 Mr Mitchell: My question was whether there will be extra funding for the areas to do this job and your answer is apparently no.

Mr Wheatley: My answer will depend upon what Parliament gives to us to spend.

Q115 Mr Mitchell: At a time of declining numbers, when staff are being fired, there will not be any extra provision to cleanse the data.

Mr Wheatley: But what we will be giving probation is a better IT system than they have had before, which is more user friendly, which we do not have to retrain substantially for because it is very like the system they are used to, it has probation functionality, and it should enable them to work more sharply and I think will enable them to work more efficiently. I do not think it is going to give them the problem you suggest.

Q116 Mr Mitchell: This does bring up the general question. To what extent is the distinction made in all this palaver prior to and subsequent to the moratorium of the extent to which they have been driven by financial restraints?

Mr Wheatley: Inevitably what I do is driven by the need to be able to afford it.

Q117 Mr Mitchell: Yes, but financial restraints rather than operational requirements. You want the best and most efficient system. You are apparently cutting back on it and reducing its potential because you do not have the money.

Mr Wheatley: I want the best and most affordable system. Like the rest of the world, I can always think of lots of places where I might spend money and I could claim a public advantage, but there is no money to give me. I have to live within the money voted and I am sure that we can produce a good affordable system.

Q118 Mr Mitchell: But you started off with expectations which were too grandiose.

Mr Wheatley: We did start off with expectations which were too grandiose and I think that it is important for all of us that we live within the resources we have and tailor our expectations to the money we can reasonably expect to get. It is public money and I know there is not an endless supply of it.

Q119 Mr Mitchell: My final question is one I feel very strongly about from my correspondence with probation officers in the service in Grimsby which is very effective. How many people of those who are now being fired in Humberside would not be fired if this money had not been wasted on all this messing about with inadequate planning of the computer system?

Mr Wheatley: I do not want to comment on Humberside.

Q120 Mr Mitchell: Why not? We are losing people, it is going to have a detrimental effect on the service, you cannot pull through the end-to-end management without it, it is going to pull the service into chaos and you are not prepared to comment.

Mr Wheatley: My understanding is that actually staff in Humberside will not be fired.

Q121 Mr Mitchell: That is not what they have been told.

Mr Wheatley: I know, but my understanding is that they will not be. Just pulling back from that, your real question is whether, if we had not spent the money on this, it would have been available this year to sort out probation problems. The answer is no, it would not have been available. It is money which we used in the past in a way which was not the best use of it. It would not help me at the moment. What will help me at the moment is making sure that we deliver a good, workable product within the envelope of money we have which delivers real benefit. It must deliver real benefit. If there is not a solid business case for it I do not want to be doing it. There is a solid business case for what we are doing which should help your staff in Humberside or anywhere else for that matter. As they look back on it they should say "We're glad we got this. It is a good system".

Q122 Mr Curry: There was one point where you said almost in passing that we are spending X million and we are getting an internal rate of return of 9%. Did you find some agreeable Icelandic bank in which to park this money to give you such a rate of return? Explain what you mean by internal rate of return and then explain how you come to a figure of 9% as opposed to 8.27% or 4.91%. How often do you adjust it and what happens? What is the cost of it becoming 8% and what is the benefit of it becoming 10%?

Ms Beasley: This is an implied rate of return. It says, given the benefits that we receive for the capital we spend, what that would give you as a rate of return had you invested it. It is not that we are investing it.

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Q123 Mr Curry: Where would you invest it then? What investment do you make in order to give you that comparison?

Ms Beasley: That is the £513 million of cost.

Q124 Mr Curry: Sorry, you said, if I have understood it right—

Ms Beasley: No, I did not start with the rate of return; I started with the amount of investment.

Q125 Mr Curry: --- if you had invested that money rather than spending it where you are spending it, which you think is going to get you a public benefit.

Ms Beasley: It is working the other way round. If you start with the costs that you need to invest and work out how much benefit you receive, you can then calculate the rate of return that is on the amount of money that you have invested.

