

MEETING:	AUDIT & GOVERNANCE COMMITTEE
MEETING DATE:	26 NOVEMBER 2014
TITLE OF REPORT:	FOLLOW UP TO OUTCOME OF PUBLIC INTEREST DISCLOSURE ACT INVESTIGATION
REPORT BY:	ASSISTANT DIRECTOR, GOVERNANCE

Classification

Open

Key Decision

This is not an executive decision.

Wards Affected

County-wide

Purpose

To follow up the report to Audit and Governance Committee on 9 September 2014 regarding the findings of a Public Interest Disclosure Act (PIDA) investigation completed by external audit.

Recommendations

THAT:

- (a) This report be noted; and**
- (b) Members indicate which matters they wish to refer to the Task and Finish Group the Committee resolved to form at its meeting on 9 September 2014.**

Alternative options

- 1 The committee may recommend that additional or alternative actions be considered.

Reasons for recommendations

- 2 To ensure transparency regarding concerns raised, and provide assurance that any areas identified for improvement are being responded to appropriately.

Key considerations

- 3 In January 2014 the council's external auditors, Grant Thornton, received a disclosure under the Public Interest Disclosure Act 1998 (PIDA) from a council member of staff. The disclosure concerned the procurement and implementation of the council's IT-based customer relationship management (CRM) system between 2009 and 2011. Grant Thornton undertook an investigation of the areas of concern raised in the disclosure and produced a report which was considered by this committee at its meeting on 9 September 2014.
- 4 In summary, the investigation found no evidence of impropriety in the procurement process, but did find some areas where lessons could be learned for future major project implementation.
- 5 The committee considered the PIDA report on 9 September 2014 and resolved that:
- (a) The external audit report, including agreed management action plan, at Appendix 1 be noted.
 - (b) The Audit and Governance Committee form a Task and Finish Group to scope and research work on governance structures, systems and procedures relating to procurement and projects, to include matters such as avoiding over reliance on any individual and incorporating 'what if' challenges.
 - (c) The Assistant Director, Governance brings a report to the committee on 26 November 2014 explaining what is now done differently with major projects within the organisation since the CRM implementation.
- 6 This report is in response to resolution (c) above. The approach adopted is to review (in **bold** type) the question raised by Members against each section of the detailed findings in the Grant Thornton Report, namely:
- Objectives and Scope of the Project;
 - Business Case and Benefits Appraisal;
 - Procurement Process;
 - Implementation and Post Implementation Review;
 - Has CRM provided value for money?
 - What are the Council's plans going forward? And
 - Did the Council deal with the complainant's concerns effectively?
- 7 Objectives and Scope of the Project.**
- 8 This section is descriptive and does not contain any criticism of the Council's actions or generate any findings to be addressed. It identifies the objectives of the CRM project as:
- integrating front office service functions from all areas within scope into a single function;
 - making front office service delivery as efficient, convenient and accessible as possible;
 - demonstrating VfM and delivering efficiencies; and
 - improving customer and citizen satisfaction.

The intended project scope is described as covering three phases, as follows:

- **Phase 1:** broad service area coverage with 'shallow' integration based around existing customer service processes; strategic housing and revenues and benefits. There was to be system integration with the Local Gazeteer, Civica APP, Capita Academy, Morse Wisdom, Email and an Integration Platform was to be established to allow web self-service. The system was to be populated with data from revenues and benefits, the Gazeteer and Electoral Register;
- **Phase 2:** targeted service area coverage with 'deep' integration and front-to-back business process re-engineering to deliver further efficiencies. This would involve extending service coverage to: benefit and exchequer; children's services; provider services; legal & democratic; public health; NHS switch. A further acceleration of web based self-service was envisaged along with enhanced customer profiling; and
- **Phase 3:** further transformation and re-engineering of services, extending service coverage to environmental and cultural services; environmental health and trading standards; highways and sustainability; economic and community services and planning and transportation.

No recommendations flow from this section of Grant Thornton's report.

