Dear Sandra,

The Finance and Constitution Committee agreed to write to you to highlight some of the themes raised during our scrutiny of the Social Security (Scotland) Bill’s Financial Memorandum (FM). The Committee issued a call for views on the FM which closed on 18 August and received eight responses. The Committee then took evidence from the Scottish Government Bill Team on 13 September 2017, to explore further the issues raised by respondents. Following that session, the Scottish Government provided supplementary evidence on issues raised during discussions which is attached at the annexe. All the evidence, including a summary of the written responses and a SPICe briefing on the FM, can be found on our website.¹

Budgetary risks.

The Committee explored the implications of the demand led nature of devolved social security benefits and the resulting uncertainty and risks for the Scottish Government in managing these budgetary risks. We explored with the Bill Team the costs which will arise from the administration of the devolved benefits and the new risks associated with the adjustments to the Scottish Government’s block grant from HM Treasury as each benefit is devolved to Scotland.

The Bill Team acknowledged the additional risks to its budget associated where policy differentials and demographics could result in a greater growth in devolved benefits in Scotland compared with the rest of the UK. They confirmed that these differences would not be accounted for through the block grant adjustment and that the Scottish Government would make up any shortfall with its own resources through the spending review process and the annual budget process. To manage the

¹http://www.scottish.parliament.uk/parliamentarybusiness/CurrentCommittees/105836.aspx
uncertainty and risks, they told us that they are working with the Scottish Fiscal Commission and the OBR to produce detailed forecasts on benefit expenditure and are also putting in place procedures and processes to manage these new risks.

In addition, the Bill Team highlighted the fact that the fiscal framework describes a number of new cash management and resource borrowing powers to deal with cash management and forecast error which would allow the Scottish Government to draw on the resource borrowing powers along with the Scotland reserve to manage its cash flow prior to any in-year adjustment. The lead committee, when taking evidence from the Minister for Social Security, may wish to explore in further detail what arrangements the Scottish Government is putting in place to manage the new budgetary risks.

Scottish Social Security Charter

The Bill sets out seven principles for Scottish social security, including the principle that social security is a human right. The Scottish Government will have a duty to prepare a Scottish social security charter which reflects these principles.

We questioned the lack of costings in the FM associated with preparing, reviewing and enforcing the proposed Scottish Charter on social security rights. The Bill team said that these costs would not be significant and would be met under the agency running costs outlined in the FM. The lead committee may wish to explore further the potential costs associated with the preparation, review and enforcement of the social security charter with the Minister.

ICT implementation costs and administration cost estimates

The FM states that the implementation of new infrastructure and systems to support the delivery of these new powers is very complex and therefore, to ensure a safe and secure transition, a phased approach is being adopted by the Scottish Government.\(^2\) It said ‘Initial high-level estimates indicate that the IT implementation for the Scottish social security system, including an appropriate level of optimism bias, could cost in the region of £190 million for a four-year programme running to 2020-21; it should be emphasised that this is an initial estimate which could change materially, and firm estimates of cost will only become clear as the key decisions are taken and detailed plans developed’.\(^3\)

We explored further the development and costs associated with the implementation of social security benefit ICT systems. The Bill Team provided further details of their ICT development plans in supplementary written evidence highlighting the agile development model approach being taken where different elements of digital/IT systems go live at different times.

The Committee welcomes this additional information regarding the programme for procuring and developing the ICT systems required to administer the new social security benefits however, we believe that it is essential that the Scottish Government continues to keep the parliament updated on these issues as various

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\(^2\) [http://www.scottish.parliament.uk/S5_Finance/General%20Documents/SPBill18FMS052017.pdf](http://www.scottish.parliament.uk/S5_Finance/General%20Documents/SPBill18FMS052017.pdf)


\(^3\) [http://www.scottish.parliament.uk/S5_Finance/General%20Documents/SPBill18FMS052017.pdf](http://www.scottish.parliament.uk/S5_Finance/General%20Documents/SPBill18FMS052017.pdf)

components of the system are developed. The lead committee may wish to explore the estimated £190 million cost for IT in the Financial Memorandum and request a breakdown of this figure and also ask that the Minister provides regular updates to your committee on the ICT development programme for the delivery of social security benefits.

We asked for clarity regarding the running costs of the new social security agency and how they compare with DWP running costs. The Bill Team told us ‘We intended to show that the method by which we estimated the costs of the agency in Scotland is robust and that costs will be comparable with those of the DWP; I do not think that we intended to show that our costs will be lower than those of the DWP’. The Committee welcomes this clarification.