Q126 Mr Curry: But how? I want to know how?

Ms Beasley: It is an accounting calculation.

Q127 Mr Curry: I want to know how it works. Tell me how it works.

Mr Wheatley: It is benefits versus cost. You are working out what the benefits are.

Q128 Mr Curry: It is all very well everybody nodding, but as soon as I hear this all my *Financial Times* background starts twitching like mad and I just begin to wonder how these figures are arrived at. Tell me how 9% is arrived at.

Mr Wheatley: It takes the total cost of the project.

Q129 Mr Curry: Tell me how you quantify the benefits then. I understand the simple equation and we know what the costs are but how do you quantify the benefit.

Mr Wheatley: The benefits which we have to deliver—and once we have signed up to them we then have to make sure carefully that we deliver them—amount to estimates at the moment because we have not yet delivered them and it estimates the amount of savings we will make, about £100 million cashable savings we think, £10 million per year, on the prison NOMIS programme and some more cashable savings in probation because it will be easier to do work on the new system and will not take so many hours; once the system works better it will save probation time. The money we would have had to spend if we did not put this system in, because we would have had to keep the old system running, in other words we would have had to keep some information systems so we would have had to pay money to keep the LIDS prison system.

Q130 Mr Curry: Over how long a period are we talking about for these benefits?

Mr Wheatley: This is over a ten-year period.

Q131 Mr Curry: What is your predicated rate of inflation over that period? What are your assumptions about wage levels and employment in the service? The benefit must be predicated on a whole series of other factors otherwise you cannot

come to a conclusion. What is it in terms of inflation, what is it in terms of cost of public employment, what are the building blocks which go into getting this figure?

Mr Wheatley: The building blocks are ones that are agreed with the Treasury.

Q132 Mr Curry: That does not inspire confidence, if I may say so.

Mr Wheatley: We are following the rules that we are required to follow when making these sorts of assessments.

Q133 Mr Curry: Would you send us a note?

Mr Wheatley: Yes, we can send a note on the calculation.

Q134 Mr Curry: Would you give us some simple illustrations of that note and please can you term it in English? I do not want roll-outs and things like that. I want it written in straightforward English.

Mr Wheatley: It is a calculation.

Q135 Mr Curry: So that people who used to take GCSE can understand.

Mr Wheatley: It is a calculation and we can describe the calculation. I did actually take GCEs a long time ago.

Q136 Mr Curry: In the days when people learned how to spell.

Mr Wheatley: It will show the calculation in which we are following the methodology agreed with the Treasury, it is an accounting methodology, to show whether we are making a return on our investment.

Q137 Mr Curry: Can you put the variables in there as well so we know how it might vary?

Mr Wheatley: Yes, we can say what the assumptions are that currently go into it.²

Q138 Mr Bacon: Ms Beasley, you became Finance Director in April 2008 and, as it says in paragraph 3.17 “At the end of October 2007, £161 million had been spent” and the NAO could not identify exactly where it had gone. Have you undertaken an exercise internally to come up with the best guess of where it went?

Ms Beasley: Actually I became the Finance Director in 2003.

Q139 Mr Bacon: I thought you became Finance Director of NOMS in 2008.

Mr Wheatley: Finance Director of the Prison Service.

Ms Beasley: I became the SRO in 2008 for this programme. I have not tried to look back over the sunk costs, the £161 million. I have concentrated my efforts on trying to improve the programme governance, financial control and actually starting to deliver.

² Ev 15

National Offender Management Service

Q140 Mr Bacon: When the Report says “We have not been able to ascertain precisely what this money was spent on” that is also because NOMS cannot ascertain that.

Mr Wheatley: The National Audit Office have had access to all the data that we have and have forensically looked at it to discover what they can.

Q141 Mr Bacon: As a result of which they have written that sentence.

Mr Wheatley: Yes.

Q142 Mr Bacon: What I am saying is that basically NOMS does not know anything extra.

Mr Wheatley: No, there is not another line of data we can reveal to the National Audit Office.

