



OFFICIAL REPORT
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Public Audit Committee

Thursday 29 September 2016

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Pàrlamaid na h-Alba

Thursday 29 September 2016

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PUBLIC AUDIT COMMITTEE
4th Meeting 2016, Session 5

CONVENER

*Jenny Marra (North East Scotland) (Lab)

DEPUTY CONVENER

*Alison Harris (Central Scotland) (Con)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)

*Liam Kerr (North East Scotland) (Con)

*Monica Lennon (Central Scotland) (Lab)

*Alex Neil (Airdrie and Shotts) (SNP)

*Gail Ross (Caithness, Sutherland and Ross) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Antony Clark (Audit Scotland)

Gemma Diamond (Audit Scotland)

Liz Ditchburn (Scottish Government)

Fraser McKinlay (Audit Scotland)

Gill Miller (Audit Scotland)

Edward Mountain (Highlands and Islands) (Con)

Mike Neilson (Scottish Government)

Jonathan Pryce (Scottish Government)

Tavish Scott (Shetland Islands) (LD)

CLERK TO THE COMMITTEE

Terry Shevlin

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Public Audit Committee

Thursday 29 September 2016

[The Convener opened the meeting at 09:01]

Decision on Taking Business in Private

The Convener (Jenny Marra): Good morning and welcome to the fourth meeting of the Public Audit Committee in session 5. I ask all those present either to switch off their electronic devices or to switch them to silent mode so that they do not affect the committee's work this morning.

The committee is invited to agree to take items 4 and 5 in private. Item 4 is consideration of the evidence received under agenda item 2 on the report "Supporting Scotland's economic growth: The role of the Scottish Government and its economic development agencies", and item 5 is consideration of the evidence received under agenda item 3 on the report "Common Agricultural Policy Futures programme: an update".

Do members agree to take those items in private?

Members *indicated agreement.*

Section 23 Reports

"Supporting Scotland's economic growth: The role of the Scottish Government and its economic development agencies"

09:02

The Convener: Item 2 is evidence on an Auditor General for Scotland report. I welcome to the meeting from Audit Scotland Fraser McKinlay, director of performance audit and best value; Antony Clark, assistant director; Gemma Diamond, senior manager; and Gill Miller, audit manager. I invite Fraser McKinlay to make an opening statement before I open up the meeting to questions from members.

Fraser McKinlay (Audit Scotland): Thank you and good morning. I will make a brief opening statement and then, as ever, we will be very happy to try to answer your questions as best we can.

I am delighted to present to the committee the Auditor General's report "Supporting Scotland's economic growth". The report reviews the arrangements that are in place to support Scotland's economic growth; it focuses in particular on the roles of Scottish Enterprise and Highlands and Islands Enterprise, which together have a specific remit to support economic growth across the whole of Scotland. The report provides an overview of the landscape in which the enterprise bodies operate and assesses how they support development and delivery of the Scottish Government's economic strategy.

I will summarise the findings under two main headings: first, the wider arrangements and framework for supporting economic growth and then, more specifically, the role of the enterprise bodies. Before I do that, it may be worth reflecting on the fact that a lot has happened since we published the report in July. Obviously, we knew about the Brexit result at the time of publication, but Brexit is more to the fore now than it was when we did the audit work. Also, we have a new programme for government. Those points make the report's recommendations even more important, if anything, than they were when we did the report.

The starting point for the audit was to look at the Government's economic strategy, because that is what determines the enterprise bodies' plans and activities. As members would expect, the strategy is a high-level document that sets out the Government's approach to achieving its overall purpose of sustainable economic growth. However, the Government does not set out in its strategy or elsewhere how its various economic policies and initiatives will be implemented. It is

important that the Government be clear on how it will achieve its ambition of sustainable economic growth. In that sense, the “how” is as important as the “what”.

We absolutely recognise, though, that supporting economic growth is complex; it is not straightforward for many reasons. First, a number of factors influence the economy, many of which are outside the control of the public sector—the worldwide downturn in oil and gas, which has, as members will know better than I do, affected many communities across Scotland, is one such example.

We also found that a high number of organisations and partnerships are involved in planning and delivering economic growth activities, which can be confusing for businesses and other customers that are trying to access support. We recommend that the Scottish Government and its partners clarify the roles and responsibilities of all the bodies that are involved, and that they raise awareness of the activities and support that are available.

As I said at the outset, the context for supporting economic growth is continually changing. Public sector economic strategies and interventions have to respond to, and be appropriate for, the economic climate, whether during periods of recession, growth or uncertainty. New financial powers for the Parliament and the United Kingdom’s exit from the European Union will undoubtedly influence how the Government takes forward economic growth in the future.

Taking all that into account, we recommend in the report that the Scottish Government strengthen its approach to developing, delivering and monitoring the strategy. That includes developing clear timescales and actions and setting out specific responsibilities for public sector bodies. Importantly, we recommend, too, that the Government review progress against those to ensure that the actions are effective and are making a difference, and that the strategy remains relevant and fit for purpose.

Finally, we found on the whole that Scottish Enterprise and HIE are performing well. Their business plans and activities are based on a wide range of evidence and each of the bodies has a good understanding of how to respond to opportunities and challenges in its respective area. We found good examples of the enterprise bodies working well with partners to achieve a real difference, and we found that their customers are largely satisfied with the support that they receive.

As ever, we identified some areas for improvement. Both bodies offer similar support that is tailored to the needs of their customers’ environment, but there are lots of different

arrangements for delivering the support, and the rationale for those different arrangements is not always clear. We found that there is scope for them to deliver some activities more efficiently—for example, their support to growth sectors.

Although we found that the enterprise bodies are performing well against their individual performance measures, it is much more difficult to measure their contribution to the national outcomes. It is important that the Government understands better the contribution that the enterprise bodies are making individually and collectively to the economic strategy, and to the economic growth targets more widely.

Finally, the committee will know that the Scottish Government’s skills and enterprise review is under way. We understand that the review will now be done in two phases. We will take a close interest in its outcome; we have said in our report that we hope that it offers the opportunity to take forward some of our recommendations.

