# The 2013/14 audit of the Scottish Government Consolidated Accounts

## Common Agricultural Policy Futures programme

AUDIT SCOTLAND

Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
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# CAP Futures programme

## Introduction

1. I have audited the Scottish Government Consolidated Accounts for the year ended 31 March 2014 and have given an unqualified audit opinion on these. The accounts include expenditure of £26.8 million on the Futures Programme - an IT enabled business transformation programme to implement Common Agricultural Policy reforms in Scotland. The purpose of this report is to draw Parliament's attention to the costs and progress of this challenging programme, which will continue over a number of years. It highlights the ongoing risks to achieving the successful delivery of the programme and to overall value for money.

2. I submit these accounts and my report (audit opinion) 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.

## Background

3. The European Union's Common Agricultural Policy (CAP) programme provides a system of agricultural support and programmes throughout the EU. It is split into two Pillars: Pillar 1 relates to direct support payments, which are currently worth about £500 million a year to Scotland's farmers, whilst Pillar 2 supports the Rural Development Programme expenditure of around £200 million a year across a range of rural businesses.

4. A new CAP starts in 2015. It includes elements of significant reform from previous programmes. The Scottish Government is developing a new IT system to underpin the effective implementation of the new CAP; this is an important element of an overall five-year business change programme known as the Futures Programme. The programme covers the period from 2012/13 to 2016/17 and has two main elements:
   - Business change - to redesign services and working practices to focus on the customer, and work more efficiently
   - IT programme - to deliver a new IT system to meet the requirements of the new CAP and facilitate these improved ways of working

5. One of the key drivers of the Futures Programme is to minimise the risk of non-compliance with European Commission (EC) regulations. Any failure to meet the EC regulations can have financial consequences. The Scottish Government has estimated that it could incur costs of up to £50 million per year if the IT system failed to deliver the requirements of CAP reform, with risks to future EU funding if payments are not made in accordance with the EC regulations. At the start of the programme the EC regulations, which set out the detail of the reform, were not fully defined.

6. This programme has proved significantly more complex and challenging than the Scottish Government anticipated. The programme team has assessed there is currently significant risk to the programme, arising from the potential late delivery of critical milestones and from

increasing costs. The programme team is implementing an action plan with the aim of managing and reducing this risk.

## Delivery and cost of the programme

7. The business case for the programme was approved by the Scottish Government's Information Systems Investment Board (ISIB) in December 2012. The business case included an outline of what the new IT system would do, and an options appraisal of how best to deliver this. The programme decided to take a partnership approach to contracting. This meant that the contract value was not fixed but would be determined as the detail of the EC regulations, and therefore the full system requirements, became known. Following a competitive tendering process an external supplier was appointed as IT delivery partner in March 2013.

### Programme spend

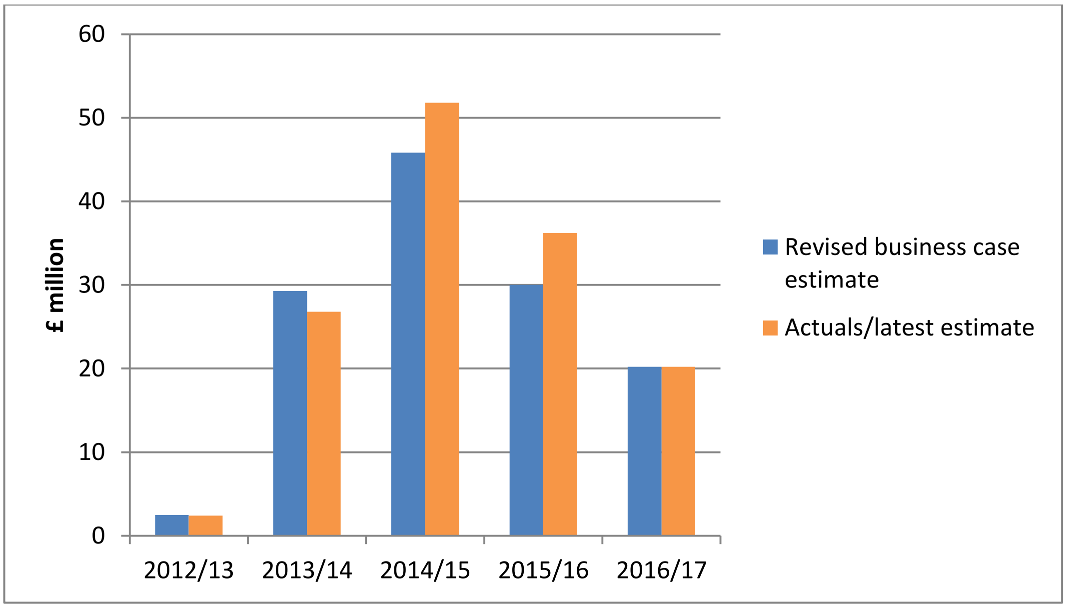
8. The original business case estimated the cost of the programme at £88 million at December 2012. The programme team undertook a major review of the business case in March 2014, reflecting additional information on costs and benefits, and further clarity on the detail of the EC regulations. This most recent update included an increase in the estimated programme cost to £111 million, an increase of £23 million (26 per cent).

