



Northern Ireland
Assembly

Public Accounts Committee

OFFICIAL REPORT (Hansard)

LandWeb Project and Digital Transformation:
Department of Finance

22 October 2020

NORTHERN IRELAND ASSEMBLY

Public Accounts Committee

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Members present for all or part of the proceedings:

Mr William Humphrey (Chairperson)
Mr Roy Beggs (Deputy Chairperson)
Mr Cathal Boylan
Ms Órlaithí Flynn
Mr Harry Harvey
Mr David Hilditch
Mr Maolíosa McHugh
Mr Andrew Muir
Mr Matthew O'Toole

Witnesses:

Mr Paul Duffy	Department of Finance
Ms Sue Gray	Department of Finance
Mr Ian Snowden	Department of Finance
Mr Stuart Stevenson	Department of Finance
Mr Kieran Donnelly	Northern Ireland Audit Office

The Chairperson (Mr Humphrey): I invite to the table Sue Gray, permanent secretary and accounting officer in the Department of Finance, and Ian Snowden, chief executive of Land and Property Services (LPS). You are both very welcome. Kieran Donnelly, Comptroller and Auditor General (C&AG), and Rodney Allen from the Northern Ireland Audit Office (NIAO) will join us for the meeting. Good afternoon, Rodney. You are very welcome. Stuart Stevenson, Treasury Officer of Accounts (TOA), will join us remotely. Mr Stevenson, can you hear us?

Mr Stuart Stevenson (Department of Finance): Chair, yes, I can hear you. Thank you.

The Chairperson (Mr Humphrey): OK. We can hear and see you.

Good afternoon. Thanks for coming back to us so quickly after your previous visit. If you want to make opening statements, please feel free to do so. Members will then ask questions. I will hand over to you. Thank you.

Ms Sue Gray (Department of Finance): Thank you. I have no opening statement, other than to say that I am pleased to be here to answer any further questions that members have.

The Chairperson (Mr Humphrey): OK. Thank you very much. You will know that the Committee has some outstanding questions and wants to probe a bit further on the questions that we put the last time, so we welcome the opportunity to do that now. Mr Hilditch has indicated that he would like to come in.

Mr Hilditch: Thanks, Chair. I will start off, but you caught me cold there, unfortunately *[Laughter.]*

Ms Gray: You can put your jacket on.

Mr Hilditch: We had noted the management structure over the last number of years. As far as changes in personnel go, has the Department lost experience over time, with people who dealt with contracts early on having disappeared through retirement or for various reasons such as moving on to another job? Has there been a lack of consistency over time that has resulted in capabilities and skills not being up to the standard that they should be?

Ms Gray: Obviously, you lose people, be it through retirement or by their moving around. We have really skilled and professional people in the Department. The Department as a whole, although it is very much made up of a number of discrete areas of work, works collaboratively. When I was last here, I mentioned that we had appointed a commercial director in the Central Procurement Directorate (CPD). That commercial director is working with various teams throughout the Department to support people. We are also working closely with the Cabinet Office and using its professional, commercial and procurement function to train and develop our staff. Yes, you lose people; that happens, but we are doing a lot of learning and development and succession planning to make sure that we are not losing those skills.

Mr Hilditch: The management of contracts highlights the fact that there was a capability weakness in the Department during that time. Do you agree with that? I will give you an example. The LPS directorate had one contract that had taken priority over another one, instead of the two going along simultaneously. Is that skill capability just not up to scratch?

Ms Gray: We have limited resources, so we have to use them in the best way that we can. We have to prioritise projects and work, because we cannot do everything at once. It is quite difficult to try to do everything at once. Nowhere has that resource.

Mr Hilditch: What is the Department doing to try to get that resource?

Ms Gray: As I said, we have very good people. I cannot stress enough the importance of the work that we are doing with the Cabinet Office and its learning and development team. It has a lot of resource, and it is supporting us. It has foundation courses, and we are putting all our people through those. That is not to say that those people cannot do the job now. They can, but I think that it is also important that we continue to learn from others and that they learn from us.

Mr Hilditch: You think that, in your time, you have identified those gaps and tried your best to sort that out, but are you able to tell us about any other gaps that currently exist that you are working on?

Ms Gray: The Cabinet Office runs a major projects leadership academy. We will put more people through that. Through our management of contracts, we are identifying the skills that we have and are matching them with the contract that we need them to work on. We are being very specific about what we have and where we need to put our resource.

Mr Hilditch: Are you confident of being able to do that over the short term?

Ms Gray: Some of that work is already in hand. Yes, there is a lot of good work going on.

Mr Hilditch: In the previous evidence session, I asked about the knowledge in the various offices about what had been happening with the non-management of these contracts. You told me that it had, indeed, been discussed with the internal audit system in the Department. What happened after that?

Ms Gray: Sorry?

Mr Hilditch: At the previous meeting, I queried why this was not a bigger talking point in the offices where these contracts were managed fairly poorly. You said that there had been meetings with your internal auditors at which these matters were raised, so it was not the case that they had been swept under the carpet. Can you tell me what happened after the meeting with the internal auditor?

Ms Gray: Let me explain a little about how I think the Department is working. The Department of Finance has a number of functions, including CPD, the digital team and Land and Property Services, which are very discrete. Previously, they may have worked in their own areas, and now we have much greater collaboration. Previously, those areas of work had their own individual audit committees, which they do not have now. We have one audit committee at which all those issues are discussed. There is much greater transparency about what is going on and sharing of that expertise across the Department. If Ian has a contract, CPD is working with him and alongside him and, in the work that they are doing, they are very much a team together.

Mr Hilditch: That is happening now. What was happening at that time?

Ms Gray: Previously, those areas had their own audit committees, and they had those discussions in that area of work. Sometimes issues would have reached the departmental audit and risk committee (DARC), but sometimes they would not. Sometimes they will have been held in that area.

Mr Hilditch: You would think that auditors would have been taking that much more seriously.

Ms Gray: I think that they will have been taking it seriously, but having this greater level of visibility now and collaboration across the Department is working well.

Mr Boylan: You are very welcome again, Sue. When you were last here, you said that all the recommendations in the 2010 LandWeb report had been implemented except for one, which you said was irrelevant at the time. There continue to be shortcomings in contract management in the absence of value-for-money mechanisms in the fees order. Can you elaborate on that?

Mr Ian Snowden (Department of Finance): One of the recommendations in the 2010 Public Accounts Committee (PAC) report was that we would proactively explore and chase to get open-book accounting and other value-for-money mechanisms included in the LandWeb contract. In 2011, we started the process of reviewing that contract in order to make a decision about the exercise of a break clause in the LandWeb contract in 2014. We did quite a bit of work on open-book accounting and how that would be implemented in the contract. Benchmarking was another mechanism that was looked at at the time. To retrofit those into the LandWeb contract would have required changing the terms of the contract and the supplier, BT, was not willing to allow that to happen at no cost. It estimated that it would cost £50,000 a year to provide that open-book accounting for us, which is in line with the cost in the nirect contract that had been awarded at about the same time. The Department took a very close look at that and decided that the cost of retrofitting the open-book accounting into the LandWeb contract did not represent value for money. We did not think that we would get sufficient value from that in the longer term through cost management of the contract to justify our spending £50,000 a year on it. A costed benchmarking exercise was also carried out, and it was very difficult to identify similar contracts in other jurisdictions and countries that would allow us to justify that cost.

Mr Boylan: With what you have learned, what could have been saved by the public purse?

Mr Snowden: We are negotiating a further extension to the LandWeb contract. With what is on the table now, when we have asked for open-book accounting to be included in the time ahead, if you were to put that back into the contract extension that we negotiated in 2018, it would not have been sufficient to justify the expenditure on the open-book accounting over the five years of the extension. We negotiated a 30% reduction in the transaction fees with BT in 2018 for the two-year extension period. That reduction would have needed to have been 40% to justify the cost of the open-book accounting mechanism being added into the contract, and nothing close to that is being offered to us at present.

Mr Boylan: Would it be fair to say that, in those contractual arrangements, there were serious misgivings with value for money for the public purse? If you look at the report, overall, BT seems to be the winner in all of it.

Mr Snowden: It depends on how you judge the cost. At the previous Committee hearing, I referenced the fact that the impact of inflation was a significant factor in the differential between the original contract estimate and the amount of money that has been paid. In the core contract, the payments to date are slightly less in 1999 prices than the contract was estimated to be worth in 1999. BT has, of

course, received additional funding through other change requests that we asked for throughout the contract, so other moneys have been paid to it.

Over the length of the contract, we were bound to the PFI contract that was signed in 1999. There is no doubt that things were learned about PFI contracts after that was signed that would have improved and strengthened the contract considerably from the Department's point of view.