As I said at the outset, I am very happy to take questions and to help the committee this morning.

The Convener: Thank you very much, Mr McKinlay. Liam Kerr has the first question.

Liam Kerr (North East Scotland) (Con): I have just a couple of questions at this stage. I will come back in later, if there is time.

The report mentions throughout that

“The full range of public sector support for businesses is not known which creates a risk of duplication and inefficiency.”

Are you able to give us more detail on that and on what, on a practical level, can be done or is being done to address it?

I represent North East Scotland, which is covered by Scottish Enterprise. You talked about support being tailored to the needs of the environment—the north-east has some very big cities, but it also has some areas that are more akin to the Highlands. Can you comment on how Scottish Enterprise is addressing that issue, if it is, and will it be able to do so in the future or is there a better way to do things?

Fraser McKinlay: Thank you. I will take the first question first, and then ask the team to come in. On the point in our report about the full range of support, we recognise in the report that there is a lot of very good activity across both bodies and in other places. We do not touch so much on local government in the report, but clearly it is also an important part of the story, particularly in respect of the business gateway.

Our observation is that we could not find anywhere that the totality of the support that is on offer to business is captured, so we do not really

know what collective support there is. Some work was undertaken a while back, but it did not progress. We think that it would be helpful for the Government and the enterprise bodies, in particular, working with other partners, to do a mapping exercise in order to understand what is being made available, and so that we can assure ourselves that, where similar services are being delivered in different ways, that is happening for a good reason and not just for historical reasons. When we asked people questions on that, the response was sometimes, "It's always been done that way." For us, that is always a good indication that we should check whether the approach still makes sense.

Gemma Diamond (Audit Scotland): We noted that, because there are so many different levels of support on offer, an attempt has been made to bring all the forms of support together on the Scottish Government's new website, mygov.scot, but given that there are more than 600 funding streams, it is extremely difficult for a business to navigate its way through that. We should make sure that the Government keeps the business in mind and thinks about what support that business might want. A business will not necessarily know what the structure is or whom to turn to. It should be able to make its way through the process and to find out about the totality of what is on offer, rather than having to know whom to turn to.

Antony Clark (Audit Scotland): We make it clear in the report that economic development activity operates at national, regional and local levels, and we highlight the challenges and the opportunities of the introduction of, for example, city deals in places like Aberdeen. The roles of the parties in city-deal activity need to be worked through. We are aware that such issues are being considered by the Government in its review.

Fraser McKinlay: I will turn briefly to Mr Kerr's second question about the north-east and Scottish Enterprise. We did not set out to comment on the structure of the enterprise landscape—which, for us, includes the geographical split—nor is it our place to do that, although we highlight the fact that there are some areas where there is overlap between Scottish Enterprise and Highlands and Islands Enterprise.

Our sense is that in the north-east Scottish Enterprise has—as it has everywhere—a pretty well established mechanism for trying to understand what the big issues are, what the high-growth sectors are and where the big opportunities lie, and it supports that. However, there is, as we say in the report, no doubt that the roles of Scottish Enterprise and HIE are different; they are similar in many ways, but HIE also has a role in community development. I guess that that is something to reflect on in relation to the more rural

parts of the north-east and, for that matter, some of the more rural parts of lowland Scotland, which SE looks after, too.

Monica Lennon (Central Scotland) (Lab): There is a lot in the report to be positive about, and I welcome that, but I am very mindful of the fact that a huge amount of public money—£2.2 billion—is being delivered to the five strategic partners. I am quite surprised by the fact that we do not have an agreed definition of economic development—albeit that we have the high-level goal of delivering sustainable economic growth. To what extent does the fact that there is no agreed definition of economic development activity present a problem? It comes across in the report that it is extremely difficult to get a picture of the full landscape of support and of exactly where public money is going. What do you think about that lack of clarity?

Fraser McKinlay: You will appreciate that sometimes, as auditors, we seek clarity and simplicity. We genuinely understand that the landscape is not simple or straightforward, and I do not think that we are recommending that we should spend for ever coming up with a definition of economic development. However, it is important that we have a better and agreed understanding of how much money is spent on such activity. We think that there is a bit of a gap between the overall strategy, which is sound, and the enterprise agencies having a clear idea of what they are doing. We need to think about how we make the connections between those two things.

If we are spending £2.2 billion on the five agencies that the Government has said are key to economic growth, we can do more to understand better how that contributes to the new economic strategy and "the four Is" that we talk about in the report. Therefore, a definition of economic development is important only as a means to an end. I would not want to engage in a theoretical exercise to define economic development. The purpose is to understand how the money is being spent in order that we can ensure that we are making most progress and getting best value for that £2.2 billion.

09:15

Alison Harris (Central Scotland) (Con): I, too, think that the report is very good, but something sprung to mind. There seems to be a lot of emphasis on where the five agencies and the £2.2 billion are involved in the city deals. Is it a matter of raising awareness of the fact that those five agencies are available to the places that will not be part of city deals? I am conscious that they are sort of left by the wayside.

Fraser McKinlay: On whether it is about raising awareness, people are involved in the city deals, region deals and growth deals. Many different versions are growing up; in fact, I note that there is some stuff in the papers today about the Ayrshire deal and the Diageo plant in Kilmarnock. A huge amount is happening. What is important is maybe not so much awareness, but understanding the role of the five bodies in the new world of city deals, city region deals and such things, because they are very new, as the committee knows.

The funding in city deals is complex. Glasgow has the most well-advanced deal, but lots of other variations are coming through, as I mentioned—for example in Ayrshire, Stirling and Tayside. There is a job to be done in figuring out what role—if any—the strategic forum partners have in the city deal framework. That needs to be done quite quickly, because the city deal experience, or movement—if that is not too grand a word—is gathering momentum and pace, and it is really important that we understand how the deals contribute to the overall strategy and the role of the strategic forum partners.

Alison Harris: That is okay, but I really meant raising awareness in areas that are not involved with the city deals. Basically, I am looking to get a little more value for those areas. Where would that value be?