9. The largest area of increase between the original business case and the revision is the cost of the IT delivery partner. Originally estimated at £24 million, the cost in the revised business case is estimated at £46 million (excluding VAT), an increase of 92 per cent. The revised business case estimates the full costs of the programme when VAT and inflation are included at £127.8 million. It is expected that the business case will be subject to further review in the coming months.

10. The programme had spent £44.9 million to the end of July 2014. This included £26.8 million in 2013/14, and £15.7 million in the first four months of 2014/15. The most recent budget forecasts show that the whole programme is currently estimated to cost £137.3 million (exhibit 1), a further increase of £9.5 million (7.4 per cent) over the revised business case budget. The Scottish Government manages the aggregate costs of the programme within its overall budget, which will have to accommodate all costs in excess of the original forecast.

**Exhibit 1**

Total programme cost against the revised budget for each year




*Source: Programme Delivery Board paper, 28 August 2014*

## Programme timescales

11. The programme timescales are driven by EC regulatory requirements. Key dates for the programme so far include:

- October 2011 - EC presents proposals on CAP reform.
- June 2013 - High level political agreement on CAP reform at European level.
- December 2013 - Initial regulations on CAP reform are published.
- June 2014 - Cabinet Secretary for Rural Affairs, Food and the Environment announces how CAP reform will be implemented in Scotland, and the EC publishes more detailed regulations.

12. The programme team have set a number of critical internal deadlines to ensure that new EC regulatory requirements are met (exhibit 2).

**Exhibit 2**

Key programme timescales

| Date | Expected event | Risk arising |
|---|---|---|
| May 2015 | Deadline for receipt of applications by farmers and other rural businesses. | Regulatory risk with financial penalties arising from non-compliance. |
| December 2015 | Working target for making payments. | Reputational risk as customers have previously been paid in December. Discussions with key stakeholders have acknowledged that the new complexities arising from CAP reform may affect the usual timetable. |
| June 2016 | EC end deadline for making payments. | Regulatory risk with financial penalties arising from non-compliance. |

*Source: Audit Scotland*

13. Within the next three months the programme team will need to make key decisions on whether the IT system will be ready to manage the application process, or if it needs to implement contingency options. The first part of the system is due to launch to customers by the end of 2014. The success of this launch should give an early indication of whether contingency plans may need to be implemented.

## Programme scope

14. As the programme is working to legislative deadlines the overall timescale cannot extend. However, in a bid to meet timescales and prioritise work, some of the original scope of the business case has now been scaled back.

15. One of the main technical areas no longer to be included in the new IT system, when it is initially implemented, is a new component for mapping registered land. As the project had experienced delays against its plan, the team decided that in the short term it would instead upgrade the current mapping system, a key regulatory control requirement. The programme has incurred costs to modernise the current system, but this investment will not provide all the functionality originally planned. For example, the facility for customers to make changes to maps directly, as initially planned, will not be part of the new system until after 2015.