Mr Boylan: With what you have said, you cannot quantify exactly the value to the public purse or what we could have saved. We will end up with a contract that will run for — what? — 27 years.

Mr Snowden: Possibly.

Mr Boylan: It could be 30 years. Over that period, there are definitely questions about value for money and public purse spend.

Mr Snowden: When the LandWeb contract was let initially, there was an open tendering process and a procurement process. If the open-book accounting had been included in the original contract, it would have given us more visibility about the costs and the profits that BT made over that period, but, as I said, the inflation-adjusted value of the core contract is pretty much the same as the original estimate.

From 2011 onwards, we had much more scrutiny of the change requests that were made in the contract, and we have been able to drive down the costs of any changes, enhancements or additions that were made to the systems thereafter. We can demonstrate each of those from 2011 onwards as we have a lot of detail about the costs. It has delivered value for money, and we can show examples of where we have driven costs down. From 2016 onwards, we negotiated a £100,000 contribution a year from BT to an innovation fund that we have been using since 2016 to make further enhancements and changes to the system. Since about 2016, we have not spent anything on upgrading the system. That has all been paid for out of that concession from BT.

Mr Boylan: I appreciate that, but you are looking at 17 years after the original contract plus five or six years since the report in 2010.

Sue, can you provide details on the number of direct award contracts (DACs) and how you are trying to reduce them?

Ms Gray: In 2017-18, we had 30 direct award contracts with a cost of £8.8 million. In 2018-19, we had 18, at £3.7 million, and in 2019-2020, we had seven, at £737,000. In the current year, we have had four at £165,000. We changed the way in which we monitor and approve direct award contracts, so any direct award contract needs my approval.

When I was last before the Committee, I talked about our contract management system. We can now see when contracts are going to end, and alarm bells ring when we need to re-procure. The numbers and amounts have come down.

Mr Boylan: Have you done an assessment on value for money and savings to the public purse in relation to those contracts?

Ms Gray: No, but on the basis that direct award contracts should always be exceptional, that is the approach that we are taking. There will always be occasions when you have to use a direct award.

Mr Boylan: I appreciate that. I ask in the context of the previous engagement that we had because there seems to be a bit of a culture in the Department and system. Those were identified only because of the two audits over the past number of years, which recommended changes. It is the culture and everything else, so I ask in that context.

Ms Gray: Right, OK. These are exceptional, and when they come to me, they have to have a clear justification as to why we are going to have a direct award contract. I am not aware that we have done an assessment of value for money compared with what we did previously. The numbers are very different. They are made now on the basis that we need to go with that in a very exceptional circumstance.

Mr Snowden: If I may just offer an example of how value for money is demonstrated through direct award contracts, because I have to go to Sue to get permission for them.

Last year, Ordnance Survey Ireland offered the Ordnance Survey of Northern Ireland (OSNI) an aerial camera called LiDAR at no cost to us. Normally, those cameras cost about £1 million. However, in order to use that free piece of hardware, we had to buy a licence to operate the software for the system, and that cost £23,000. That is a clear example of where that could be done with only one company, so it had to be a direct award contract, but that £23,000 cost was clearly massively cheaper than the alternative, which would have been to go out to procurement for the piece of kit and buy it ourselves.

Mr Boylan: I appreciate that in terms of the contract. My point is, because of the culture, it is like, "OK, go on ahead. We need to do that. That is acceptable". We have to learn from what happened before so that it does not happen again.

Ms Gray: We are definitely learning, and the way that we approach direct award contracts is definitely a sign of our learning.

Mr Harvey: Following the return of the Assembly in January 2020, the land registration fees committee agreed new reduced fees to be included in a revised fees order. Will we see a reduction in land registration fees?

Mr Snowden: That is difficult to judge at this point because the impact of COVID on the economy, and, therefore, on the property market, is uncertain. In normal circumstances, you would expect a reduction in fees from their current level. To put that in context, the amount of the reduction would be somewhere between £2 and £20 per transaction type. The sums of money involved in each transaction are relatively small. However, Land Registry's income needs to cover its costs, and it is driven by a combination of the fees for each transaction and the number of transactions. Therefore, if the number of transactions is suppressed by the COVID pandemic, the fees need to be kept at the same level to cover the costs.

Mr Harvey: The digital transformation project led by the Department of Finance aims to improve access to government services. What has the Department of Finance been doing, as contracts manager, to collate and validate savings information from each Department?

Ms Gray: Paul Duffy will join us to cover that issue. Can we leave that question until Paul comes in?

Mr Harvey: Yes.

The Chairperson (Mr Humphrey): During the previous session, you said that a culture of spending was embedded in the Department. How did we get to that point? What are the three things that you have done to address that issue?

Ms Gray: I am not sure about a culture of spending, but I cannot remember exactly what I said. I believe that everybody is focused on spending public money properly. People have worked very hard on the projects that we have mentioned and worked well to deliver those projects. Where things are coming together now is that everything is discussed at the departmental audit and risk committee. As a whole Department, we are focused on our spend.

We have a contract management system. We are now looking at what a contract was awarded for, the amount awarded and how much we are spending. When we are worried that a contract may go over budget, that is discussed very openly in the Department. We are very transparent. The NIAO is present at our audit and risk committee meetings. We have regular deep dives. The audit and risk committee will have a specific meeting that does a deep dive into an issue in the Department on which we would welcome being challenged. The culture is very much one of transparency, thinking about our spend and making sure that we seek value for money. There is also a culture of professionalising our skills development. We are working very openly, and it is very much about bringing that challenge to the discussions.

The Chairperson (Mr Humphrey): The Committee was pleased to hear that those measures have been put in place, practices have been brought in and the culture has been addressed. You have heard a number of members refer to the culture in the Department. Can we delve further back in time

to before your appointment, as we did not get the opportunity to ask questions or get answers last time? At our last evidence session on 24 September, you said:

"none of us was in place when those contracts were negotiated and signed."

When you came to the Department and got your first-day brief, what did it say about the situation that you had inherited with these contracts?

Ms Gray: I cannot remember exactly what was in my first-day brief. A first-day brief is very much an overview of the issues in the Department. I spent my first few months getting to know the work of the Department. It was very different from my previous job. I got to know the work of the Department and made some structural changes. I wanted to have a real overview of all the Department's contracts, but that information was not available to me. That work has been done. I referred earlier to the different way in which the areas work. They work very much in their own area. That is not a criticism of any of them. People were working really hard and were intent on delivering their projects.

From my perspective, however, I wanted a greater overview of what was going on in the Department. Those are some of the changes that were made. That brings about a culture change of talking to, supporting and learning from one another, which is really important. I have also talked about the work that we were able to do with the Cabinet Office. Other people have experienced similar issues. We have been talking about the LandWeb PFI. Whitehall has had a number of PFIs and has gained a lot of learning. Those are all the things that we are doing. That information, which I now have, was not available to me when I first arrived.

The Chairperson (Mr Humphrey): OK. Some of those contracts represent an overspend of £120 million, and there are the opportunity costs of what that money could have been spent on in Northern Ireland. When did you become aware of that and how did we get to that point, which was part of the last question that I asked you?

Ms Gray: A lot of contracts go through nirect. It is not so much that it is overspent; a lot of contracts go through it. All those contracts were subject to individual business cases that were carried out by the relevant Departments. I looked back at all the papers, and the permanent secretary group at the time told all the Departments to go digital and make that the way to deliver services. That contract — that area of work — had numerous requests, which it met. The individuals who were working on it did so to deliver what they had been asked to deliver. Separately, they were focused on that. There needs to be a focus on the spend. It was, perhaps, not resourced in the way that it should have been. That is what I have learned about the contracts. All the information is available, and that is how we are working now.

The Chairperson (Mr Humphrey): I do not want to misquote you here. Are you saying that they got to that point of overspend on those contracts because of a lack of resource?

Ms Gray: The resource was focused on delivering the work that Departments had commissioned it to do. Now, one part of the team is focused on contract management and exiting the contract, and another team looks at how we are going to deliver in future.

The Chairperson (Mr Humphrey): Those things were not in place.

Ms Gray: No.

The Chairperson (Mr Humphrey): That is how we got to this point. If people were focused on the outcomes, as it were, would it not be fair to say that there was a complete lack of effective control in the Department?

Ms Gray: I would not say that there was a complete lack of effective control. There was a focus, but —

The Chairperson (Mr Humphrey): No, no. I do not want to talk about why. I appreciate that you are the permanent secretary now and that you were not in post then, but the question that I am asking is this: how did we get to the point at which you arrived and found this gross overspending on your desk? Prior to your arrival, was there a lack of control?

Ms Gray: I have looked back at all that. The Department operated in a different way, but I would not say that it was a complete lack of control. That team was focused on delivering for Departments. There was not the same focus on the amount of money or on the prioritisation of the work that was going through that contract.