9 Business Case and Benefits Appraisal.

- 10 Grant Thornton report that the preparation of the business case was overseen by the former assistant director for customer services and communications, who acted as Project Executive; and was supported by colleagues, including a day-to-day Project Manager (who prepared a detailed Project Initiation Document (PID)). The report records that the PID asserted that: 'through integrated channel management and innovative service re-design, savings of around 10%-20% per service area could be conservatively achieved.' A 'Net Benefit Model' ('NBM') was included in the PID.
- 11 Significantly, Grant Thornton conclude that: 'It is unclear from whence the cashable and non-cashable benefits were derived.' This is a key finding. However, it is linked to the next point (about the lack of corporate consultation) as well.
- 12 At page 10 of their report, Grant Thornton observe that: 'It is therefore clear that the bulk of the cashable benefits were seen to arise from reducing head count by centralising services and therefore deriving savings in back-office costs in departments; a switch to self-service and a reduction in system support costs.' In other words, the projected cashable savings were premised on roll out across all the authority's departments and services. This did not happen and it is important to understand why.
- 13 According to Grant Thornton, the reason is straightforward and, it would appear, eminently capable of being avoided in future: there was a lack of corporate consultation. In the language of the report: 'It does not appear that the relevant service departments, where the reductions in staff costs would arise, were properly consulted on the efficacy of the proposals or the robustness of the calculated savings, according to the staff we interviewed.'

- 14 The external auditors go on to find that: ‘... the figures were premised on delivery of all 3 Phases of the Project and therefore extending to services such as Children’s Safeguarding and Children’s Improvement and Inclusion.’ And, as the auditors note, ‘In reality the project subsequently did not progress much beyond Phase 1.’ This leads them to observe that: ‘such benefits could only have been delivered in full had the Council secured buy-in from all service departments at the outset’ and to conclude that: ‘This does not appear to have been the case.’
- 15 **There is good reason to believe that the failures identified above by Grant Thornton are unlikely to be repeated. The present senior management team (the Chief Executive, Directors and Assistant Directors) is fewer in number and different in make-up compared to 2010, with changes at all levels. Having joined the Council in mid-2013, no comment is made on the team in 2010, but the current team has a very clear sense of the authority’s priorities and its future direction of travel.**
- 16 **Today, as in the case of the 2010 CRM project, significant service changes are discussed at the Management Board before being the subject of reports for Member decision. Again, no comment is made on how matters were in 2010, but, today, Management Board discussions are inclusive and open, with officers attending encouraged to discuss issues and concerns. This collegiate atmosphere is conducive towards good quality decision making and a sense of ‘cabinet’ responsibility. Senior managers who have been able to participate in an open decision making process are far more likely to accept the outcome of that process. As a result, decisions tend to be implemented consistently across directorates with few instances of ‘silo working’ or non-compliance.**
- 17 The next issue noted by Grant Thornton is that: ‘... there does not seem to have been any independent report or cost-benefit evaluation of the project carried out by the Finance department, ...’ Although it is also noted that: ‘... there was Finance input into preparation of the financial information.’ The view of the external auditors is that: ‘The project was IT-led and therefore the robustness of the business case was lessened.’ Whilst the project also promised non-cashable benefits, these needed to be weighed against the costs and savings arising from the project. As Grant Thornton conclude: ‘This was not possible as the financial analysis was neither transparent, owned by all parts of the Council, nor fully realistic.’
- 18 **In the four years since 2010, the council (in line with local government generally) has become more experienced in procuring goods and services and better able to projecting the likely savings that will flow from service changes. Sustained year on year budget reductions since 2010 have resulted in a more realistic and robust approach to budgeting and the projection of savings from service changes.**
- 19 **Whilst, in the past, if projected savings turned out to be optimistic there were usually other areas where compensating efficiencies could be made, that is generally no longer the case. All budgets are under pressure and projected savings must be robust, or significant financial problems will be stored up for the future. This more aware approach to budgeting was illustrated by the manner in which the council’s budget for 2013-14 was balanced after the early in-year indication of a substantial, seven-figure overspend.**

