PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

AGENDA

23rd Meeting, 2018 (Session 5)

Thursday 25 October 2018

The Committee will meet at 9.00 am in the Adam Smith Room (CR5).

1. **Decision on taking business in private:** The Committee will decide whether to take items 4, 5 and 6 in private.

2. **Superfast broadband for Scotland - Further progress update:** The Committee will take evidence on the report by the Auditor General for Scotland entitled "Superfast broadband for Scotland - Further progress update" from—

   Fraser McKinlay, Director of Performance Audit and Best Value, Graeme Greenhill, Senior Manager, Morag Campsie, Audit Manager, and Ashleigh Madjitey, Senior Auditor, Audit Scotland.


   Caroline Gardner, Auditor General for Scotland;

   Stephen Boyle, Assistant Director, and Tom Reid, Senior Audit Manager, Audit Scotland.

4. **Superfast broadband for Scotland - Further progress update:** The Committee will consider the evidence heard at agenda item 2 and take further evidence from—

   Fraser McKinlay, Director of Performance Audit and Best Value, Graeme Greenhill, Senior Manager, Morag Campsie, Audit Manager, and Ashleigh Madjitey, Senior Auditor, Audit Scotland.

5. **The 2017/18 audit of the Scottish Public Pensions Agency - Management of PS Pensions project:** The Committee will consider the evidence heard at
agenda item 3 and take further evidence from—

Caroline Gardner, Auditor General for Scotland;

Stephen Boyle, Assistant Director, and Tom Reid, Senior Audit Manager, Audit Scotland.

6. **Work programme**: The Committee will consider its approach to its future scrutiny of the joint report by the Auditor General for Scotland and the Accounts Commission on "Children and young people's mental health" and the Auditor General for Scotland's report on "Scotland's colleges 2018".

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The papers for this meeting are as follows—

**Agenda Item 2**

Note by the Clerk

PRIVATE PAPER

**Agenda Item 3**

Note by the Clerk

PRIVATE PAPER

**Agenda Item 6**

PRIVATE PAPER
Introduction

1. At its meeting today, the Committee will take evidence from Audit Scotland on the Auditor General for Scotland’s report entitled, Superfast broadband for Scotland: Further progress update, which was published on 20 September 2018.

2. The Auditor General has prepared a briefing on the key messages from the report, which is attached in the Annexe.

Clerks to the Committee
22 October 2018
REPORT BY THE AUDITOR GENERAL FOR SCOTLAND

SUPERFAST BROADBAND FOR SCOTLAND: FURTHER PROGRESS UPDATE

1. The Auditor General’s report Superfast broadband for Scotland: Further progress update was published on 20 September 2018. The report builds on previous reports assessing the Scottish Government’s and Highlands and Islands Enterprise’s progress in delivering access to fibre broadband to Scottish homes and businesses, published in August 2016, and February 2015.

2. Key messages and recommendations from the report are:

- The Scottish Government met its target of providing access to fibre broadband to 95 per cent of premises in Scotland by 31 December 2017. The Scottish Government and Highlands and Islands Enterprise (HIE) had paid BT £259 million by 31 March 2018 through two contracts. Higher than expected take-up and lower than expected costs are expected to allow the programme to reach 60,300 more premises than planned. 90 per cent of premises connected through the contracts are now estimated to be able to receive speeds of greater than 24 Mb/s. The Scottish Government has still to fully assess the economic impact of its investment.

- The actual broadband speeds people experience will vary depending on the technology used and their chosen broadband package. Average broadband speeds experienced have increased across Scotland but continue to be lowest in rural areas. Most of the areas with average speeds less than 24 Mb/s are rural, with around 25 per cent of rural premises unable to receive speeds of at least 10 Mb/s.