The Chairperson (Mr Humphrey): A basic household would not operate like that. The focus was on outcomes, not on how it was to be paid for. It is clear that controls to protect the public purse were not in place. Would you not say that?

Ms Gray: All I know is that the team was working on delivering all those contracts. It was not looking at the spend in the way in which —

The Chairperson (Mr Humphrey): Evidently, that is right.

Ms Gray: — we look at it now.

The Chairperson (Mr Humphrey): When you were last in front of us, you stated:

"When I arrived, we did not have a list of all our contracts in the Department or when they were due to expire."

With that in mind, do you plan to put in place a contract manager? If so, when?

Ms Gray: Contract manager?

The Chairperson (Mr Humphrey): To oversee contracts.

Ms Gray: We now have a system that records all of our contracts. It records the duration of the contract and the spend against the amount that the contract was awarded for. We talked about the DACs, and that system is specifically so that, when looking at a contract, depending on which one it is, there is ample time to have a discussion about how we will procure the next service. It enables us to look at the contract to ensure that it will not overspend, or, if it is, that we take appropriate action. We have the commercial director, as I talked about. We have senior responsible owners (SROs) for our major projects. The responsibilities of the SRO are clear: what they have to do, what my responsibilities are to them, and the transparency that I expect. There is not one contract manager; there are a number. We have a contract management system, and we continue to develop that. We are looking at how we get our business case approvals and gain an understanding of the skills that the individuals involved in that contract have. Have they gone through the necessary training? Are they in the right job? That enables us to look at all of that.

The Chairperson (Mr Humphrey): You talk about the contract director.

Ms Gray: Commercial director.

The Chairperson (Mr Humphrey): Commercial director. Sorry. I could not read my own writing. Apologies. You also mentioned SROs. Who, ultimately, has responsibility? Is it you, the SRO or the commercial director?

Ms Gray: The SRO. Ian is SRO for the NOVA project. He has a letter from me that sets out very clearly his responsibilities as the senior responsible owner. That letter also sets out my responsibilities so that, if there are concerns around capability or resourcing — if there is not enough resourcing — people will put their hand up, and we will have that discussion. The commercial director is involved in a lot of the commercial negotiations with contractors and is our main contact and link with the Cabinet Office and its commercial team. On a contract, there is a contract manager, so, there is a variety of roles, but everybody, hopefully, is talking to each other.

The Chairperson (Mr Humphrey): We hope that they are talking to each other. It is evident that there is now a layer of management that, perhaps, was not there the last time. That is to be commended. Ultimately, you, as the accounting officer, are responsible.

Ms Gray: Yes, I am accountable and responsible.

The Chairperson (Mr Humphrey): How often do those people come to you to make you aware of issues? How often do you meet those guys and ladies to ensure that there is no repeat of what happened with those two contracts? They were completely out of control, and the private sector was running rings around the Departments.

Ms Gray: The commercial director works in my building, on the floor below me. I see her nearly every day. I was going to say that I have a very open-door approach, but I work in open-plan. I see everybody all the time — the commercial director, the head of CPD, Ian and Paul — and we talk about things. Only this week, we had our audit and risk committee. At the end of the audit and risk committee, I said, "I would like to take a deep dive into the contract management system". We have arranged that for next month. I initiated that. I said, "We have been doing a lot of work around this, but I would like to get the views of our non-executives and the Audit Office. I would like there to be a challenge to what we are doing. How do we keep on learning?". That is the environment in which we work.

The Chairperson (Mr Humphrey): When you turned round, were you looking at Mr Allen?

Ms Gray: Yes.

The Chairperson (Mr Humphrey): So he is part of that team.

Ms Gray: Not any more, but he was until very recently. Now, it is Suzanne and Christine.

The Chairperson (Mr Humphrey): So the Audit Office is heavily involved.

Ms Gray: Absolutely. It attends all the departmental audit and risk committees. The fact that we now have one departmental audit and risk committee means that they are there. The other change that I have made is that all three of our non-executives, who are independent, now attend the DARC. Previously, they did not all attend; they rotated. Now, they are all there. That external challenge and that discussion are evidence of the transparent and open way in which we are working.

The Chairperson (Mr Humphrey): OK. That leads me on to open-book accounting.

Ms Gray: Open-book accounting.

The Chairperson (Mr Humphrey): How close is your Department to embracing open-book accounting?

Ms Gray: We have been having quite a lot of discussion around this. Ian outlined one area. We are using open-book accounting in some of our contracts, but it is not universal. Sorry to keep referring to my Cabinet Office colleagues, but there is a big discussion going on in Whitehall about its merits. If you use open-book accounting, do you have the capability to understand what you are getting? I have not had this discussion with Kieran yet, but I was going to ask the NIAO whether a piece of work could be done on open-book accounting, not just with Departments but learning from where others use it. Seeing how companies are dealing with the contract that they have from us has to be a good thing, but I would want to make sure that we were doing it properly and using it in the right way and in the right circumstances.

The Chairperson (Mr Humphrey): Can we read into that that you are piloting it in the Department?

Ms Gray: There are a number of contracts where we have open-book accounting or access to audits, but it would be good to have a more consistent approach. I would really welcome some advice on that. We were talking about it earlier. I think that asking the Audit Office would be a good thing to do. It produces some helpful guides, and this might be an area in which that would be helpful.

The Chairperson (Mr Humphrey): I think that the Committee welcomes that. Thank you for that.

Mr Snowden: By way of background, I want to reassure the Committee a little bit on what the Department is doing on this. We are procuring the rate collection system and hope to go to the award of contract in the first quarter of next year. As part of that, when the tender was let in the first place, we required the suppliers to agree to the full set of transparency arrangements in the Crown Commercial

Service's model contract. They include facilitating independent benchmarking exercises at 12-month intervals; full compliance with open-book accounting, including full sight of all costs and profit margins of the supplier; full audit rights for the Audit Office and our internal auditors; and an annual contract report and updated financial model that replicates what they had to supply at the time that the contract was tendered and submitted. There is a fairly rigorous set of value-for-money mechanisms written into the new procurements for the new systems that are coming into LPS.

The Chairperson (Mr Humphrey): OK. Ian, you mentioned earlier the money from BT for the innovation fund, the £23,000 licence for the equipment from Ordnance Survey (OS) and so on, which is good. However, in the context of — this is probably commercially sensitive — the profits that BT made, that is very small beer. We need to bear that in mind.

Mr McHugh: Tá fearadh na fáilte romhaibh tráthnóna seo arís. You are very welcome again this afternoon. At our last meeting, you mentioned that the Civil Service lacked experience and expertise in procurement and the like. To what extent has one addressed that problem now? I was a wee bit nervous when one talked about the different layers. If you are populating those layers with the same personnel who lacked that experience or expertise in the past, it does not lend itself to having a more efficient system. There is the question of whether it is just a case of needing more in-house staff development, but I am not that confident that that will achieve the objective of greater expertise. Have you taken very definite, direct steps to ensure that you recruit the level of expertise that is required to deal with those projects?

Ms Gray: We are doing a couple of things that are very relevant to that. First, in the Department of Finance, we put all staff who are working on those contracts through an assessment centre. I think that I referred to that the last time that I was here. We piloted that, and the Cabinet Office ran it for us. We used its expertise, and we put a number of people through that. When they have gone through the assessment centre and got their results, they need to do some learning and development on an individual basis. It is very much individual learning that we then put them through. We are recruiting externally. We will do that for certain roles. We need to look at secondments between the private sector and the Civil Service, as well as the other way round, and from other jurisdictions. We are doing a lot of work through the Crown commercial function and the procurement function to develop our staff. People get experience from moving round and working on different things. We have learning to gain from others as well. That is how we are doing it.

Mr McHugh: Is that happening on the ground rather than it being an objective for the future?

Ms Gray: Yes, it is happening on the ground. For example, only yesterday, the Cabinet Office confirmed that we can use its foundation course for contract management for all our staff, and there will be no charge. That was agreed with it yesterday. In fact, the Cabinet Office is doing a big piece of work on Civil Service reform. It is also reviewing how it deals with its own functions, of which commercial is one. We will look closely at what it does. We are taking some of its learning and using that ourselves. That is one of the key bits of work that our commercial director, whom we mentioned, is doing.

Mr McHugh: That is still very much in-house development. Has any gap analysis been carried out to identify the lack of expertise in certain areas when handling contracts with multinationals?

Ms Gray: Yes. When we have a very big discussion or negotiation with a big company, our commercial director is there. We are also bringing in — we have done this — somebody from the Cabinet Office's complex transactions team who has experience of dealing with these multinational companies on that bigger level. They sit alongside us, and they are part of the work that we are doing. We have done a skills gap analysis, but not of the level that we should be doing. That skills gap analysis is a key thing for us to be doing, but it needs to be in depth. We have done some work on it, but not enough. It is work in progress.