**Wider impact**

We were interested in the extent to which the Scottish Government intends to measure the additional value to the public purse of paying benefits through reducing the demand on other public services, such as the healthcare system. The Bill Team acknowledged that ‘finding wider measures to demonstrate the measurable improvements and the benefits that the agency is delivering will be important’. In supplementary evidence they told us ‘Ministers believe that the investment they are making in our new social security system will improve the outcomes for people living and working in Scotland now and in the future. This will no doubt be a point of great consideration and debate by all parliamentarians as the Bill proceeds through its scrutiny process.’ The lead committee may wish to continue to explore further the wider impact of spend on social security benefits with the Minister.

**Parliamentary scrutiny of the costs associated with the Bill**

Finally, a number of respondents questioned the extent to which parliament can scrutinise the costs associated with the Bill given that the detail will appear via secondary legislation. The Committee notes that this Bill is an enabling Bill and that the FM acknowledges that the eligibility and rates for each of these benefits is not set out on the face of the Bill. The FM states “the Scottish Parliament will have a series of further opportunities to scrutinise the budget allocated for setting up and running a Scottish social security system.” The lead committee may wish to explore with the Minister details of what these further opportunities for parliamentary scrutiny will be.

I hope that this letter is helpful in your scrutiny of the Bill at Stage 1.

Yours sincerely,

Bruce Crawford MSP
Convener

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Dear Mr Crawford

We were pleased to appear before the Committee on 13 September to give evidence on the Financial Memorandum for the Social Security Bill. You asked that we follow up that appearance with further information on our approach to the IT procurement process and the various stages between now and the point at which the benefits become the responsibility of the Scottish Government.

Firstly, you will find attached a note shared recently with the Social Security Committee by our Chief Digital Officer, Andy McClintock. It provides an overview of the approach to IT investment to support the Social Security Programme. You may find it helpful to read this letter in conjunction with that note. [Not reproduced.]

In terms of procurement, we are primarily following the ‘agile’ development model, which is a well-established and widely used methodology, especially useful where complex IT system development is required. The agile development model has a number of phases: discovery, alpha, beta and live service. Ensuring we learn lessons from past IT implementations in the public sector, following an agile approach allows us to take account of Audit Scotland’s recommendation from their ‘Principles for a Digital Future’ report that implementation should not be ‘big-bang’ but must be broken down into manageable stages.

We have been clear that users of the service - the individuals in Scotland who apply for and receive support from the social security agency – will be at the heart of our approach. Again, the adoption of agile methodology allow this: it means from the beginning we design with actual users in mind, share prototypes and plans with them as we go and make changes based on their feedback. We have already done some of this work in an alpha development focused on the application process for the new Best Start Grant, with a number of changes being made to the application form and the administration processes as a result of feedback from people who have received the Sure Start Maternity Grant from DWP.

**Digital/IT Specifications & System Design**

During our appearance at Committee, Mr Kelly and Mr Coffey asked about the way in which the Programme had gathered specifications for our IT system. In response to this, I think it’s important, firstly, to make the general point that our Programme establishes a new public service for the people of Scotland. This underlines the scale and complexity of what we are involved in, a point made by Ministers on numerous occasions. In response to your members’ specific points, it may be helpful to outline some of the work we have already done to identify requirements across the Programme.

Last summer, we carried out a social security ‘discovery’ exercise. The purpose of this was to identify who the users of the service would be, what their needs would

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be, how existing services meet those needs, and what might be required for establishing a new service.

This discovery exercise identified, at high level, the services required for the administration of social security and the digital/IT systems that would be required to support those services. It also identified that many of the elements of technology that will be required by the social security agency (e.g. a payment system, a case management system and telephony etc.) are similar to those already in use by other large public sector organisations. It also told us that only a small proportion of the technology would be wholly unique. An example here would be establishing new data links with DWP and other public bodies. This means we can consider how other organisations have developed and implemented similar systems and whether the technology they use might be appropriate for the new agency. The discovery exercise also told us that, at a high level, similar capabilities are required to administer each of the benefits. In other words, we know we should only need one case management system, one payments system and one notification system to give you some examples. Agile means that, as we proceed through our work, the precise requirements of, say, that case management system can be refined and developed as our work proceeds, ensuring that this final product meets the specification suitable for the agency.