Fraser McKinlay: I am happy to share with the committee an interesting wee bit of work on city deals that we did a while ago. It turns out that not many council areas are not involved in some kind of city deal—although obviously they are at very different stages of development. However, there is absolutely a question, which Alison Harris has raised, about ensuring that no parts of the country are left behind. That is part of ensuring that—in relation to Scottish Enterprise and HIE, which have a specific job—parts of the country that are not in regional growth deals, or whatever we want to call them, understand why. Is it just because they have not got involved, or is there a good reason for that? It is about ensuring that good support is in place.

Antony Clark: I endorse that point. It is important to ensure that places are not left behind.

Alison Harris: Thank you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): The first comment that I want to make about the report is one that I have made before about reports. There is a lot of repetition in it. There must be a way to trim reports back by not having them continually repeat certain facts.

Have the Scottish Government and the enterprise boards accepted your recommendations in the report?

Fraser McKinlay: That is a question that the committee might want to ask, Mr Beattie. As you know, we go through a process of factually clearing reports to ensure that the facts in them are clear. We do not necessarily expect the Government to write to us formally to say whether it accepts the report, but we keep an eye on whether recommendations are being implemented.

I know that you asked the chief executive of the national health service the same question in an earlier evidence session. From our perspective, it is helpful to get that on the record.

As ever, it is rarely a case of the Government saying yes or no to all the recommendations. There is a lot in the report, and it is entirely legitimate to have a bit of a discussion about the recommendations. That said, we have not received any allergic reactions to them. Nobody has thrown up their hands in horror and said, “No, we can’t possibly.” Therefore, we are operating on the basis that we would expect the recommendations to be implemented.

Colin Beattie: Convener, maybe we could write to the Government and to the enterprise boards and ask them whether they have accepted the recommendations that have been made.

The Convener: Yes.

Colin Beattie: I am looking at paragraph 41 of the report. Fraser McKinlay mentioned Brexit and the EU. The paragraph clearly indicates that EU funding is very important to us. Will you be following up on that? I do not mean Brexit in its totality, because that is rather a big picture, but on specific issues such as the ones that you have highlighted in your report. Will you keep those issues on your radar and follow them through?

Fraser McKinlay: Yes, very much so, Mr Beattie. It is a big focus of work at the moment. I will not bore you with the detail, but Audit Scotland has a team in place that reports to the new financial powers and constitutional change board. We already had a board for the new financial powers for Parliament, because that is core business for us, but with the decision on the EU, we have added constitutional change to its remit. As you say, our focus will be primarily on the impact on the money—what is coming in from the EU, what happens to it and, importantly, what the impact will be on public bodies and services. Therefore, the issues will very much be front and centre for our work during the next wee while.

Colin Beattie: Good. I am looking at paragraph 79 of the report, which touches on the question of why things are done the way that they are and why forms of support are done jointly, on behalf of the other body or separately. It seems to me a bit odd that you do not know why. Other than the fact

that it has always been that way, were there any other indications?

Fraser McKinlay: There is a bit of a mix. Some matters are clearer. In relation to some of the newer services—I refer you to some of the preceding paragraphs, particularly 77 and 78—there has been a clear decision for one agency rather than the other to take the lead. There are good reasons and sound rationale for that. However, in other cases, it really is a matter of things being how they have always been done. The organisations come in various guises, have been around for quite a long time and have developed their own ways of working. We are saying that the on-going review gives us a great opportunity to take stock of all that, to make sense of the situation, and to at least ensure that how it is currently done makes sense.

Our sense is that there probably is an opportunity to do things more efficiently and to join up in some places. Although there are differences in the areas and the contexts in which the bodies operate, there are also quite a lot of similarities. We hope that an outcome of the review might be how we can join up some of those matters more effectively.

Colin Beattie: There must be efficiencies to be achieved that the bodies should be achieving.

Fraser McKinlay: Yes, you would hope so.

Colin Beattie: Overall, the report is very positive. You comment:

“Scottish Enterprise and HIE have performed well against their agreed performance measures”.

However, I was interested in paragraph 96, which says:

“Although performance targets in each of the last five years have mostly been exceeded, the Scottish Government has not challenged the enterprise bodies to increase their annual targets.”

Does that mean that targets are too easily achievable?

Fraser McKinlay: This is probably an area where auditors could be accused of being a bit mean and never being pleased because if the Government had not been meeting its targets, I am sure that we would have had something to say about that, too.

All we are saying is that, in a world in which the Government has for quite a long time been exceeding targets, it is reasonable to ask whether it is sure that the targets are challenging enough. That is the point that we are trying to make in paragraph 96. It is good practice to review your objectives and targets anyway, but if you consistently exceed them—in some cases by some margin—it is reasonable to ask that

question, just to check that they are stretching and challenging enough, given the scale of the economic challenge that we have ahead of us.

Colin Beattie: In various places in the report you have commented on the difficulties in measuring economic activity and the achievements of the investment that has been made. In paragraph 113 you say that Scottish Enterprise has

“a model to measure the overall impact of its activity”.

Maybe you could fill us in on that one.

Fraser McKinlay: Sure. I will kick off, then I will ask the team to come in. We are trying to make the point that, individually, the bodies have quite good systems in place to do exactly that. The connection between what they are doing and the delivery of the economic strategy and the outcomes that are in the national performance framework are the bits of the system that need to be looked at.

Gemma Diamond: Absolutely. We looked at the enterprise agencies, which do a lot of evaluation work to determine what is and is not working and how they can change what they do. In particular, Scottish Enterprise has developed a model for its impact. However, there is no way to assess the agencies’ collective performance, so there is no way of looking at common performance measures so that the Scottish Government can see what is being achieved by the two enterprise agencies. Again, there is a gap in the sense that we do not know how the performance of the enterprise agencies contributes to the national performance framework. We recommend that steps be put in place so that we can see more clearly how the enterprise agencies’ activities contribute towards the outcomes of the national performance framework.

Colin Beattie: That makes it a lot clearer. We know what the activities of the individual agencies are and what they are contributing—it is not as if we have a blank space there.