Ms Flynn: Thanks, Sue. You touched on parts of my question in your previous answers. At the previous meeting, we spoke about the audit and risk committees. You mentioned that there were several of those and that there is now that one group of people who meet. Will you elaborate on the membership and the make-up of the one group that is now tasked with that work and on the roles that fall into that group? You said that the Audit Office has a place on it. Do you chair it?

Ms Gray: No, it is chaired by one of our non-executive directors, John Smyth. The other two non-executives attend every meeting. I am there, as is the Department of Finance's director of finance. The NIAO and the Northern Ireland Civil Service (NICS) internal audit attend. Depending on what is on the agenda, people will come in to discuss their particular item. As I said, we now do a lot of deep dives when going through our contracts. We devote a whole meeting to one contract, and we go through it. We have people in the room who are relevant to that work area. The audit and risk committee meets monthly. I should say that the only area that has an audit and risk committee, apart from the departmental one, is the Northern Ireland Statistics and Research Agency (NISRA). It is an agency, so it has its own audit and risk committee. I do not attend that, but I get to see its minutes. One of the non-executives, Tom Taylor, chairs that committee.

Ms Flynn: Thanks very much, Sue. I have a second question, if that is OK, Chair.

The Chairperson (Mr Humphrey): Yes, that is fine.

Ms Flynn: The contract management system that is in place sounds like a really positive development to prevent some of these issues from happening again in the future. You mentioned that, when concerns are identified that the Department might overspend on a contract, this can be dealt with. Does the contract management system alert the audit and risk committee to look at that? Does the Department have any figures on how often these types of concerns are raised? Do we know how often the contract management system identifies concerns that contracts might be running over? Does it happen frequently?

Ms Gray: I do not have numbers in the way that you asked for, but it is not a regular occurrence. We talked about direct award contracts earlier. Some of those might be because we had not planned sufficiently ahead to go out to procurement, so we were left with not enough time to go out to procurement. A combination of having a very strict policy on direct award contracts as well as having oversight of what our contracts are doing and where they are going has enabled us to take a closer and tighter look at this. It is still very much a work in progress. I am keen to see what we can add to it next. We have talked about professionalising our staff, and getting information on the capability of those who are looking after a contract will be the next stage of development.

Ms Flynn: Thank you, Sue.

Ms Gray: Thank you.

Mr Muir: I thank the officials for coming along today, given the context of everything else that they are dealing with. We appreciate your coming, further to the previous meeting, to give us evidence. I have two questions. First, going forward, will anyone who signs up to be an SRO be obligated to come to meetings such as this to give evidence in response to queries that arise from how projects have been run? Particularly, would that also uncover whether they had left that role to move on to something else?

Ms Gray: Yes. I think that we have had SROs like that, but part of the more formal appointment process is about being very clear with individuals that I expect them to stay in the role for the duration of the project. That will not always be possible. However, just by setting it out, you are setting the bar for what you expect. There is an accountability, which we make clear, for individuals to come in front of this Committee, maybe along with me, but that accountability is made very clear. As we move to greater transparency, we will also look at publishing the names of the SROs responsible for projects. Transparency is key to a lot of this.

Mr Muir: Thank you. If an SRO appointed to work in the Department of Finance is promoted and moves to work in another Department, such as Justice or Infrastructure, would they be obligated to come back and present to, for example, the PAC? Having someone who has the detailed knowledge of that project would be really important.

Ms Gray: Yes. In Whitehall, Committees can call back former SROs, in the same way as they can call back former accounting officers, to talk about a particular project that they have been responsible for. If that is where this goes, I would definitely expect that.

Mr Muir: Thank you. By doing that, I think that we will be able to get a lot of the answers that have been sought over the sessions.

In the digital transformation project, which is separate from LandWeb, there is an element around the prioritisation and selection of the projects. It appears to me that scope creep had a key impact on the costs of the project. Who was the ultimate authority who selected those projects and decided to keep adding them on, as a result of which the project costs increased? Who was the ultimate deciding authority? Was it a Minister? Was it a permanent secretary? Who was the person who made those decisions to keep adding those projects to the scope of the initial project?

Ms Gray: This comes back to what I was talking about earlier. The team was trying to get as much as it could through this digital programme. People were bringing in new pieces of work that they wanted done, and the team was doing its very best to get all of that done. That would have been decided within that area of work. If Paul is coming in, we can ask him. I do not think that it would necessarily have gone up to the accounting officer, but I do not know.

The Chairperson (Mr Humphrey): Andrew, can we pause your question? I will bring you in again when Mr Duffy is in front of the Committee, if that is OK?

Ms Gray: Sorry.

Mr Muir: Cheers. That is no problem.

The Chairperson (Mr Humphrey): Is that you for the moment?

Mr Muir: Yes, thank you.

The Chairperson (Mr Humphrey): Mr Beggs, we have not heard from you. Have you a question?

Mr Beggs: Yes, my hand was raised. Thank you for a further opportunity to ask questions. My first is to Sue Gray. In the written details of the contracts, of which you have just provided a summary, I notice that no senior accounting officer is listed against two major contracts, and there has been no one since 2011. Why is that? Who is responsible for it?

Ms Gray: Are they HR Connect and —?

Mr Beggs: HR Connect and Account NI.

Ms Gray: Sorry. That is because they have moved into business as usual. We now have a programme that is about future procurements. The central government transformation programme is looking at future HR Connect and Account NI contracts. For those two contracts, the current work is business as usual, but we have an SRO for the new procurements, and that SRO is Paul. He is the interim SRO.

Mr Beggs: No name is listed against them, but I am pleased that someone is looking specifically at that. Who was responsible for missing the break clauses and not looking at alternative systems earlier?

Ms Gray: That is also indirect. Is it possible to get —?

The Chairperson (Mr Humphrey): Can we hang on, Roy, until Mr Duffy is here?

Mr Beggs: OK.

Ms Gray: Sorry. Thank you.

Mr Beggs: I hope that you will accept that, in determining whether to exercise a break clause, it is important that you have a viable system alternative.

Ms Gray: Yes.

Mr Beggs: Can you give an assurance that, in future, planning will happen many years before the end of the contract so that you can ensure that an alternative system can be procured, and there can be real negotiations should there be any discussion of extensions?

Ms Gray: Yes. That is exactly what our system is now primed to do: to identify these issues much earlier. At the point of coming to the end of that contract, it was too late. It takes time to exit a contract and procure a new one. Hopefully, the system that we now have in place will identify these issues much earlier and enable that procurement to be done.

Mr Beggs: My second area of questioning is around LandWeb. Mr Snowden, do you accept that the majority of contract costs are associated with the initial set-up, the software design, the computer purchase and design, the building and the training of staff?

Mr Snowden: For the core contract for LandWeb, yes, that is where the main costs were for BT.

Mr Beggs: Will you remind us of the annual cost to the Department of purchasing the system? What are the annual running purchase costs that you are paying BT?

Mr Snowden: It varies from year to year, depending on the transactions that go through the system, but it is in the region of £3 million to £3.5 million a year.

Mr Beggs: Now that the system is in place, is it largely automated? I have used the OS mapping system to get outline maps when necessary. There is no labour involved. You go online, use the system and pay the money. There are virtually no running costs. Is that not correct?

Mr Snowden: For the Ordnance Survey online map shop? There are certain running costs because we also have to maintain the system and keep it running. If it does not work, somebody has to correct it.

Mr Beggs: Yes, basically, you need to maintain the computers and make sure that there is electricity etc. However, do you accept that, compared with the initial set-up, the running costs are limited?

Mr Snowden: It depends on the system. The support and maintenance of complex IT systems involve a little bit more than keeping the electricity running and fixing the computers when they go wrong. They are complex, detailed software systems. Maintaining them and keeping them running runs into substantial sums of money.

Mr Beggs: I question how good your negotiation was when the extension occurred. You claim that there is a saving of up to £100,000 a year as a result of BT granting this to you. In reality, what saving was associated with it?

Mr Snowden: Perhaps I was not clear enough about how the costs were negotiated. There was a 30% reduction in the transaction fees when the two-year extension was negotiated between 2019 and 2021. We reckon that that will save around £1.8 million over that two-year period. The £100,000 is an additional concession that was negotiated from BT in 2016.

Mr Beggs: Yes, I am looking at it. The system was relatively mature at that stage. Were there, in reality, many amendments? That was meant to save you making software changes. Were many changes occurring each year at that time?

