The 2017/18 audit of the Scottish Public Pensions Agency

Management of PS Pensions project

AUDITOR GENERAL

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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.

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