Q143 Mr Bacon: “. . . we believe most was spent on developing the C-NOMIS application”. So is it fair to say that most of it was paid to the computer contractor EDS?

Mr Wheatley: Yes, most of it will have gone to either EDS or Syscon who are the specialist firm who developed the TAG solution.

Q144 Mr Bacon: When you say “most of”, has 80% gone to those two firms?

Mr Wheatley: I cannot give you out of my head the answer to that.

Q145 Mr Bacon: So you are going to send us a note with a breakdown.

Mr Wheatley: I will send you a note.³

Q146 Mr Bacon: I am sure it must be possible to find out how much was paid by no other means than by asking them surely and hopefully they would give you an honest answer.

Mr Wheatley: I am sure we can but I do not have the information to hand and I do not want to give you a guess because that would be wrong.

Q147 Mr Bacon: No, I understand that. If you could send us a detailed note with as much of a breakdown as you can, that would be very helpful. One quick question to the Treasury. Obviously departments have to run themselves and Treasury cannot run departments for them and Treasury cannot run departments’ budgets for them. That has to be the responsibility of departments. Is it fair to say that Treasury does have a role as a policeman?

Ms Diggle: Yes, when we know what is happening.

Q148 Mr Bacon: Yes, when you know what is happening. What is absolutely clear in this instance, and that is the thing which amazes me most about all this, is that none of the reporting systems, none of the things which were supposed to tell those at the top what was happening, worked and that includes the Treasury.

Ms Diggle: Correct.

Q149 Mr Bacon: Could you send us a note in which you set out what you knew and when you knew it?

Ms Diggle: Certainly. We did not know very much but certainly I will send you a note.⁴

Q150 Mr Bacon: Particularly with clear dates and so on; that would be very helpful. I think there is an implication here also for the way the OGC reports in to you and indeed to us.

Ms Diggle: Yes.

Chairman: Well Mr Wheatley, that concludes our hearing. Clearly this project was handled badly, it achieved poor value for money, many of the causes of delays and cost overruns could have been avoided. I could make some grand eloquent statement about how we never expect to see this happen again in the Civil Service but I suspect I would be wasting my breath. That concludes our hearing.

³ Ev 18

⁴ Ev 18

Supplementary memorandum from the National Offender Management Service

This memorandum provides the additional information requested by members of the Committee during the evidence given by Phil Wheatley and Ann Beasley on Wednesday 6 May 2009.

Questions 66–69 (Chairman): *internal audit raising concerns about the ability of the programme to meet the cost models*

The National Audit Office (NAO) report stated at paragraph 3.10 that “Internal audit has already raised concerns about the ability of the programme to meet the cost models given the reliance on unvalidated cost and the low level of contingency.”

The NAO report is referring to the internal audit carried out in late 2007 by Internal Audit & Corporate Assurance with the final report written in April 2008.

The internal audit report had some concerns about the ability of the programme to meet cost models, given that they were based on unvalidated figures provided by suppliers.

The Programme remains within its financial envelope of £512.9m. The Programme has been validating the original costs and taking action where they have proved to exceed the estimate. For example, the Data

Share project's original proposal exceeded the estimated cost and was subsequently rejected by the NOMIS Programme Board. This led to an alternative solution for Data Share to be developed which was approved within the estimated budget.

The internal audit report also concluded that the level of contingency included in the costs had not been robustly developed. Consequently, internal audit had concerns as to the adequacy of the figures in this area.

The Programme increased the contingency to £25 million and as at May 2009 the remaining contingency equates to 15% of the remaining one-off investment costs.

Questions 122–137 (Mr Curry): *Calculation of the NOMIS Programme's IRR of 9% (including "where would you invest it then? What investment do you make in order to give you that comparison?")*

The NOMIS Programme involves spending a total of £363 million over a period of 11½ years. It is anticipated that over the same period, £526 million of benefits will be produced. When the profile of these costs and benefits is taken into account, it can be equated to an illustrative interest rate of 9%, known as the Internal Rate of Return.