Mr Snowden: Under the terms of the PFI contract, BT is required to meet all the costs of maintaining and running the system, so it has to perform periodic technical refreshes. If software has to be updated on computer systems, for example when there is a new issue of Microsoft Office or something like that that is used on the systems, it has to install all that via licences and deliver it for us. The point that you are getting to is how much it costs BT to run the system for us. There will still be substantial costs to it to run and maintain the current LandWeb system and to keep it up to date for us.

Mr Beggs: My question was about the claim of a saving of up to £100,000. In reality, how can you stand over that figure?

Mr Snowden: Again, that is £100,000 of enhancements and changes to LandWeb that we negotiated from BT. It pays for those at our request, so we negotiate with BT each year on what we are going to get for that £100,000, and it will implement those changes. It is not a saving in the way that you are describing it. The saving that we negotiated at the extension negotiation for 2019 to 2021 was £1.8 million, or 30% on transaction fees over that two-year period.

Mr Beggs: I appreciate that that is a saving at that point, but you are claiming that, at the earlier stage, there was a saving of up to £100,000 through BT taking on the cost of changes. Can you provide us with figures on the number of changes that the Department requested during each year of the contract? I am assuming that, if you have a mature system that is working, you were requesting very few changes in the latter years. Is that correct?

Mr Snowden: Those are customer-facing changes that allow customers to access the system remotely through e-registration to the LandWeb Direct system and for improvements and enhancements to it. It is not necessarily an enhancement to the core system; it is an enhancement or a change that improves the quality of the service.

Mr Beggs: Can you provide us with the number of changes that the Department requested each year to justify putting in savings of £100,000, which you claim to have made at that point in the contract?

Mr Snowden: Again, those are not so much savings as free enhancements. I can certainly give you the full list of them, yes.

Mr Beggs: That would be great.

You said that it was not worthwhile paying the £50,000 a year for open-book accounting. When you do not really know the level of profit that BT is making from the contract, might it be worthwhile spending £100,000 to make people aware of a realistic cost of a new contract coming forward in, perhaps, two years' time?

Mr Snowden: It was £50,000 or possibly £55,000 per year for the five years of the extension that was being negotiated for 2014 to 2019. The total cost was £250,000 to £270,000, which was a fairly hefty financial investment. At that point — if you recall, that was being negotiated in 2011 — we were in the middle of the economic downturn and the property market was very suppressed. I very strongly doubt that much profit was being generated, if there was anything at all, by BT in that period. Consequently, the decision of the officials at that time was that they could not see where the value of that £270,000 commitment could be achieved.

I am sorry, did you want to interject?

Mr Beggs: Yes. The core of it is this: was the Department in place to negotiate at all with BT? Did you have an alternative model at that time and the time to enact it?

Mr Snowden: There was no alternative system. The negotiations took us to three years in advance of when the break clause was to be exercised. The purpose of that time difference was to give us the chance to work out whether we wanted to put something else in place.

Mr Beggs: When was it finalised in the negotiations?

Mr Snowden: That was in June 2011.

Mr Beggs: Sorry, I mean the break clause.

Mr Snowden: That took effect from July 2014. There is a three-year gap between the decision on whether to exercise the break and the break taking effect. There would have been enough time to do something if that had been the decision that the Department wished to take at that point.

The inclusion or otherwise of the open-book accounting was not the most significant or only factor that the officials would have had to take into account. There were other things, such as the costs that procuring a new system might incur. Of course, there is no guarantee that what you procure as a replacement would be any cheaper or provide better value for money than what you already have. Having done the full detailed monetary and non-monetary analysis, the contract review group, which

included external experts and advisers, recommended that we continue with the system until the end of the then current contract period, which would be in 2019.

Mr Beggs: What were BT's costs here in comparison with other systems in GB?

Mr Snowden: Benchmarking was the approach to devise that, and, again, that was looked at as part of the contract review discussions. Organising one of those exercises was estimated to cost in the region of £300,000. It was extremely difficult to identify direct comparator systems. The contract review group looked at systems in jurisdictions like Scotland and New Zealand, amongst others, and it determined that, because no two systems were exactly alike, it was very difficult to benchmark. You could not get a like-for-like comparison and the £300,000 would not give you a sufficiently conclusive analysis to allow you to make any decisions about the value for money of the BT system here.

Mr Beggs: Did you enquire about piggybacking on an existing system elsewhere?

Mr Snowden: Again, there was no equivalent system in other jurisdictions. Every jurisdiction has a slightly different legal base. The land law and property law in Northern Ireland is not the same as it is in England and Wales, so it would not necessarily be possible to piggyback on the HM Land Registry (HMLR) system, for example, without having to do substantial adjustments and customisation of that system.

Mr Beggs: OK. Thank you.

The Chairperson (Mr Humphrey): OK. Mr Snowden, the contract in 2011 that you referred to —.

Mr Snowden: The contract review?

The Chairperson (Mr Humphrey): Yes. Who headed those negotiations?

Mr Snowden: That was with the then chief executive of Land and Property Services. It also involved representatives from the Departmental Solicitor's Office (DSO), I believe, and Central Procurement Directorate.

The Chairperson (Mr Humphrey): Who signed off on those?

Mr Snowden: The permanent secretary and the Minister at that time.

The Chairperson (Mr Humphrey): Who were?

Mr Snowden: Stephen Peover was the permanent secretary, and Sammy Wilson was the Minister.

The Chairperson (Mr Humphrey): The break clause kicks in in 2014 through to 2019. Is that right?

Mr Snowden: Yes.

The Chairperson (Mr Humphrey): For five years?

Mr Snowden: Yes.

The Chairperson (Mr Humphrey): Who headed up those negotiations? Bearing in mind that I do not expect for a moment that the Minister or the permanent secretary headed up those negotiations; it is the people who headed up the negotiations that I want to know about.

Mr Snowden: The discussions and negotiations in 2011 related to the break clause that was to be exercised in 2014 for the 2014-2019 period. In 2018, another negotiation took place on the two-year extension to the contract, running from 2019-2021. Those negotiations were headed up by the head of digital services in LPS, Nigel McVittie. The extension was signed off by Sue Gray, the permanent secretary.

The Chairperson (Mr Humphrey): Did we get the names for the 2014-19 period?

Mr Snowden: For the people who headed —?

The Chairperson (Mr Humphrey): Yes.

Mr Snowden: The chief executive at that time was John Wilkinson, and he was supported by one of the directors in LPS, Iain Greenway.

The Chairperson (Mr Humphrey): Did the permanent secretary sign off for the Government?

Mr Snowden: And the Minister.

The Chairperson (Mr Humphrey): We know what the costs are going to be, but can you tell us what the monetary advantages for Northern Ireland have been over that nine-year period?

Mr Snowden: Do you mean advantages for the Northern Ireland economy?

The Chairperson (Mr Humphrey): Yes.

Mr Snowden: There has been no analysis of that. However, large chunks of the economy depend on a functioning Land Registry. Property transactions cannot be carried out without the Land Registry functioning, and banks rely on it to secure lending. If you look at the very short period of time when the Land Registry was closed at the beginning of the pandemic and the lockdown, you will see that quite a significant amount of pressure applied to us to get it up and running again as quickly as possible because it was causing the property market to come to a standstill and banks were unable to lend. That was why Land Registry was declared an essential service and reopened quite quickly.

The Chairperson (Mr Humphrey): Knowing the costs, it would be useful if a piece of work could be done on the costs to the public purse that have been offset by the advantages that the investment has brought to the Northern Ireland economy. Otherwise, people will look at the final-figure cost and not come to the conclusion, which in my opinion is justified, that it does not provide value for money. The Department should do that piece of work.

Mr Boylan: I appreciate the answers so far on how we are moving forward. What issues about these projects were on your desk when you took over? You have two Audit Office reports with recommendations to be implemented. I am asking about this in the context of your predecessors, so what red flags were there, other than what came from the Audit Office?

Ms Gray: I recollect that a first-day brief was waiting for me. I think that somebody referred to that. I do not recall these projects being identified as very high, but I could be wrong, as that is now two and a half years ago. I went about finding my own information, which included familiarising myself at the audit and risk committee with the reports that had been made and with what audit had been looking at. As far as I can remember, there were references to these projects in the first-day brief, but I do not think that they were red-flagged in the way that you are probably expecting. It would be wrong of me to say too much, because I cannot recall exactly what was in that first-day brief. I can check that and come back with the information, as I still have the briefing.

Mr Boylan: I am asking because the Chair mentioned the public purse, and people will see that so many hundreds of millions were spent on the two projects. That is all that they will see. The Chair asked about the value of the last project, and that is all that people will see. It does not matter if the contract is only for £1,000 or whatever, and that is why I asked —

Ms Gray: I understand.

Mr Boylan: — whether you were given any indication by your predecessors or a brief so that you could talk about what you are saying in this session.