16. A focus on delivering IT functionality has also meant that other elements of the wider business change strategy have not taken place. For example, the business case included the introduction of more mobile technology for field staff to drive efficiencies in processes, therefore lowering future costs. This remains the aim of the programme, but will not be delivered within the scope or cost of the current business case.

17. The fixed timetable increases the risk to successful programme delivery, which has been compounded by early difficulties. This now leaves little contingency, including time to respond to any outcomes from testing the system, and time to deliver staff training. Rising programme costs accompanied by a more limited scope and benefits increase the risks to the overall value for money of the programme.

## Difficulties experienced

18. The programme has experienced continuing difficulties since the start. The programme team has commissioned a series of independent assurance reviews. The latest report in May 2014 concluded that significant changes to the programme arrangements were immediately required if successful delivery was to be achieved.

19. The key themes emerging from the independent assurance reviews included:

- **Insufficient capacity and capability**. This has been an issue raised repeatedly in the independent assurance reports, in relation to different skillsets including:
  - Programme management experience, especially at senior level
  - Commercial and contract management skills
  - Specific ICT skills, e.g. specialist programmers.
- **Lack of programme plan and critical path**. This has been a consistent difficulty from the start of the programme, with delays in establishing an overall plan of the whole programme from start to finish. The current plan is detailed up to May 2015 and a high level plan exists up to December 2015, but more detailed planning is still to be developed for the remaining programme period. Programme planning has been made more difficult by the delay in notification from the EU of the exact regulatory requirements.
- **Integration of the whole programme and lack of consistent approach**. The programme is very large and complex with two main streams, the development of the IT system and the implementation of significant business change. It has proved difficult to fully integrate the two elements, and there have been some inconsistencies of approach, for example project management and risk management. Governance arrangements have been subject to continued change.

20. These themes are very similar to those raised in our 2012 report on *Managing ICT contracts.* This report highlighted the lack of specialist skills and experience and the detrimental impact on the ICT programmes. It also highlighted that core programme management activity should be a focus, including governance structures, monitoring costs and progress reporting.

## Management action

21. Following the last independent assurance report in May 2014 the Programme Board established a corrective action plan setting out immediate actions aimed at quickly improving delivery confidence. A rapid support team was established to provide support and advice to programme leadership. The action plan was agreed at the start of July 2014, with progress

being reported to each Programme Board meeting. There are four main themes to the actions:

- **clear and appropriate governance** - including scope, reporting and assurance
- **a complete and integrated structure** - including filling vacancies, roles and responsibilities, and accountability
- **a plan for successful delivery** - including programme plan, critical path, contract management, and contingency planning
- **the right culture** - including team values, risk and quality management, and good communication.

22. There is evidence of progress against the action plan, including implementing a revised governance structure and filling some critical posts, including a Programme Director, a new IT Director, and a Chief Technology Officer. The programme team has faced difficulties recruiting staff with the right skills and this remains a problem for some posts. The team has introduced new supplier performance measures, including a balanced scorecard, to help monitor and challenge supplier activity. The programme team is also actively investigating contingency arrangements to ensure that it minimises the risk of missing key regulatory requirements.

23. Management consider that these actions are reducing the risks to the programme, but it is too early to see if these actions will result in an improvement in the delivery confidence of the programme. The programme team are fully aware that the programme will continue to face risks up to implementation and beyond, and understand that substantial effort is required to fulfil the action plan and secure delivery.

## Conclusions

24. Delivery of the CAP Futures Programme will carry significant risk right up until implementation and beyond. The Scottish Government has recognised this and has embarked on a range of actions to strengthen its management of the programme. If the programme ultimately meets regulatory requirements, this would avoid significant financial consequences. Nevertheless it will not deliver the full scope and achieve all of the benefits originally planned, and it will come at increased cost. This means that there are ongoing risks to achieving the successful delivery of the programme and to overall value for money.

25. We will keep progress with the Futures Programme under review. We are planning a follow-up report on our *Managing ICT contracts* report, which we will publish in Spring/Summer 2015 and will look at how public bodies have responded to the report, and the key problems encountered. As part of this process we would provide a separate update report on the Futures Programme by June 2015.