Consequently, the higher the figure for IRR, the more the benefits outweigh the costs and the stronger the business case becomes. The IRR is illustrative only.

More specifically, the IRR for the NOMIS Programme is defined as the discount rate which, when applied to discount the Programme cash outflows and benefit values/cash inflows, returns a Net Present Value (NPV) of zero. The Programme IRR is therefore the equivalent constant interest rate at which the cash outflows must be invested in order to earn the anticipated benefit values/cash inflows. It can be regarded as the measure of the underlying return on investment that the Programme expects to achieve.

The Programme IRR has been calculated using standard formulae, consistent with the principles within HM Treasury Green Book Guidance, and embedded in an Excel software spreadsheet. The spreadsheet models the timing of two sets of variables: the anticipated Programme cash outflows; and the anticipated cash inflows/benefits.

The Programme output cash flows, and benefit/input cash flows within the IRR spreadsheet are presented without inflation adjustment. However, the spreadsheet includes discounting of cash flows at a rate of 3.5% per annum as this is the HM Treasury annual percentage rate at which the present value of a future pound is assumed to fall away over time. The discounting is used to convert Programme future cash outflows and cash inflows/benefits to present values.

ADJUSTMENT OF IRR

The IRR is adjusted as part of the economic (value for money) appraisal within the NOMIS Programme Business Case. The NOMIS Programme currently has an "Outline Business Case", which will be finalised into a "Full Business Case" on completion of all Programme procurements of goods and services. Completion of the NOMIS Programme Full Business Case is anticipated for early 2010.

The adjustment to the IRR will reflect the final view of anticipated Programme cash outputs and benefit value/cash inputs. The IRR will then rise or fall dependent upon these variables.

IMPACT OF IRR CHANGING TO 8% AND 10%

Assuming benefits remain the same, additional Programme cost of £12 million incurred in financial year 2009–10 would lead to an IRR of 8%.

Assuming that costs remain the same, additional Programme benefit value of £6 million achieved in financial year 2009–10 would lead to an IRR of 10%.

HOW IRR IS CALCULATED AND HOW 9% IS ARRIVED AT

This is covered in paragraphs in “Calculation of the NOMIS Programme’s IRR at 9%” above, and in the illustration of an IRR calculation in the table below.

<i>Investment End Year</i>	<i>Cash Flow</i>	<i>Discount factor using annual 12.08% cumulative reduction</i>	<i>Net Present Value when reduced by cumulative 12.08% per year</i>
0	-1,000	1	-1,000
1	340	0.8922	303
2	305	0.7960	243
3	270	0.7102	192
4	235	0.6337	149
5	200	0.5654	113
Total	350		0

Notes:

- (a) An investment of £1,000 is made at the start of the project.
- (b) In year 1, the project generates income of £340. In year 2, the project generates income of £305. In year 3, the project generates income of £270. In year 4, the project generates income of £235. In year 5, the project generates income of £200. The total cash income generated by the end of year 5 for the project is therefore £1,350. From the £1,000 investment the project therefore generates a profit over 5 years of £350.
- (c) If a consistent 12.08% cumulative per annum reduction in income is applied in each year, this gives the present day value of the income achieved in that year. Applying this reduction to the anticipated project incomes leads to present day income values in: year 1, £303; year 2, £243; year 3, £192; year 4, £149; and year 5, £113. When the present day values of the 5 years of income are totaled, the cumulative present day value of income is £1,000.
- (d) The table therefore shows that the cumulative present day value of the income is £1,000, the same as the initial £1,000 investment in the project. The project therefore has a five year Net Present Value of zero; looked at another way, the project breaks even on its initial investment after 5 years of income.
- (e) The 12.08% cumulative annual reduction in net cash flow used to achieve a Net Present Value of zero, is known as the project Internal Rate of Return.