Ms Gray: Honestly, I had a first-day brief folder, but I cannot recall what was in it. I do not recall it having red flags for these projects, but I could be wrong. I will be very happy to find out if what I said should be any different.

The Chairperson (Mr Humphrey): The Committee will be alarmed to hear that, given the amount of money that was being spent on these contracts, civil servants did not feel that the overspend was of sufficient seriousness to be red-flagged for a new, incoming permanent secretary. I find that very concerning.

Ms Gray: I think that I said that I want to check, because it was two and a half years ago.

The Chairperson (Mr Humphrey): The figures that we have been given show that the overall overspend is somewhere in the region of £120 million. The Committee sees that as a serious matter, and senior civil servants should have been presenting that to you as a serious matter when you came into post.

I am not aware of any further questions for Mr Snowden. We will adjourn briefly to allow the room to be prepared for Mr Duffy. Thank you.

The Committee suspended at 3.35 pm and resumed at 3.45 pm.

The Chairperson (Mr Humphrey): I welcome Mr Duffy to the meeting. Mr Duffy, you are very welcome. Thank you very much for taking the time to come back to us. We will go straight to questions. The first is from Mr Harvey.

Mr Harvey: What has the Department of Finance been doing, as contracts, manager to collate and validate savings information from each Department?

Mr Paul Duffy (Department of Finance): Each Department, as part of using its contract, has had to have a business case in place to demonstrate that the project that it would deliver would represent value for money and deliver savings and benefits. As part of that, as the project comes to completion, they would have to complete a post-project evaluation to demonstrate that those benefits and savings have been delivered.

In the Department of Finance, we have received copies of those project evaluations and have created an online portal to publish them. That will then allow other Departments and other government bodies, not just in the NICS but in the wider public sector, to access those evaluations, learn lessons from them and see what is being delivered and whether there are any difficulties. It is a lessons-learned portal to try to spread best practice on digital transformation across government.

Mr Muir: Following on from the questions to the permanent secretary, part 3 of the Audit Office report on the digital transformation element of our inquiry is about the prioritisation and selection of projects. One key issue that appears is that one of the reasons why the costs that are associated with the overall project — it would probably be described as a programme — rose is scope creep and the additional projects that kept being added to it. I know that benefit has been delivered from the projects that are offered online now and that people are using them day and daily, but what we had was a situation where people were consistently adding different projects to it and the scope creep kept increasing. Who, ultimately, had the authority to say, "Add this to the list"? Was it a Minister? Was it a permanent secretary? Who was the person who was driving that and adding those projects on to that scope creep?

Mr Duffy: When the contract was let in 2012, a piece of work was done called the "landscape review", which surveyed all Departments to see what projects they were in a position to digitalise or what services they could put online for the benefit of citizens. What came back from that was that around 120 projects were identified across Departments. A permanent secretary subgroup then looked at those projects and determined which should be prioritised. What came out of that was what was termed the "16 by 16" list, which meant that 16 projects would be delivered by 2016. That was the main focus, essentially, so the contract would deliver those 16 projects.

Over a period of time, as those projects went live and the benefit to citizens of getting more and more services online was very clear — you are right to use the term "scope creep" — there were almost more projects that were then put through the contract. I suspect that, at the time, the decision maker on bringing more and more projects on to that contract was the senior responsible owner.

Mr Muir: That is very useful. Thank you, Paul, for that information. It is quite clear, then, that there was a permanent secretary subgroup that decided the scope for that but did not oversee it going forward.

Was that not perhaps a deficiency and the subgroup should have maintained and stayed in place to manage the scope? It seems that it was not Ministers or permanent secretaries; it actually goes right down to an SRO.

Mr Duffy: There was a mandate for Departments to use the contract for digitalising services. Those 16 by 16 were, clearly, the priority projects that were set at that time. The ongoing oversight came to an end when the 16 projects were almost finished. However, there was still an encouragement to digitalise as many services as possible.

Mr Muir: People were feeding into the SROs and saying, "We want this, that and the other", but where was that coming from? Was it coming from permanent secretaries in Departments, from Ministers or was it just a free-for-all?

Mr Duffy: It came from individual Departments. I am going to be completely transparent and open and say that I was one of those individuals in another Department who wanted to use the contract. When I worked in the Driver and Vehicle Agency (DVA), we wanted to digitalise a number of services for taxi licenses, driving licensing and the driving test. This was a vehicle for us to get access to a supplier to deliver the projects that we assessed as representing value for money and as a benefit to citizens. At the time, we would have gone to the Department and said, "We have a project that will bring more and more services online for citizens, and it will have these benefits, so can we have access to the contract?". There would have been a determination on whether the project met the criteria for getting more services online.

Mr Muir: Essentially, someone should have raised their hand and said, "There is massive scope creep going on here, and we need to deal with it". Was it primarily the SRO who should have raised their hand and said that?

Mr Duffy: Yes. This goes back to the wider point about contract management. We had a team that was very focused on getting more and more services online for the benefit of citizens and, at the same time, probably, not focused enough on the fact that there was a contractual ceiling for the contract. Whilst we could deliver more projects, at some stage we had to say that that ceiling was reached. Someone should have said, "No more contracts". That happened, but it happened once the £50 million was exceeded.

The Chairperson (Mr Humphrey): Which was when?

Mr Muir: This highlights the issue that was dealt with today on the other PAC report on major capital projects and on having oversight from the head of the Civil Service across Departments.

The Chairperson (Mr Humphrey): I totally agree. Paul, could you pick up on what you were saying and tell us what happened?

Mr Duffy: In 2017, I think it was, it was said that no more projects could go through the contract because we had exceeded the contract value. By that stage, the estimation was around £70 million.

The Chairperson (Mr Humphrey): You talked about SROs. Can we name people, please? Who was the SRO in 2012?

Mr Duffy: The SRO for this through to October last year was Paul Wickens.

The Chairperson (Mr Humphrey): Who was the permanent secretary in 2012?

Mr Duffy: I cannot remember the full range of permanent secretaries, but, from 2012 onwards, during that period we had —.

Ms Gray: I have a list. From 2009 to 2014, it was Stephen Peover.

The Chairperson (Mr Humphrey): Is it Mr Wickens or Wiggins?

Mr Duffy: It is Wickens.

The Chairperson (Mr Humphrey): Do we know whether he went to Stephen Peover and whether Stephen Peover signed it off? Who signed it off?

Mr Duffy: At that time, when it was known that the contract had exceeded the £50 million value, I think that it was David Sterling.

The Chairperson (Mr Humphrey): Let us start at 2012. Do we know whether Mr Wickens went to Stephen Peover at that stage?

Mr Duffy: I do not think so, because I imagine that, at that time, it was a contract with a value of £50 million that was let to deliver digital services.

The Chairperson (Mr Humphrey): So a contract of £50 million was not signed off by the permanent secretary of the Department.

Mr Duffy: I honestly do not know who would sign off a contract at that stage. I do not think that every contract goes to a permanent secretary to sign off.

The Chairperson (Mr Humphrey): It does not?

Mr Duffy: I do not think so.

The Chairperson (Mr Humphrey): So, a £50 million contract does not go to the accounting officer in a Department.

Mr Duffy: I am not 100% sure.

The Chairperson (Mr Humphrey): If I was an accounting officer in a Department and there was a contract for £50 million that ended up being— how much?

Mr Duffy: At the moment, the contractual value is £110 million up until 2022. I am sure that the permanent secretary at that time was aware that there was a contract to deliver digital services and of its value, but I do not imagine that the permanent secretary would have actually signed the contract off.

The Chairperson (Mr Humphrey): Do we know who did?

Mr Duffy: Who actually signed the contract? I do not know.

The Chairperson (Mr Humphrey): That is quite a revelation. There is a contract for £50 million that ends up costing the public purse £110 million, and you do not know whether it was signed off or approved by a permanent secretary. Could we have that information?

Mr Duffy: Yes, sure.

The Chairperson (Mr Humphrey): We can move onto 2012. Did you say that they renegotiated in 2015?

Mr Duffy: Two thousand and twelve is when it was decided that no further projects can have access to the contract. The value at that stage was increased to £70 million.

The Chairperson (Mr Humphrey): What year was that?

Mr Duffy: Two thousand and seventeen.

The Chairperson (Mr Humphrey): Who was providing the filter for those contracts in the 16 by 2016 initiative? Who decided, "You are one of the 16"?

Mr Duffy: That was a decision taken by the permanent secretaries' subgroup.

The Chairperson (Mr Humphrey): This is exactly my point. The permanent secretaries' subgroup is taking a decision, but the permanent secretary in this Department may not have been aware of it or signed off on it; we do not know at this stage. They could have signed off on the contract in 2012.