- Community Broadband Scotland (CBS) did not deliver the anticipated benefits for rural community broadband projects. A review of CBS’s role found that a lack of specialist skills, poor communication and complex tendering requirements contributed to lengthy delays and failed procurements. Community groups told us this has affected their confidence in the ability of the Scottish Government and HIE to deliver broadband to rural communities. HIE is now refocusing its efforts on other initiatives to ensure the benefits of broadband are realised. We have recommended that the Scottish Government:
  - Takes account of lessons from CBS and the planned assessment of the benefits from the two contracts when developing the ‘aligned interventions’ voucher scheme as part of ‘Reaching100 per cent’ programme (R100)
  - The Scottish Government established its R100 programme in May 2016. This is to deliver its commitment that every home and business in Scotland will have access to speeds of at least 30 Mb/s by the end of 2021. The Scottish Government has committed £600 million in an initial investment to deliver superfast broadband to 147,000 premises, with contracts to be awarded in early 2019. Further investment may be required to reach all premises. It
will be difficult for the Scottish Government to deliver its ambitions by the end of 2021. We have recommended that the Scottish Government:

- Establishes robust contract management and assurance processes to ensure the next round of contracts can deliver value for money.
- Ensures that the right skills and people are in place for the duration of the contract. Continuity will be critical as it is a complex programme requiring specific skills (programme management, financial and commercial, and technical).
- Publishes clear timescales for R100 by summer 2019 and communicate effectively with stakeholders so rural communities know what to expect, when, and can make decisions about how they want to proceed.

The R100 programme is a key element of the Scottish Government's vision for a world-class digital infrastructure. Technology is constantly evolving, and the Scottish Government recognises the importance of installing infrastructure today that will be able to cope with future demands and new technologies. The Scottish Government must keep track of technological developments and commercial activities to ensure its future investment is properly planned and directed. It is yet to develop an overall strategy to map out and monitor all the commercial and public-sector activity in this area including clear timescales and targets. We have recommended that the Scottish Government:

- Develop and publish an overall strategy for delivering its world-class vision which includes mapping out and monitoring existing and future digital infrastructure activities, and a realistic timetable and targets for delivery.
Introduction

1. At its meeting today, the Committee will take evidence from the Auditor General for Scotland on her report on the 2017/18 audit of the Scottish Public Pensions Agency: Management of PS Pensions project, which was published on 4 October 2018.

2. The Auditor General has prepared a briefing on the key messages from the report which, along with a copy of the report, is attached in the Annexe.

Clerks to the Committee
22 October 2018

2. Scottish Public Pensions Agency (SPPA) is an executive agency of the Scottish Government. Its principal role is to administer and pay pensions for over half a million members, deferred members and pensioners of the NHS, teachers’, police and firefighters’ pension schemes in Scotland.

3. SPPA introduced its Business Transformation Programme 2013-2018 in December 2013. This included a project to develop an integrated pension administration and payment system designed to make efficiencies and help SPPA meet the requirements of the Public Sector Pensions Act 2013.

4. In October 2015, SPPA awarded a £5.6 million contract to Capita Employee Solutions (Capita) to deliver a bespoke pension administration and payment system, due to be operational by March 2017. The project did not progress as planned and in February 2018 SPPA’s Chief Executive decided to close the project.

5. The auditor issued an unqualified opinion on SPPA’s financial statements for 2017/18. In his annual audit report he commented on the implications of the closure of the project. SPPA has not been able to progress its strategic, business and workforce plans as originally intended and planned annual efficiency savings are not achievable.

6. SPPA spent approximately £6.3 million on the project including writing off £1.6 million in capitalised costs incurred on the hardware and software relating to the project. SPPA has forecast significant budget gaps; an estimated additional revenue budget requirement of £9.8 million between 2019/20 and 2022/23 and a total capital allocation of £18.4 million over the next five years to deliver a replacement project.

7. Scottish Ministers were briefed on the funding shortfall before SPPA signed a contract extension with its existing pension administration software supplier. The Cabinet Secretary
for Finance, Economy and Fair Work authorised SPPA's Chief Executive to make the legal commitment.

8. SPPA has extended contracts with existing suppliers of its other pensions systems to ensure that payment of pensions is not affected by the closure of the PS Pensions project.

9. SPPA and Capita are now in discussions to establish if either party bears any responsibility and potential financial penalty for the unsuccessful implementation of the project. In 2019, once the legal process has concluded, I will report on the project implementation arrangements.
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

**Auditor General for Scotland**

The Auditor General’s role is to:
- appoint auditors to Scotland’s central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

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- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
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Introduction

1. I have received the audited annual report and accounts and the independent auditor’s report for the Scottish Public Pensions Agency (SPPA) for 2017/18. I am submitting these financial statements and the independent auditor’s report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

2. The purpose of this report is to draw Parliament's attention to problems with SPPA implementing a major new IT system and the financial implications of the delays.