HOW BENEFITS ARE QUANTIFIED

Investment in NOMIS, and exploitation of the capacity and capability so created, offers the potential to make a material contribution to the NOMS Agency efficiency agenda, and to contribute significantly to improved operational performance. Benefits anticipated support the NOMIS Programme contribution to Departmental Strategic Objective (DSO) 3 *Protecting the public and reducing reoffending* (which in turn contributes to Public Service Agreement (PSA) 23) and in particular: 3.4 *Quality of end to end Offender Management*; and 3.10 *Quality of Information Systems to support delivery*.

There are seven benefits anticipated from the NOMIS Programme up to 2020. These are described below.

Improved Business Continuity. This benefit encompasses all notional and actual costs avoided associated with improved business continuity. It includes savings in ICT (Information and Communication Technology) live service costs compared with baseline, and also any costs avoided from systems failures that don't occur, derived as either the costs avoided that would otherwise have been incurred in mitigating systems failure; or the estimated costs of such systems failure. The value of the NOMIS Programme business continuity benefit has been assessed as £74 million. In line with HM Treasury guidance this value is for illustration only, and is not applied within IRR calculations.

Avoidance of Costs. The benefit is derived from savings on other budgets (eg for propping-up legacy IT systems, and technical platforms) as a result of the decision to invest in NOMIS. The value of the NOMIS Programme cost avoidance benefit has been assessed as £70 million. In line with HM Treasury guidance this value is for illustration only, and is not applied within IRR calculations.

Cashable Savings. These savings from NOMIS implementation are derived from staff time savings (resulting from an easier to use IT system and from more efficient ways of working facilitated by NOMIS), or from lower running costs, and will be realised in the form of reduced operational budgets. The value of the NOMIS Programme cashable savings benefit has been assessed as £146 million.

Non-cashable Staff Time Savings. The NOMIS Programme will also deliver staff time savings that will not be cashed in operational budgets, but will be invested to enable delivery of more efficient and/or effective operational management of offenders. These non-cashable staff time savings have only potential value until they are realised by re-deploying time saved to value adding activities that enable more efficient (eg via reduced unit costs) and/or effective operational management of offenders. The value of the NOMIS Programme non-cashable savings benefit has been assessed as £360 million.

More effective IT system support to offender management processes, leading to reduced re-offending and enhanced public protection. Placing an accurate quantified financial value on this benefit is challenging as the NOMIS Programme is an enabler for the business changes necessary for its delivery, and there are other delivery dependencies for the achievement of reduction in re-offending rates. Until more detailed work is completed as part of development of the NOMIS Programme Full Business Case, a total of £20 million of value for effectiveness benefits has been allocated to the benefits profile.

Improved MIS to support decision making by commissioners and NOMS business managers. The value of this benefit is contained within the above staff time savings and effectiveness benefits.

Enabling of other NOMS business opportunities, or of cross CJS working improvements; these are not assigned a financial value in the IRR calculations.

PREDICATED RATE OF INFLATION

The Programme output cash flows, and benefit/input cash flows within the spreadsheet used to calculate IRR are presented without inflation adjustment. However, the spreadsheet includes discounting of cash flows at a rate of 3.5% cumulative per year as this is the HM Treasury annual percentage rate at which the present value of a future pound is assumed to fall away over time. The discounting is used to convert Programme future cash outflows and cash inflows/benefits to present values.

Programme benefits are anticipated, at £526 million, to exceed projected Programme cash outflows of £363 million. As benefits are higher than cash outflows, the effect on the investment appraisal of not including inflation within future year estimates is to reduce the Programme IRR. Consequently, we have taken a conservative approach to calculating the IRR.

BENEFIT ASSUMPTIONS ABOUT WAGE LEVELS AND EMPLOYMENT

The assumption made in benefit calculations on staff wage levels is that they remain at January 2009 levels. This has the effect of ensuring that Programme benefit value estimates are conservative (because the benefits are based on savings in staff time).

It is assumed that there will be sufficient staff within the service to undertake the processes affected by the introduction of the new IT systems.