Mr Duffy: I can only guess. I am sure that they knew about the contract. I interpret your question of, "Who signed off?", as being, "Who put their signature to the contract?". I do not imagine that that would have been the permanent secretary, but they certainly would have been aware that there was a contract being let for digital transformation.

The Chairperson (Mr Humphrey): Mr Duffy, when I ask who "signed off", I can mean, "Who physically signed it?", but I think that we all know that I mean, "Who approved it?". As we established earlier with the current permanent secretary, who is the current accounting officer in the Finance Department, the accounting officer is ultimately responsible. They are the accounting officer. I would like to know who signed off on that, and, moving forward to 2015, who provided the filter. Who are these people who said, "You are in", or, "You are not in"? At the end of the day, the Northern Ireland taxpayer and the Exchequer are dealing with the fallout from all of this some eight years on from 2012. We are discussing these things nearly nine years later.

I put this point to Mr Snowden, and I will put it to you as well. We know the cost of this and that it has grossly exceeded the initial quotation. Has an analysis done of the benefit that there is to Northern Ireland from all of this stuff so that that can be put against the cost?

Mr Duffy: Chair, I am not aware that a piece of work has been done to pull all those benefits together. The benefits clearly will be available, and we can do that piece of work. Forty citizens' services have been transformed using the contract, so the benefit will be whatever has been delivered through those individual projects.

The Chairperson (Mr Humphrey): OK. Thank you.

Mr Beggs: The title of this project was the Strategic Partner Project. Sue Gray, what was strategic about the selection of projects to be developed through this system?

Ms Gray: To be fair, I think that it did start out as a strategic project. Initially, in the 16 by 16 initiative, the identification of and decision on which of those projects would be the 16 projects was taken by the permanent secretaries' subgroup. Paul outlined how that worked. Then, of course, as Paul described, more projects wanted to come on board. It does not sound as though the permanent secretaries' subgroup was still in existence at that stage. So, that strategic approach was there at the outset. Not unusually, I suppose, it became more business as usual in respect of digitising those services. However, there then became more of a decision on which projects went into that. The permanent secretaries' subgroup definitely —.

Mr Beggs: What was strategic about the body and the project?

Ms Gray: We want to deliver more services online and have more digital offerings. The initial 16 by 16 approach was the strategic part of it. It then went into more business as usual.

Mr Beggs: Was it not more the case that individual Departments replaced ageing computer systems? Is that not what happened? Was it not a case of, "We have an old system; let's get a new system in here", and not standing back and looking strategically at where improvements should occur?

Ms Gray: That is definitely not how I see this project. There was not much at that time being delivered online for government services. This was an innovation; it was not about replacing legacy systems. It was about how we can deliver services to the public online.

We have all talked about some of those services that *[Inaudible]* yet we use now. It has been transformational in some services.

Mr Beggs: What did the strategic partner bring to that?

Mr Duffy: The title is quite confusing. This is about appointing a strategic partner to work across Departments. Calling it a project is slightly misleading as well. It was a strategic partner to help to deliver projects through a contract. The strategic partner's role would, at that time, have been to work

across 12 Departments to help them to deliver the citizens' services that they felt were a priority and were in a place to do.

The contract was put in place at a time when digital transformation had not really started anywhere. In a sense, the idea of 16 by 2016 was to get momentum, learning and services online. I suggest that it was not necessarily a strategic piece of work at that time. The term "strategic partner" was more about the role that the supplier would play across Departments rather than it being a strategic project.

Mr Beggs: When each of those completely diverse projects came forward, how was a price agreed?

Mr Duffy: It would have been up to each Department to develop a business case for each project. They would have gone to the strategic partner, in a sense, and got a cost off them. They would have had to ensure that that represented value for money. They would have been in probably the best position to challenge the contractor on cost because they knew the services that they were trying to digitalise.

Mr Beggs: What advantage did that have over going to the open market?

Mr Duffy: That was an open market procurement, initially, to appoint a strategic partner. There would have been a range of other private-sector suppliers who would have bid for that piece of work, so the most cost-effective supplier was chosen to take it forward.

Mr Beggs: Yes, but my question is: given the diverse nature, and the way that you went forward with lots of individual projects, why did you not just go for 16 separate projects for competition?

Mr Duffy: If you think about the time, the resource and the cost of 16 individual procurements compared with one procurement where you can draw off — almost like a framework contract — services to digitalise a range of services. As you are developing in one Department, that allows learning to be shared with others. The contract gave access not just to one supplier. That supplier used 80 subcontractors, 20 of which were small and medium-sized enterprises in Northern Ireland. It was not that all the work went to a single supplier.

In 2017, the Department commissioned Gartner Consulting to carry out an independent assessment of the contract. Its finding was that the rates being charged by the supplier were at, or below, market value. In its independent view, the contract offered value for money.

Mr Beggs: I am always wary of consultants that do that. At the end of the day, they also want to get a continued arrangement in place.

What did the strategic partner bring to all that transformation? Was it a specialist in software development? What was its specialism?

Mr Duffy: The strategic partner was able to bring in subcontractors with specialist expertise in particular areas. As I said, in delivering the services that went through that contract, it had access to over 80 other subcontractors who provided work or expertise to Departments. As I said, 20 of the firms delivering those services were local.

Mr Beggs: Are you saying that that is a convenient way for Departments to purchase the money without having to go to individual contracts?

Mr Duffy: Yes. That is not unusual. The Cabinet Office will have a range of framework contracts that allow a number of Departments to access that. That framework will have been let through a competitive process to ensure that it represents value for money. It is not unusual to have a framework to access rather than running lots of individual procurements.

Mr Beggs: Are you aware of what markup the strategic partner who was not providing strategic advice charged in subcontractor costs?

Mr Duffy: I am not aware of what markup they may have charged. We have visibility of their project accounts, and we are aware that they have in the contract a profit margin that they are allowed to generate. For anything over and above that, there is sharing with the Department.

Mr Beggs: You are saying that you are not aware of its markup. Surely, in order to know what profit they are making, you need to know what additional markup they charge on all their purchases.

Mr Duffy: I imagine — I am sure that this is very commercially sensitive to the strategic partner — that they will mark up individual costs with different subcontractors at different times. They will negotiate with their subcontractors each time they commission work from them.

Mr Beggs: So, instead of buying it at a lower cost from contractors, the public purse is buying it through the strategic partner and adding whatever markup cost the strategic partner is charging us.

Mr Duffy: I have no idea whether we could buy it directly at a lower cost. I am sure that the strategic partner has leverage over their subcontractors. This was tested through a procurement process, and that was the most competitive successful bid.

The Chairperson (Mr Humphrey): Sorry, Roy. You just said that you [*Inaudible*] idea.

Mr Beggs: This is all very confusing.

Mr Duffy: I have no idea what individual markup it is making in a huge contract. That is not visible. That will change every time they engage with a subcontractor.

The Chairperson (Mr Humphrey): Sorry, Mr Beggs.

Mr Beggs: You said that you have access to their accounts. I am shocked that, from looking at their accounts, you have no idea of what their markup is. In other words, you have no real idea of what their costs are. Is it clear, from looking at their accounts, that there are no hidden costs that they are burying, that they are not passing costs on to a company that may be related to them, or that they are not charging exorbitant labour rates to their staff related to the project?

Mr Duffy: The project accounts will show the revenue that the strategic partner is receiving as part of the contract and the costs that they are incurring. It will show what their profit margin is.

Mr Beggs: Does it show the details of the costs that they are incurring to ensure that the costs that they are adding are reasonable?

Mr Duffy: I am not sure how you could determine from the accounts what was reasonable. It would not necessarily be clear from a set of accounts what individual services they were getting for that cost.

Mr Beggs: That is my concern about that arrangement. Thank you very much.

The Chairperson (Mr Humphrey): Mr Duffy, when you gave evidence, you used the term "challenge strategic partner". When it comes to the strategic partners in the two projects that we have heard about today — LandWeb and digital transformation — where is the evidence that there was challenge in that regard?

Mr Duffy: When each Department is procuring its service through the contract, it will challenge the strategic partner on the cost of delivering that project for that Department. That will be part of that process —.

The Chairperson (Mr Humphrey): Bearing in mind that, in one of the contracts, officials did not know that it was a seven-year contract, with a potential three-year extension to be notionally negotiated after the seven years — they thought it was 10 years — it seems to me that in these two contracts there was little or probably no challenge. The Committee would be justified in reaching that conclusion.

Mr Duffy: Chair, I have to say that I can only disagree with you on that. As someone who has actually used the contract, from being in the Driver and Vehicle Agency (DVA), I can remember challenging the strategic partner on the costs we were being quoted for the delivery of a driving licensing system.