We have made significant progress on process and system design work for the benefits that are part of the first wave of delivery. The Carer's Allowance Supplement requires joint work with DWP to identify the caseload of Scottish recipients and to provide a data link to our social security agency. This is a particular arrangement for the Carer's Allowance Supplement to allow us to deliver additional financial support to carers in Scotland as quickly as possible. As we advised at Committee, the Carer's Allowance Supplement will largely be delivered through the re-use of existing Scottish Government IT capabilities.

For the other benefits within the first wave - Best Start Grant and Funeral Expense Assistance - we have started the detailed process design and expect to appoint a supplier shortly who will support our agile development of the technology required. The specification for this was developed through a detailed statement of requirements, taking into account the services identified through the earlier discovery exercise.

Mr Coffey also asked about a system go live date. Our phased approach to the design of the technology we need mirrors our phased approach to the devolution of social security; or, to put it another way, different elements of digital/IT systems will go live at different times.

Cost Estimates

Mr Kelly asked how we arrived at a high level cost estimate. In preparing the Financial Memorandum for the Bill, we estimated the implementation costs for each of the elements of the required technology identified during our discovery exercise. The Scottish Government has a number of existing framework contracts for digital/IT development, some of which give detailed cost rates for specific types of services. Those frameworks have been used as a source of cost information together with the costs of IT system implementation in other organisations. Other organisations’ costs are a good guide to the costs we might incur – given that many of the elements of
the technology solution for social security have been identified as not being wholly unique – but they are only that, a guide. The cost information from existing frameworks and from other projects was collated and each element of the overall technology was costed individually: for example a cost was prepared for a case management system, for a payment system, for a document management system and so on. This allowed a high-level estimated cost to be prepared.

Estimates have also included the likely scale of components of the digital/IT solution. For example, with the case management system assumptions have been made in terms of the number of simultaneous users based on staffing estimates for the social security agency. In line with the HM Treasury Appraisal and Evaluation in Central Government, or The Green Book, the £190 million cost for IT in the Financial Memorandum includes appropriate ‘optimism bias’. This means the risks of implementing a new IT solution have been factored into the potential cost. This detailed work resulted in the cumulative £190 million IT implementation cost, estimated over four years. The Financial Memorandum also includes clear caveats around the IT implementation figure as we are implementing an IT solution in a phased way, so we will only arrive at certainty on costs, as we go through each implementation phase.

Mr Harvie also asked why we could say with confidence that our administration costs would be lower than DWP costs. The statements in both the Financial Memorandum and the options appraisal are not intended to give that impression. Rather the point we are making is that the comparisons made on costs give us confidence that our administration cost estimate is credible, rather than to demonstrate that we would definitively achieve a lower overall administration cost. Indeed there are factors which will continue to influence costs for some time. For example, feedback received from users as our service design proceeds could lower or raise the final implementation or administration cost estimates presented in the Financial Memorandum, were Ministers minded to accept those changes and bear those costs.

We also know that some of the devolved benefits - in particular the disability benefits - are more complex to administer, as they require detailed information about an individual’s health or disability to support their application. For this reason we are carrying out a more detailed ‘discovery exercise’ on the disability benefits which will identify the additional key requirements for those benefits. That exercise will conclude early next year and will inform that future procurement activity.

**Wider Impact**

Mr Harvie asked how we will assess the impact of benefits on public finances or the effectiveness of spending public money. In a narrow sense, all procurement activity must be supported by detailed business cases which assess cost, risk, success factors and improved outcomes (which we refer to as ‘measurable improvements’). Monitoring these business cases will assist us in being able to demonstrate that the Social Security Programme is securing value for money and improving the outcomes we have identified. Ultimately, however, you will recognise that at the heart of much of this work lie a series of political commitments which are encapsulated in a set of priorities published in the Scottish Government’s Programme for Government. Ministers believe that the investment they are making in our new social security system will improve the outcomes for people living and working in Scotland now and
in the future. This will no doubt be a point of great consideration and debate by all parliamentarians as the Bill proceeds through its scrutiny process.

I trust this letter addresses the points you asked that we follow up on fully. If it would be useful to the Committee to receive further information, Andy McClintock, our Chief Digital Officer, and his team would be happy to set out our approach in more detail to the Committee. Please let me know if this would be helpful.

Yours sincerely

JAMES WALLACE
Head of Finance