Gemma Diamond: No.

Colin Beattie: It is just that we do not know how the activities feed into the national performance framework.

Fraser McKinlay: That is it exactly.

The Convener: Gail, do you want to come in?

Gail Ross (Caithness, Sutherland and Ross) (SNP): I asked you a question at another committee about the renewables investment fund.

Gemma Diamond: Yes, and we are gathering information on the renewables investment fund for you. We will provide information to you on what money was and was not spent on that.

Gail Ross: Thank you.

Monica Lennon: I have a further question on Scottish Enterprise, with regard to paragraph 87 of the report. You have not made any comment on Scottish Enterprise's performance, so perhaps it is acceptable. However, you referred in paragraph 87 to investment risks and stated that

"a return on investment has been made on 20 per cent of completed investments".

Do you have a view on whether that represents a good performance and good value for the public purse? You also stated that write-offs were in the region of £39 million, which looks like a lot but perhaps you can put that in some context for us.

Fraser McKinlay: Again, I will kick off, then ask the team to come in with some detail. The starting point is to remind ourselves that the point of having state enterprise agencies is for them to get involved in risky things, otherwise we would not have them. We therefore always expect there to be a greater number of things that do not work in that area because the enterprise agencies' job is to intervene when the market will not. In that sense, it is quite difficult to assess whether the agencies' performance is good, bad or indifferent, because they operate in a risky environment. The team might have some detail to add.

Gemma Diamond: We wanted to ensure that the agencies had processes in place to enable them to assess the levels of risk that they were entering into and that the governance arrangements had the right approvals in place so that they knew that they were entering into a riskier investment, had discussed the risks and opportunities, had board-level approval and were keeping an eye on the investment and any additional support that was needed to make the best of it. We saw that the enterprise agencies do have good governance and risk management processes in place that allow them to take the risky decisions that they sometimes need to take, in a well-managed environment.

Monica Lennon: Thank you.

Alex Neil (Airdrie and Shotts) (SNP): I want to draw out the difference between operational performance and impact, because I think that the report gets mixed up about the difference between the two and uses phraseology interchangeably, which is not appropriate. For example, the report states that the enterprise agencies have assisted 11,200 businesses. If I assist a new-start business to expand in an area—let us say that it is a printing works—and one of the effects of that is simply to make people redundant in another local business that has been running for, say, 30-odd years, the net impact of my intervention will be a lot less than the impact of the help that I gave to the new-start business.

It seems to me that there is no indication in the report about the displacement impact of interventions—for example, what the dead weight was and whether that would have happened anyway without the intervention of the enterprise agency. If it would have, why are we spending public money on it?

What was the added value of, say, account-managed companies? How much more did they grow than they would have done without the support that they received? We cannot measure value for money until we know the net added value of the intervention. That is not performance per se; performance is about throughput—the number of businesses assisted, the number of businesses account managed, the number of inward investment projects and the estimated value of those projects, and the number of jobs created. Some of those are about performance and impact. With jobs, for example, we would be looking at net jobs, not gross jobs. I do not think that that really comes out here. At the end of the day, we are about measuring value for money, which is based not just on the operational performance—it has to be on the net impact.

At a higher level, we are spending the guts of £400 million on enterprise support and related activity—

The Convener: Is this a question, Mr Neil?

09:30

Alex Neil: Yes, it is.

Let us suppose that we considered spending £100 million of that £400 million on transport infrastructure investment instead of enterprise support. Would we get a far bigger bang for the buck? I think that what you are saying is that no one is asking that question, let alone giving us an answer, before budgets and targets are being set.

I have two issues. One is the difference between operational performance and impact—it is impact that really matters—and the second is the opportunity cost of spending the money in other ways that would boost economic growth more than what is happening.

Fraser McKinlay: Particularly on your second point, it might have been better if we had said what you have just said, because that is our point. When we talk about understanding how much is spent, reviewing the impact and being clearer about milestones and measures, it is exactly that kind of discussion. How do we know that spending nearly £400 million in this way, on these things, in pursuit of the economic strategy and the outcome is good value, and indeed better value, than spending it in a different way? Your point gets right to the heart of the difference between measuring

inputs and outputs and measuring outcomes. I know that that is very jargony—it is easy for us to glaze over—but it is really important. The input and output measures are helpful and tell us so much, but so what? What difference does it make? We say in the report that that aspect could be better.

One of our recommendations—again, we could probably have worded this more clearly—is that it should be made clear whether the support to individual businesses or involvement in task forces continues to add value. That is the point that we are trying to make. How do we know that the support that has been provided, either to a sector or to an individual business, is adding value?

Your question about what would have happened if we had not done this is a difficult one to answer. It is a fair question but it is quite tricky to construct an evaluation framework that would allow us to answer it meaningfully. There is always an element of that. Of course support must be based on good evidence, and of course there has to be sound process but, at some point, a judgment has to be made that this business—as opposed to another business—is worth backing.

Gemma Diamond: The enterprise agencies do a mixture of both. They have their performance measures, which are sometimes the output measures, but they also do a lot of evaluation work. They look at specific interventions and, in the evaluation at a local level, will specifically consider additionality, displacement and all those other factors. Scottish Enterprise in particular publishes all the evaluation work that it does on a separate website, so you can go in and see what work it has done.

As Fraser McKinlay mentioned, it is about the wider, whole-system impact. The enterprise agency can do that evaluation work, but it is more important for all the agencies that are involved to come together to look at the wider impact—

Alex Neil: Can I just pick you up on that point? Before I became an MSP, I was involved in designing evaluations systems for Scottish Enterprise and Highlands and Islands Enterprise, based on Treasury guidance and so on. The purpose of the evaluation methodology was to identify the contribution of Scottish Enterprise or Highlands and Islands Enterprise; it was not to identify everybody's contribution.

Why can we therefore not gross up or use their work as an indicator? To be fair, I think that it is a robust indicator of what they believe to be the net added value of their intervention as agencies. Okay—it would not be a perfect system, but if you were to add up the estimated net added value, surely you would begin to get a picture of the combined estimated added value of the agencies.