The Chairperson (Mr Humphrey): OK. Mr Duffy, you are absolutely entitled to challenge me on it, but I will come back to you with what I have just said: that a contract of seven years' duration was

understood by the Department to be for 10 years. Moreover, both contracts, when joined together, saw an overspend of £120 million from the public purse. It seems to me that there was little or no challenge. You can challenge me or question me all you like on that, but the facts speak for themselves.

Mr O'Toole: Mr Duffy, on the question of profit margins, what is the margin for the strategic partner at the minute, in broad terms?

Mr Duffy: My understanding is that it is 12% in the nirect contract.

Mr O'Toole: How would that compare with comparable contracts let in other jurisdictions?

Mr Duffy: At the time, it was let it was probably not excessive. If you were to benchmark it, it was probably around the level that other contracts would have been at the time, given the uncertainty and risks around digital transformation.

Mr O'Toole: In 2012?

Mr Duffy: In 2012.

Mr O'Toole: Has the margin been steady since then?

Mr Duffy: That was a contractual amount, so it was built in over the life of the contract. What we have been doing, particularly recently, is ensuring, through access to the contractor's accounts, that that profit margin is not being exceeded.

Mr O'Toole: There have not been any penalties at any point that have affected the margin?

Mr Duffy: There would have been penalties if the contractor was not delivering on time. There would have been a reduction in what they were getting paid, which, ultimately, would feed through to reducing their profit, but they never exceeded their 12% profit.

Mr O'Toole: You do not know if it has ever materially reduced below 12%?

Mr Duffy: Yes, it has. We have seen it fluctuate. I cannot remember offhand up to what amount, but it has never got anywhere near 12%. It has certainly been down to the lower end of single digit figures.

Mr O'Toole: Lower end meaning below five?

Mr Duffy: Down to 3%, 4% or 5%. It fluctuates year on year.

Mr O'Toole: OK. We talked about the fact that the Department is doing more in partnership with the Government Digital Service (GDS), for example. When this was first let, in 2012, it was around the time that gov.uk was happening. How much was that part of the conversation in 2012, as in was any technical or commercial expertise taken from the gov.uk project when this partnership was let?

Mr Duffy: I am not sure how much engagement there was with GDS in 2012 in feeding into and forming this contract and on how it would work. There has certainly been a lot more engagement with GDS ever since. We are working very closely with it on sharing components, software, code and things that it is developing that we can then use in Northern Ireland, at no cost.

Mr O'Toole: OK, thank you.

The Chairperson (Mr Humphrey): No other member has signalled —.

Mr Boylan: Sorry, Chair. I missed some of the earlier comments. Have you gone back to phase 1 and researched it from the beginning? Did the Department have the expertise to work as a strategic partner and know what exactly the outcome would be? Bearing in mind that digital transformation was a new concept to most of us, did the Department have the expertise?

Mr Duffy: Since our last evidence session, I have talked to some colleagues who have retired from the civil service. I have tried to gather as much information as I can so that I can be as transparent as possible to the Committee. Looking back, and from what I can glean, the biggest weakest has undoubtedly been with contract management; that is the area where the skills gap has been in the past. This goes back to Mr Hilditch's comment about the lack of consistency during a contract. There was a very small team that worked on developing and negotiating the contract, taking the procurement process through to conclusion, and ensuring that the contract was signed off and the supplier put in place.

At that time, the lead officials involved in the process moved on to do other things, and the lack of corporate knowledge about the contract was one of the weaknesses. Perhaps that can feed in to the Chair's comment that the contract was for 10 years with a three-year break, which clearly it was not. There was a loss of corporate knowledge about the contract at that time. The Department had very good digital skills at that time and a team that was very committed to driving forward digital transformation, but it probably lacked the contract management skills at that time. Sue has outlined a lot of the measures and steps that have now been taken to rectify and put in place those new measures.

Mr Boylan: Sue is coming back to answer an earlier question. However, from your brief and understanding, is there any mention of staff going to other Departments to seek out expertise on the contract? Is there any mention of that in your brief?

Mr Duffy: Since this has happened there has been a lot of learning and sharing across the Departments. The team that was involved in that early contract management has been involved in other contract management in other Departments. Their skills in putting in place the contract in the first place have been shared. However, we lacked the skills to manage the ongoing contract.

Mr Boylan: Finally, £110 million; value for money; public purse. Can you stand over this contract? The contract originally started in 2008 with a scoping exercise, and we are now in 2020. Can you quantify the value for money for the economy from the public purse?

Mr Duffy: The value is the digital services that were transformed through this contract, and the contact centre that has been in place since 2012 and will be in place until 2022. The contact centre is used by people to gain information about public services, and it has been widely used during the COVID-19 pandemic. The services have provided value. The value of the contract has been driven up by not necessarily a cost escalation but more by the volume of things that have gone through the contract. Mr Muir has made a comment about "scope creep", and more projects went through this contract that was ever intended.

Mr Boylan: Is that where we lacked the expertise, outside the ongoing contract management issue? We did not foresee that issue. It should have been foreseen, but it was not.

Mr Duffy: At the time, the number of services that would go online so rapidly was not foreseen. However, the bid that was missing was that someone with really good contract management skills should have put their hand up a bit earlier and said, "There have been enough projects put through this contract. We now need either to extend the contract or run a new procurement for another contract".

Mr Boylan: That is where the fall down is, Paul. Some may not have understand the full contract, but the £110 million is the big difference and is what shines through this whole process.

Mr Duffy: Mr Beggs made the point that when these contracts are coming to an end, you need to act much earlier. This contract has been extended to 2022, and we already have a team in place to look at how to replace that contract. A lot of work has already been done to ensure that we do not end up having to extend the contract again. A lot of work has already started to ensure that we are ready for 2022.

Mr Boylan: It has taken 14 years since the original process.

The Chairperson (Mr Humphrey): And £10 million.

Mr Duffy: I do not dispute that.

The Chairperson (Mr Humphrey): I welcome the fact that you have had those conversations with your former, now retired, colleagues. That is very useful, and I commend you for it. If I picked you up correctly in your response to Mr Boylan, you were saying that it was your view that the skill set was there when those contracts were negotiated but that those people left the Civil Service or moved to other Departments. Is that right?

Mr Duffy: Yes.

The Chairperson (Mr Humphrey): Your view was that the skill set was there when the contracts were negotiated, but those people moved on. Clearly, then, those who renegotiated or reviewed the contracts did not have that skill set. What about the fact that those projects were being put into the team of permanent secretaries with an overview of their Departments. Was the skill set not there?

Mr Duffy: The role of the permanent secretaries' group was to look at the 120-plus projects that came forward and to determine which were a priority to be delivered. That was the purpose of that group; it was not necessarily to —

The Chairperson (Mr Humphrey): You said that they took 120 down to 16.

Mr Duffy: Yes; sorry. It was 16 for 16, but there were 18 projects because there were two there just in case something happened with the 16.

The Chairperson (Mr Humphrey): There were meant to be 16 and it ended up being 18?

Mr Duffy: There were 18 projects, 16 of which were to be delivered and there was a reserve list of two.

The Chairperson (Mr Humphrey): Did the projects on the reserve list get in?

Mr Duffy: They did, yes.

The Chairperson (Mr Humphrey): So, it was not a reserve list.

Mr Duffy: No, but the reason for coming down to 18 was to ensure that at least 16 of them would be delivered. When you are delivering IT projects, there is always the possibility that something slips. It was to ensure that there were projects to come behind that. The last thing that you want to be criticised for, then, is, having a £50 million contract and you spend only £30 million against it.

The Chairperson (Mr Humphrey): I want to ask both of you about where we are today with LandWeb and digital transformation. Would it be possible for us, given the huge amount of money and expense to the public purse involved, to get the details of the original negotiations — who was involved in them, the costs and the quotes — and for the reviews, the years they kicked in, for the two contracts? That would be really helpful to the Committee.

We declared our interests earlier as members of school boards of governors. As someone who is on two boards of governors, I wish that that attitude would be taken by Central Procurement Directorate as regards its strategic view, given the amount of money that is spent/wasted on getting competitive tenders for very small amounts of money that cost the public purse way more than it should do when it comes to driving efficiencies in public expenditure in Northern Ireland.

Thank you both very much for coming and, particularly, Ms Gray, for the time that you have spent with us. We really appreciate it, given the context in which you are operating. You will have heard members refer to the culture. We genuinely hope that the culture that has been clearly evidenced in this last session prevails, and not just in your Department. We appreciate all that is being done to address those issues. I note that, in your last session, you outlined and the Committee welcomed your strong view that you treat public money as if it were your own. As an Ulster Scot, I appreciate that very much. Thank you very much, and I wish you well in your work. Please furnish us with that information when you have an opportunity to do so.

Ms Gray: Thank you all very much.