The Highland Council

Resources Committee - 26 August 2015

Agenda Item	**27**
Report No	**RES/ 83/15**

Corporate Debt Recovery System – Project Governance

Report by Director of Finance

Summary

The purpose of this report is to highlight a material financial loss to the Council arising from a failed ICT project, and to bring to the Committee's attention a range of weaknesses around the project management and governance.

1. Background

1.1 Many areas of established good practice are in place with regard to ICT project control within the Council. Large ICT projects are controlled by project boards and monitored by a larger programme board - currently the ICT Development Board. The standards used are the Central Communications and Telecommunications Agency (CCTA) PRINCE2 project management standard and the former Office of Government Commerce (OGC) Gateway Review standard to review project progress. In addition the ICT Services Programme Office has produced guidance regarding the ICT project process. Unlike the case of the Corporate Debt Recovery Systems, other ICT Projects have seldom been abandoned and have gone on to bring business benefits to the Council.

1.2 The project was to purchase a system which would allow the Council to link all its debtors' associated debts into the one system. Whilst maintaining existing line of business systems to undertake billing and account assessments for Council Tax and Rents for instance, this new additional system would hold all Council Tax and Rent debt in the one system when dealing with debtors.

1.3 Funding for the project, totally £236,650 with ongoing support charges of £85,624 pa, was approved by Finance, Housing and Resources Committee on 3 October 2012. Due to successive failings to deliver a system that was fit for purpose, the Project Board decided on 30 October 2014 to abandon the project.

1.4 As a result, the Director of Finance asked Internal Audit to undertake an investigation into the project to ascertain what had gone wrong with this project and why, and what lessons could be learnt for future ICT projects.

1.5 The results of the Internal Audit investigation were reported to Audit and Scrutiny Committee at its last meeting on 18 June. The detailed report was taken in private due to a range of issues of a sensitive nature and to allow a full and detailed scrutiny by members. However the main findings of the report are now brought to this Committee to disclose fully the issues identified.

2. Main Findings

2.1 The direct financial loss to the Council was £287,565 arising from contractual payments, abandonment and staffing costs. There is however no doubt that further “indirect costs” were incurred through internal staffing resources being focussed on this project rather than other work. These have not been quantified.

2.2 The Internal Audit report contained a range of findings and highlighted a number of significant weaknesses in governance, reporting and accountability. These were:-

- Business Justification and Project Outline
- Project Definition and Compilation/Approval of the Business Case
- Supplier Selection Process
- Project Board Governance and Control of Risks
- Financial Management and Reporting
- Governance by other ICT Boards and Service Management
- Committee reporting

2.3 ***Business Justification and Project Outline***
Several of the financial assumptions were flawed, in particular the failure to confirm planned savings from the decommissioning of community charge software, in writing, with the Council’s ICT provider. A full business case was not provided, rather a Project Outline was produced which does not follow clear ICT guidance.

2.4 ***Project Definition and Compilation/Approval of the Business Case***
A full business case should have confirmed, calculated, and refined the cost elements of the project where these were available. Although there was regular reporting subsequent revised guidance does not address fully some of the concerns highlighted by this investigation, principally around:-

- o Level of requirement specification
- o How projects and risks are ragged
- o The method of project reporting
- o Project financial management

2.5 ***Supplier Selection Process***
The assessment process of two potential suppliers, use of reference sites/visits did not properly consider the nature of the respective implementations (time and complexity) so that lessons could be learned, and the robustness of the criteria used have been heavily criticised by the Internal Audit report. There was a lack of clarity in some of the roles of Council officers from various services, and the Council’s external ICT provider.

2.6 ***Project Board Governance and Control of Risks***
The change to potential savings, the increase in project scope, the increase in the number of users to that proposed at the outset, and the failure of User Acceptance Testing changed the business justification for the project, but there is no evidence that this was re-visited. There is evidence that when certain concerns were expressed these were ignored by the Project Sponsor

who is accountable for ensuring that the project meets its objectives and delivers the projected benefits .Although standard in many projects at this time, there is a potential financial conflict where the Senior Supplier, whose main role is to ensure what the project requires is available such as resource, was a member of the Project Board. Although ragged “red” at various stages this changed back to “green” when more time and money were allocated.

2.7 ***Financial Management and Reporting***

Whilst the cost of Finance staff working directly on the project was included in the Outline for 6 months this was not further reflected when the project overran significantly, again challenging the viability of the project. Additional costs were met from the Finance service budgets from underspends within the service, and as a result the total escalating cost was not reported through the correct governance route to overarching Boards.

2.8 ***Governance by other ICT Boards and Service Management***

Additional project costs and timescales were not formally reported to higher boards. There was a lack of transparency, and as it was deemed that mitigating actions had been taken the project was ragged differently at higher boards and thereby failed to correctly highlight that the project was over budget and significantly delayed. In response to the audit overall, service management teams now routinely monitor the progress of all current projects.

2.9 ***Committee Reporting***

Project updates are only reported on a summary basis to Resources Committee. Whilst projects are highlighted in more detail when a status of red is allocated, as highlighted above this did not happen in this case because of mitigating action. Since additional costs were met from the Project Sponsor’s Revenue Budget the explanation appears to be that no Committee approval was required. This highlights that there is no clear guidance as to what information should be reported to Council committees with regard to projects.

3. Conclusions

3.1 Although a number of established project controls are in place, the Internal Audit review identified that there is still the potential for things to go wrong if the Project Sponsor fails to follow all governance requirements and does not take heed of the warning signs.

3.2 A business case needs to be financially sound, and any change in assumptions needs to be properly reported and a reassessment made. There appears to be a lack of training in this particular project for the Project Sponsor.

3.3 Governance and reporting was not of the level and standard required, and steps have now been taken to show baseline costs and go live dates against forecast and actuals. In this case significant project risks were not given the appropriate status.

3.4 The Internal Audit report makes seven recommendations, four at “high” and three at “medium”. All of these are due to be complete within this year with the final item by 31 March 2016.

3.5 The project was initiated with the best of intentions and the outcomes were desirable and would have helped at that time to the way in which the Council managed debt. The project goals however were overly optimistic and there appears to have been a drive to resolve technical difficulties and pursue the outcomes, rather than take a more rational approach including towards an earlier abandonment.

4. Implications

4.1 There are no specific implications to highlight other than those contained in the report.

Recommendation

The Committee is asked to:-

1. Consider the details contained within this report
2. Note the weaknesses identified and that "lessons learnt" are now being applied to all ICT projects
3. Note that Audit and Scrutiny Committee will monitor the successful outcome of all the audit recommendations
4. Note that further Internal Audit work on project management is included within the current year's Audit Plan and will be reported to Audit and Scrutiny Committee in due course

Designation: Director of Finance

Date: 17 August 2015

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