Gemma Diamond: Absolutely. The agencies are not starting with a blank sheet of paper; a lot of good work is going on, and it is simply a case of joining things up so that that can be seen. The environment is very complex; indeed, we found a lot of very complicated partnership-working arrangements on the ground, which, although they worked, highlighted the need for consideration of how things might be added together. Certainly there is the basis for a system that we think can be built on to help us put in place a better measurement of impact.

Fraser McKinlay: Part of the challenge, Mr Neil, is that not all agencies have as well-developed models or ways of doing things as Scottish Enterprise or HIE. After all, that, in a sense, is their core job.

One of the points that we are making brings us back to definitional issues with regard to economic development. The Scottish Further and Higher Education Funding Council obviously does lots of things with regard to with universities and colleges. However, although that makes a contribution to economic development, it does not evaluate in those terms and in a way that would allow us to add such things up.

Alex Neil: So might there be a case, then, for having within Government a central evaluation unit that would carry out all the evaluation, including that of Scottish Enterprise? Would that not get consistency and robustness into the methodology right across the board?

Fraser McKinlay: Our recommendation is that Government needs to think about how it does exactly that.

The Convener: Why has Scottish Enterprise to date not been measuring its contribution against the national performance framework?

Fraser McKinlay: I will again ask the team to come in here, but I would not say that Scottish Enterprise does not do that work at all. It is attempting to connect what it is doing with the outcomes framework, but our challenge is that what it does is perhaps not—what is the word?—specific, accurate or meaningful enough, particularly with regard to the relationship between the new economic strategy, which was published last year, and the outcomes in the national performance framework. I guess that what we are saying is that there needs to be more rigour and more of a specific attempt to do that sort of work. Is that fair, team?

Gemma Diamond: The individual enterprise agencies try to map their outcomes against the national performance framework, but that very much happens from the bottom up. We want to be able to look at particular outcomes and indicators in the national performance framework and see

which public bodies are making a contribution in that respect and the kind of contribution that is being made. That would mean that, if an indicator moved, we would know which public bodies had had the most impact in making that happen, and that is what we are not seeing at the moment. Public bodies align themselves with the national performance framework and its outcomes, but only on an individual basis, and we want a more coherent picture of how the bodies join together in that respect.

The Convener: Colin Beattie asked about performance targets. The report says that Scottish Enterprise exceeded those targets, but who sets them?

Gemma Diamond: The enterprise agencies set their priorities and performance targets in their business plan each year, which is all agreed with the Scottish Government. The Government signs off that business plan at the end of the year to show that it agrees with the priorities and performance measures that have been set.

The Convener: So the only external audit of their performance is that which is carried out by Audit Scotland and this Parliament. Is there any other external scrutiny of their performance?

Fraser McKinlay: As we have described in certain parts of the report, there are elements of external input to individual bits of work and how they are done. That is important. However, one of the reasons why we were very keen to do this piece of work is that it has been a while since we looked at the totality of the role of the enterprise bodies and their contribution to the Government's stated objectives and outcomes. Our job is to bring this to Parliament to help you do your job and ask these kinds of questions of the whole system, if you like. It is not that there is no independent challenge or external input—there is—but what we are trying to do today is to give you a whole-system look.

The Convener: A couple of weeks ago, I visited the Dundee hub of the developing the young workforce programme, which is tasked with implementing the recommendations of the Wood commission, and the people there told me that they were undertaking a mapping exercise of all the available economic support. Then I read paragraph 36 on page 18 of your report, which says:

"Scottish Enterprise, HIE and councils attempted to identify the public sector support that was available for businesses to pinpoint any duplication or gaps. They did not complete this exercise due to the complexity of all the bodies and initiatives involved."

How can the developing the young workforce team of five in Dundee do a mapping exercise of public economic support when Scottish Enterprise

cannot complete the task because it is too complex?

Fraser McKinlay: That is a good question. First, we would be delighted to speak to our developing the young workforce colleagues to see whether there is anything that we have pulled together in the audit that would help with that piece of work. It would be a helpful and important piece of work, especially given the intended audience. In a sense, it is a mirror image of the work that was attempted.

Given that the whole point of that exercise was to try to understand the complexity, it seems slightly odd to say, "Well, it was all too complex, therefore we did not finish it." That is why we have recommended that there is a piece of work to be done in that respect.

The Convener: There certainly is. The developing the young workforce agenda is not mentioned in your report, perhaps because it is new. However, I do not think—correct me if I am wrong—that business gateway is mentioned in the report either. I presume that that is because it has been devolved to local authorities, but it is part of the overall landscape with which it sounds as if Scottish Enterprise is still struggling to come to terms.

I have another question on account management. It says somewhere in your report that some account-managed businesses said that they were not sure why they were even account managed any more. Can you give us a bit more detail on that?

Fraser McKinlay: Again, the team will help me with the detail. Account management is interesting, and we refer in the report to the need to better figure out when Scottish Enterprise exits an account management relationship. There are pretty good procedures, processes and evidence in place to identify in the first place the potential high-growth businesses that would require to be account managed, but there is a question around the point at which such organisations are able to stand on their own two feet and do not need to be account managed any more.

It was interesting to us that some businesses—although by no means all—said that they were not sure why they still received account management. It was not clear to us whether there was a good reason for that or whether it was because we were just keeping going. There may be some industries in some parts of the world that are so critical that one might want to continue with account management, even if a business appears to be big or well-established. In other areas, one might have to think about whether the time, effort and money could be better used somewhere else. The key point in our report is the need to be clearer around

how and when Scottish Enterprise exits the account management relationship.

The Convener: It strikes me that, if a business is wondering why it is still account managed, that is a problem in terms of reviewing public spending.

Going back to the point about performance and scrutiny, you allude to the situation in Northern Ireland, which you note has quite a good way of assessing its agencies and the economic impact. Can you draw some comparisons?

Fraser McKinlay: Gill Miller may want to say a wee bit about Northern Ireland.