Background

3. SPPA is an executive agency of the Scottish Government. Its principal role is to administer and pay the pensions for over half a million members, deferred members and pensioners of the NHS, teachers', police and firefighters' pension schemes in Scotland. It also provides policy support to the Scottish Government and local government pension schemes.

4. SPPA introduced its Business Transformation Programme 2013-2018 in December 2013. This included a project to develop an integrated pension administration and payment system designed to make efficiencies and help meet the additional requirements of the Public Sector Pensions Act 2013.

5. In October 2015, SPPA awarded a £5.6 million contract to Capita Employee Solutions (Capita) to deliver a bespoke unified pensions administration and payment system, known as 'Project 17' but subsequently renamed 'PS Pensions'. The aims of the project included replacing existing systems to improve business efficiency, to improve service quality for members, and to make financial savings in the longer term. The new system was to be operational by March 2017.

6. SPPA held extraordinary Audit and Risk Committee and Management Advisory Board meetings in February 2018. Following these meetings SPPA's Accountable Officer, its Chief Executive, decided to close the project immediately. Together with their legal advisors, SPPA and Capita are now in discussions to establish if either party bears any responsibility for the unsuccessful implementation of the project.

7. This report focuses on the implications for SPPA of the closure of the PS Pensions project. I will report on SPPA's management of the project when the ongoing legal process between SPPA and Capita is complete.

The auditor's opinion

8. The auditor issued an unqualified opinion on SPPA's financial statements for 2017/18. The auditor commented on the implications of the closure of the PS Pensions project. The auditor also reported that the closure of the project means that planned savings are no longer achievable.
Implications of the closure of the PS Pensions project

9. SPPA has spent approximately £6.3 million on the PS Pensions project. This includes payments to Capita, staff costs, hardware and the costs of extending contracts with the suppliers of its current pensions systems. SPPA has written off £1.6 million in capitalised assets that will no longer be used, representing all software and hardware associated with the project.

10. The closure of the project means that SPPA has not been able to progress its strategic, business and workforce plans as originally intended. This includes its Target Operating Model (TOM) to deliver future services more efficiently. The delay in implementing the TOM means that planned annual efficiency savings are not achievable. As a result, SPPA has forecast significant budget gaps and estimates that it requires additional revenue budget of £9.8 million between 2019/20 and 2022/23. SPPA also estimates it needs a total capital allocation of £18.4 million from the Scottish Government over the next five years to deliver a replacement project.

11. SPPA briefed Scottish Ministers on the funding shortfall before signing a contract extension with its existing pension administration software supplier. The Cabinet Secretary for Finance, Economy and Fair Work authorised SPPA’s Chief Executive to make the legal commitment.

12. SPPA has also extended contracts with existing suppliers of its other pensions systems to ensure that payment of pensions is not affected by the closure of the PS Pensions project.

Next steps

13. A business case was presented to meetings of the Audit and Risk Committee and Management Advisory Board in April and May 2018 to outline the options available for a new integrated pensions project. SPPA’s preferred solution was to agree a contract variation with its existing pension administration software supplier to deliver an improvement programme and to further extend the contract. SPPA entered into a maintenance and development agreement with the supplier on 6 July 2018. This agreement will run to March 2024.

Conclusion

14. The auditor has highlighted the implications for SPPA of the closure of the PS Pensions project in his annual audit report. SPPA is now in discussions with Capita to establish if either party bears any responsibility and potential financial penalty as a result of the unsuccessful project implementation. Given this, I have not commented on the arrangements for the implementation of the PS Pensions project. I intend to prepare a further report in 2019 once any legal process has concluded.

15. The financial implications of the delay and eventual closure of the PS Pensions project mean that SPPA will require additional revenue and capital budget allocations from the Scottish Government over the next five years.
The 2017/18 audit of the Scottish Public Pensions Agency
Management of PS Pensions project

This report is available in PDF and RTF formats, along with a podcast summary at: www.audit-scotland.gov.uk

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