It has also been assumed that the majority of staff time savings (£360 million) have been designated as “non-cashable”, that is, the time will be used in improving the effectiveness of the management of offenders in support of the service’s aims to reduce re-offending and protect the public.

Cashable savings will be realised through cessation of existing IT contracts; and through staff time savings leading to some potential for administrative and support staff reductions in Probation Area offices and HMPS Establishments. However, this will need to be balanced against workload increases in the service.

The building block of the benefits anticipated from the NOMIS Programme is the seven benefit framework that reflects its investment objectives.

VARIABLES

The main variables used in the IRR calculation are as follows:

- The timescale of the calculation. The Programme IRR calculation has been undertaken from 1 January 2008 to end March 2019–20.
- The value and timing of cash outflows. These are assumed to total £363 million, in line with Programme timeline capital and resource cash outflow projections.
- The value and timing of efficiency and effectiveness benefits/cash inflows. These are anticipated to total £526 million, and have been agreed and signed-off by senior service business representatives.
- The approach taken to inflating costs and benefits over time. Individual costs and benefits have not been inflated, but a Treasury discount factor of 3.5% cumulative per annum has been applied to annual net cash flows to take account of the effect of inflation on future costs and benefits.

Questions 138–145 (Mr Bacon): *breakdown of costs of £161 million spent at end of October 2007*

At 3.17 of the NAO report it states that “At the end of October 2007, £161 million had been spent on the project overall”.

EDS was paid £87 million of the £161 million sunk costs. The remainder was spent on a combination of payments to other suppliers and NOMS costs.

22 May 2009

Memorandum from the Treasury Officer of Accounts, HM Treasury

NOMIS

At the PAC hearing on 6 May, I undertook to research a few points.

You asked what the Treasury knew about the NOMIS project. The answer is that the Treasury was aware that NOMS had an integration project with significant IT content in hand. It featured in accounts given to colleagues here about NOMS investments and financial accounts. But it was only in February 2009 that Prison NOMIS was submitted for project approval. By this stage NOMS, and with it the project, had been transferred to the Ministry of Justice. MoJ were then able to explain the past problems with the project and the steps taken to improve project management and value for money.

The Treasury agreed the business case for Prison NOMIS, with some reservations about the scale of the contingency allowance, in April 2009. On 5 May 2009 the Treasury received the business case for the remainder of the NOMIS project and is still considering it.

You will understand therefore that the Treasury was not aware of the waste documented in the NAO report, either at the planning stage, or when it arose.

It may be helpful to explain that spending teams in the Treasury do not expect to clear every item of each department’s expenditure. That would be too burdensome. Instead we operate bespoke delegated limits for each department (see para 2.1.5 of *Managing Public Money*). These are intended to give us sufficient insight into each department’s deployment of its resources to assure us that it has proper command of its systems and programmes.

We believe that this arrangement makes sense because it is ultimately the responsibility of each department’s Accounting Officer to see that public money is used responsibly. The standards required are demanding. They include value for money, sound project management, quality of delivery and so on. Chapter 3 of *Managing Public Money* explains the detail, including of course the PAC’s role in calling Accounting Officers to account. It is partly because of this structure that the Treasury does not second guess departments’ decisions on a host of issues.

You also asked about gateway reviews. As you said, OGC leads the policy on these, governed by its board chaired by its chief executive. OGC selects a panel of people for each high risk gateway review (some departments also run gateway reviews for less high profile or smaller projects but OGC generally takes no part in these). The report on a gateway review goes to its senior responsible owner (SRO) when completed. Because OGC regards this person as accountable for the project programme, and for any remedial action required by the review, there is no requirement for gateway reports to go further.

However, it is accepted best practice for SROs to circulate gateway reports to senior people in their departments, including those connected with the project. Some departments operate protocols along these lines. It is not good practice to treat gateway reviews as the sole means of assurance on progress. They should be part of the department’s process of planning, management and feedback, supported as appropriate by control and governance frameworks with periodic checks by internal audit. Treasury spending teams rely on these broader processes for assurance rather than looking to gateways alone.

20 May 2009