Gill Miller (Audit Scotland): As part of our exercise of looking at the Scottish Government's arrangements, we were looking at what other organisations did, and we came across the Northern Ireland example, which we thought was best practice. Northern Ireland clearly sets out on its website how the strategy has been developed, what the evidence base is, what the stakeholder feedback is and how that has contributed to the development of the economic strategy. The strategy consisted of high-level documents, similar to the Scottish Government's work. However, underpinning that economic strategy in Northern Ireland was a detailed action plan that set out clearly the roles and responsibilities of all the public bodies.

As we have said, all public bodies have some role in contributing to economic growth, but Northern Ireland sets out clearly who is responsible for what, when the action will take place and how it will be measured. A year down the line, the action plan will be reviewed to see whether individual bodies have done what they were meant to do, look at the impact that the strategy has had, and consider what that will mean for the economic strategy as a whole and whether it needs to evolve. We thought that that was good practice—it was a good example of how to measure how well the economic strategy is being implemented.

The Convener: Is it one of your recommendations that we adopt a similar robust approach here in Scotland?

Gill Miller: We do not specifically recommend that the Scottish Government adopts that approach, but we think that it should consider taking on board those elements of good practice.

The Convener: I have one last question. Case study 2 in the supplement 3 document is the Dundee central waterfront project. The document states:

"The EIA estimated that for every £1 invested by Scottish Enterprise, £16 would be generated for the Scottish economy."

Can you tell me how that is calculated?

Gill Miller: Before Scottish Enterprise or Highlands and Islands Enterprise make any investment, they carry out an economic impact assessment to look at areas that we mentioned earlier such as additionality, dead weight and the added value that they believe will accrue if they make that investment. That is normally undertaken either by Scottish Enterprise's in-house economic team or by external consultants.

We reviewed those economic assessments to see what the impact would be. We did not audit them, because we are not economists. We were not in a position to be able to say whether the assessment was correct or incorrect. We were simply checking to ensure that the agencies had undertaken that exercise prior to making the investment.

The Convener: In case study 2, you state that Dundee's productivity will rise

"to Scottish levels by 2020".

How is that worked out? I hope that it is absolutely true.

Antony Clark: I cannot give you a specific answer to that question, but it is one of the criteria that are assessed when Scottish Enterprise is developing its investment decisions. We can probably provide you with further written information on that following the meeting, if you would find it helpful.

The Convener: That would be helpful. As there are no further questions on the report, we will move on. I thank the witnesses very much indeed—your evidence has been very useful.

09:46

Meeting suspended.

09:50

On resuming—

"Common Agricultural Policy Futures programme: An update"

The Convener: Item 3 is our evidence session on the AGS report entitled "Common Agricultural Policy Futures programme: An update". I welcome from the Scottish Government Liz Ditchburn, director general economy; Jonathan Pryce, director for agriculture, food and rural communities; and Mike Neilson, director of digital. I understand that Liz Ditchburn has an opening statement.

Liz Ditchburn (Scottish Government): Thank you for the opportunity to present evidence to the committee.

At the outset, I pay tribute to two groups of people. First, I pay tribute to the farmers and crofters who have had to cope with delays and significant uncertainty with their 2015 payments. As a Government, we have not delivered the level of service that people should be able to expect. The Cabinet Secretary for Rural Economy and Connectivity has already apologised for that, and I repeat that apology.

Secondly, I recognise the many staff in the Scottish Government, both in area offices and in Edinburgh, who have worked tirelessly to try to recover the situation. The commitment and perseverance shown by staff are humbling.

The Audit Scotland report makes for very challenging reading. The findings are critical and the report makes important recommendations. Earlier this month, the cabinet secretary confirmed to Parliament that the Government has accepted the recommendations in full and has published its formal response to the report.

I took up post as director general on 1 May this year. From the start, the permanent secretary made it very clear that getting the programme back on track was critical. She asked me to look at it as an immediate and urgent priority, and it has remained my top priority throughout the summer.

The Audit Scotland report covered progress up to April. I will lay out some of the most important developments since then. Many of those have their roots in actions that were taken in the first few months of the year, but others have been put in place more recently.

We now have additional senior capability in the main contractor and in the Scottish Government. Responsibility for information technology delivery is firmly back with the contractor and stronger commercial management of the contract is in place. We have strengthened and rationalised governance arrangements, and we have tracking and monitoring information on payments, which enables us to triage and direct action where it is needed—using dedicated teams, for example, to work on high-value cases or particular groups of cases.

We have a central control room for key periods to prioritise, accelerate and co-ordinate actions across IT, business and finance processes, and we have a more flexible deployment of people so that we can move resource around—for example, area office staff have come to the centre or supported other offices.

What progress have all those, and other, actions enabled since April? Highlights include the completion of the payments made under the 2015 national loan scheme, of which 94 per cent has now been recovered; a significantly improved application window for 2016 applications, with an

increase in online applications from 65 per cent to 76 per cent; and almost £310 million-worth of basic payment scheme, greening and young farmer payments being made by the 30 June deadline. To ensure certainty for farming businesses, a loan scheme for 2016 has been confirmed. Critically, savings have been made that reduce the monthly financial burn rate, so that we are on track to achieve CAP compliance for the £178 million programme budget.

Although it is heartening to see that progress, there is absolutely no room for complacency. We estimate that 209 applicants have still to receive a final 2015 instalment and 401 have still to receive a CAP payment. Finalisation of every last 2015 payment must remain a priority.

I turn briefly to how that experience relates to the broader question of assurance for digital programmes. Mike Neilson will want to say more about this later. In June, the Auditor General said:

“the roots of the situation lie right back at the beginning”.—[*Official Report, Public Audit Committee*, 30 June 2016; c 7.]

It is also clear that optimism bias has played a part, as have challenges in getting sufficient skills and capability.

Informed by that, by other experiences, both good and bad, and by best practice, the Scottish Government plans to introduce a strengthened assurance process. Critically, it will be mandatory, not advisory, and will establish a set of stop-go reviews, to be carried out by independent experts. The Scottish Government will be live testing and refining that approach from now until the end of the year, with a view to introducing it formally in the new year.