- 20 Financial implications sections in reports are now completed by qualified finance staff, not by the report author. The financial business cases underpinning every proposed service change (including those involving IT systems) are tested and robustly challenged by finance officers. Reports will not be approved for publication with untested and unrealistic savings projections.**
- 21 Procurement Process.**
- 22 Grant Thornton conclusions in relation to the CRM procurement process are that:
- the Council appears to have carried out an appropriate tendering process with sufficient safeguards built in to ensure fairness and transparency; and
 - we have found **no** evidence to suggest that the tendering process was **not** carried out properly.
- 23 Compared to 2010, the council now has a commercial function which, through the adoption of a category management approach to procurement, has key officers dedicated to specific categories of expenditure. One of the specific categories is IT. The role of the team has been further strengthened by the appointment of a small number of specialist procurement professionals who provides additional expertise. In addition, the head of commercial services now provides sign-off to decision reports which provides increased assurance to compliance with the council's contract procedure rules.**
- 24 Implementation and Post Implementation Review.**
- 25 Grant Thornton record that the council itself, in an 'End Project Report,' reviewed the effectiveness of the implementation of the CRM project. That concluded that it had only been partially successful. At a more detailed level the council also produced a 'Dynamics-Lessons Learned' document which identified a number of other areas where benefits had not been fully realised or where lessons had been learned:
- difficulties were experienced in deploying the call centre technology in relation to 2 staff with visual impairments;
 - the Council realised late in the day that Amey had developed an in-house solution around the Infor system which resulted in an integration requirement not previously known;
 - there was late commitment to procure Ciber support which impacted on the implementation team having to provide support whilst also being tasked with new streams such as CIU, Reporting, Infor development; and
 - communications needed to be improved as teams were now working on sub projects and communications were more ad hoc than the previous formal governance arrangements.
- 26 Grant Thornton make no criticisms of the post implementation review activity undertaken by the council and this seems to have been undertaken with a commendable level of candour.**

27 Why was the project not fully Implemented?

28 Grant Thornton attribute this failure to a mixture of factors, some within and some without the council's control. They conclude that: 'the Business Plan was very ambitious at the outset and the wider Council was not bought into it. When Austerity arrived, and 'the world changed' any commitment to deliver the original plan dissipated. The Council has a functioning system which delivers a unified call management system, but there does not appear much appetite to extend the system further. Elsewhere, Ciber has stated that similar systems have been delivered successfully to the full specification.'

29 No additional recommendations flow from this section of Grant Thornton's report.

30 Has CRM provided value for money?

31 Grant Thornton recognise that this is 'difficult to gauge,' but conclude that it is 'unlikely' that CRM delivered all of the cost savings on which the business plan was premised.'

32 No additional recommendations flow from this section of Grant Thornton's report.

33 What are the Council's plans going forward?

34 Grant Thornton note that the council is 'at a crossroads' in relation to corporate strategy in the light of significant budget challenges. This section of the report concludes with reference to the Cabinet receiving a report in April 2013 entitled 'Digital Strategy' which articulates 'a fundamentally different vision of digital engagement with customers ...' This will include a gradual migration to on-line engagement and away from in-person or phone contact.

35 No additional recommendations flow from this section of Grant Thornton's report.

36 Did the Council deal with the complainant's concerns effectively?

37 Grant Thornton record that they 'received every assistance from the Council in conducting this investigation;' and that the council 'treated the complaint with considerable seriousness.' However, they recommend that the council ensures that its internal procedures for dealing with informal complaints raised internally are 'well understood and remain robust.'

38 The council's Whistleblowing Policy is currently being reviewed and this work will be reported to a future meeting of this committee.

Community impact

39 The council's corporate plan includes clear commitments both to maintaining openness and accountability for decision-making, service delivery and impact and to making the best use of resources available in order to meet the council's priorities. The areas for improvement identified in the report and the actions agreed in response support achievement of those.

Equality and human rights

40 None identified.

Financial implications

41 There are no financial implications arising from this report.

Legal implications

42 The Public Interest Disclosure Act 1998 makes provision for the protection of whistle-blowers. The role of the auditor in conducting investigations once a disclosure has been made was set out in the report attached to the report to committee on 9 September 2014.

Risk management

43 Areas for improvement identified within the external auditors' report have mitigating responding actions agreed.

Consultees

44 None identified.

Appendices

45 None.

Background papers

- None identified.