The committee might want to ask whether, if an approach of that kind had been in place at the start of CAP futures, the programme could have turned out differently. I believe that it could, and that it is not too late for those new processes to add value to CAP futures. We are planning an independent technical assurance review, the results of which will inform a broader stop-go review under the new processes.

Thank you for your patience in listening to the overview. I look forward to following up with more detail in answer to your questions.

The Convener: Thank you very much. The first question is from Colin Beattie.

Colin Beattie: How many staff have been fired or disciplined as a result of the process? The Government has in effect suffered substantial losses. If that happened in the private sector, there would certainly be severe repercussions. I would hope that, in the public sector, the people

concerned would not again be placed in a position where they could create such a disaster.

Liz Ditchburn: As the Auditor General said in her evidence to the committee in June, it is absolutely clear that people did their very best to address the problems that they saw and to take actions as they saw fit. As she also said, the challenges lay a long way back in history. My personal impression from coming new to the issue is that the failure is not for lack of effort, commitment or will. The overall impression of people not trying or not operating effectively is not a picture that I recognise.

Colin Beattie: But someone is responsible.

Liz Ditchburn: Indeed. Ministers and senior officials are ultimately responsible. That is the stance that we take in addressing those issues.

Colin Beattie: But the ministers were not down at the coalface handling the issues on a day-to-day basis.

Liz Ditchburn: But they are ultimately responsible and accountable to Parliament, as are officials.

Colin Beattie: Of course, but there were people on the ground who were managing the project.

Liz Ditchburn: Yes, and like the people in the centre at headquarters, they have worked tirelessly. They have tried everything possible to make sure that payments get through to farmers as quickly as possible.

Colin Beattie: That is not as firm a response as I hoped I would get.

I would like to focus on the wider picture. I have a specific question on the Auditor General's report, which is obviously a little historical now, as it was published some months ago and a lot has been done since. However, as you said, it does not make for good reading. Paragraph 10 says that disallowances amounted to

"one per cent of the total CAP payments made in Scotland between 2006 and 2013."

Is that in line with the experience of other countries, or is it better or worse?

Liz Ditchburn: My understanding is that it is around the middle of the pack, but I ask Jonathan Pryce to say more about that, as he has the details.

Jonathan Pryce (Scottish Government): The position compared to the 27 member states is that Scotland's performance is around the middle. The disallowance was 1.1 per cent of the value paid out over that period. For the UK as a whole, the comparable figure was 3.6 per cent, which places the UK, including Scotland, as the third highest country in terms of percentage of the total value

paid out that was paid in disallowance. That gives a sense of the range.

Colin Beattie: I have a couple of questions on a wider area. There has been a question about the management of the CAP project and other IT projects that previous committees have looked at. Often, there has been a lack of skills and management ability. Have we resolved that problem or are we going to find the same problem in future? How are you addressing skills shortages? Are we learning from other countries about how to do this better?

10:00

Liz Ditchburn: I will say something briefly from my perspective as the accountable officer for the programme, and I am sure that Mike Neilson will want to say more about the overall skills picture.

It is important to recognise that, to make this work, we need skills in two different places. First, we need sufficient skills within the Scottish Government to enable us to be intelligent clients for external expertise and advice, and a lot of improvement work is in hand. Secondly, I expect that we will always want to continue to work with skilled contractors and expertise from outside Government. There have been challenges in projects such as CAP futures in relation to market availability and getting those skills at reasonable prices.

On the broader economic growth opportunities for Scotland, it is important to increase digital skills across the economy, and the digitisation of businesses is a big theme across Government. However, the nature of the market can make it challenging for the public sector to access the skills that it wants.

I ask Mike Neilson to say a bit more about the plans that are in place.

Mike Neilson (Scottish Government): The two big issues that we will address today as part of the overall picture will probably be the assurance framework and skills. For now, I will focus on skills.

We recognise that there is a shortage of the relevant skills in Scotland as a whole, and that we face challenges. You will be aware that we set up the central Government digital transformation service 15 or 16 months ago, the purpose of which was to try to ensure that, at the critical initial stages, the people who lead programmes and projects have the right support. That is being done by a combination of bringing permanent staff into the digital transformation service and drawing on contractors and others, as appropriate and in line with the way the market operates.

There has been considerable interest in the service, which has worked on 22 projects across a wide range of organisations, from the Scottish Public Pensions Agency through to the forthcoming employability programmes. I think that the Auditor General said in her earlier evidence that she considers that to be the right approach but that it is yet to be proven. Although we can show that progress is being made with activity supporting a wide range of organisations—both in establishing their programmes and in resourcing them and getting programme directors, technical architects and so on—the proof of the pudding will be in how the projects evolve over time.

Colin Beattie: My understanding is that skills shortages are fairly common. How are we competing against other countries to try to attract skills? I am thinking about both south of the border and continental Europe.

Mike Neilson: Skills Development Scotland has run a major campaign on a Scotland-wide level, rather than looking at just the public sector, but it has also targeted a number of countries including Poland and Estonia in order to try to draw people into the Scottish economy. That is a significant factor.

The digital transformation service has been using a wide range of recruitment routes in order to get at the specialist skills and we have been quite successful in a number of areas. There are areas where it continues to be difficult, such as cyber. We have a mix of something around 50 per cent permanent staff and 50 per cent contractors or fixed-term appointments, which reflects the realities of the market. Some people will only come in for fixed periods.

We recognise that skills is a continuing issue. We are trying to ensure that, within the framework of UK civil service pay and recruitment, we can offer attractive packages.

Colin Beattie: You did not indicate the success rate of efforts to bring in people from elsewhere.

Mike Neilson: I do not have a percentage in my head. We have found that we can recruit technical architects, business analysts and programme managers, but we are finding it harder to recruit in relation to cyber and, in some cases, senior programme directors.

Colin Beattie: It would be interesting to understand where the skills gaps are and where you have been successful in filling them. The Public Audit Committee looks across a wide range of projects. Some have not been good; some have been a bit better. It would give a better understanding of the national position if we could see where the skills shortages were.

Mike Neilson: We are about to run a skills survey in central Government, which will help us to update the position. Skills Development Scotland is doing a piece of work on the gaps across the economy.

Colin Beattie: Do you not think that it would have been helpful if a skills survey had been done before?

Mike Neilson: We did one in 2014, so this will update that.

Liz Ditchburn: Although technical IT skills are definitely part of the challenge, equally important in projects such as this one are commercial skills, working effectively with contractors—there is no point having a contract if we do not work effectively with the contractors to get the best out of that relationship—and operational process skills. The programme is not just about IT, but about all the processes. For example, on interaction with farmers, there is a need to understand what good customer service should look and feel like. We need to make sure that we continue to build operational skills. Mike Neilson might have the detail on this, but commercial skills is another area where the Scottish Government is actively building its skills base.

The Convener: I want to try to keep our discussion to themes, because there are a lot of different issues that we want to explore, Alison Harris wants to ask about the IT system, which is a big issue. Quite a few members want to come in on that. I ask members to keep their questions quick and brief; I ask for brief answers, too.

Alison Harris: Just on IT?

The Convener: Just on IT.

Alison Harris: If I am reading the information that I have in front of me correctly, it basically says that some cases are far too complex for the IT system to process and pay out on. I hear what everyone is saying about skills and so on, but this is a major expense and a huge IT system. I hear about operational skills, and without wishing to be facetious, the bottom line is “Computer says no.” Why has someone, somewhere along the line, not suggested that more human input is needed, with cases being taken to a back room to be dealt with? It would then be a matter of somehow getting the IT system sorted, overriding it when it cannot cope and bringing in a human element to process the case.

Liz Ditchburn: You are right that there is a critical choice to be made about which cases can be effectively dealt with through the system and which will always require manual intervention. You need to get that right so that you do not try to design a system for a level of complexity and variation that just cannot be dealt with easily.

Currently, we need both the system and the human interaction. There are also cases that will always be heavier in terms of human intelligence and interaction. You are raising absolutely the right questions.

In the technical assurance review, I think that we will want to look at whether the line is drawn in the right place or whether we are trying to get the system to deal with certain cases when it might be better to unravel them by taking them out of the system and putting them into manual processes.

There has to be a sufficiently high volume and a sufficient level of standardisation to make using a computer system worth while, otherwise it may be quicker, easier and cheaper not to design such a system and to do the work outside that system. Those are the lines that we want to reassess and check that they are in the right place.

Alison Harris: I fail to understand why we are reassessing those matters having spent all this money. The issues should have been identified and dealt with earlier in the process and not so far down the line.

Liz Ditchburn: The system is designed to have manual processing alongside automation of claims. I think that that is the way it will always need to be. It is always worth reviewing and checking the system so that we can then ask, with hindsight, whether we could have done it differently. Perhaps we could have done it differently, but that does not take away our responsibility to look at and assess the system now and confirm whether it is in the right place.

Tavish Scott (Shetland Islands) (LD): Will the £178 million system pay out next year?

Liz Ditchburn: In terms of what—

Tavish Scott: Will it pay out basic, greening and other forms of payments next year?

Liz Ditchburn: Yes.

Tavish Scott: Then why have you announced a loan scheme?

Liz Ditchburn: We recognise that farming businesses need certainty. According to the cabinet secretary's latest statement on the issue, we expect the payments to be made from early in the new year through to—

Tavish Scott: What is "early in the new year"? I have heard that civil service definition on the programme for the past three years.

Liz Ditchburn: We have a plan that suggests when that will happen—

Tavish Scott: Which is?

Liz Ditchburn: What we do not want to do is to give commitments and promises that we cannot

keep. We know the window in which those payments will be made and we have much higher confidence in the system operating than we did in the previous year. However, we recognise that what farmers need more than anything is certainty and, ideally, cash flow as soon as possible, which is why the decision has been made to put the loan scheme in place. It is a really important step.

Tavish Scott: When will the loan scheme pay?

Liz Ditchburn: We hope that it will pay in November.

Tavish Scott: Which computer will pay out the loans?

Liz Ditchburn: It is a separate system that we built for the 2015 loan—

Tavish Scott: Who pays that cost? That is a different budget.

Liz Ditchburn: Let me check, but I think that that is a budget within the Scottish Government.

Jonathan Pryce: We already have the capability to make those loan payments.

Tavish Scott: So the £178 million IT futures programme is not the computer system that will pay out the loans.

Liz Ditchburn: It is not.

Tavish Scott: Which budget is it coming out of?

Liz Ditchburn: It is coming out of the Scottish Government's operational budget.

Tavish Scott: How much will that cost?

Jonathan Pryce: Very little development work is required to enable those payments to go out.

Tavish Scott: But there will be a cost.

Jonathan Pryce: There is a cost in staff time in processing those payments. It is mostly an opportunity cost for staff time.

Tavish Scott: Is the budget now £178 million?

Liz Ditchburn: Yes.

Tavish Scott: The Auditor General reported in the spring that there was £15.7 million left, but she expected that to be exhausted by November. Is that fair?

Liz Ditchburn: The situation has moved on since then. Let me give you the latest position. The current situation is that, since slightly earlier than the Auditor General's final report, we have been able—through significant effort by both the Scottish Government and our main contractor, CGI—to make savings that mitigate the risk that Audit Scotland identified. The monthly expenditure has reduced from £4.5 million to £3.6 million, and those underlying savings will be added to by

savings that CGI is committed to making at its own risk.

Tavish Scott: “Savings” is a moot word when we are talking about £178 million.

Liz Ditchburn: The savings are primarily made up of two things. There has been significant success in reducing overtime—overtime is not the right way to staff a programme over the long term—and in exchanging more expensive staff for staff who are paid within the standard day rates that we feel we should be paying. Those two things have made a huge difference.

We also have savings from the procurement of a specific project—the land parcel information system—that has come in cheaper than we projected.

Tavish Scott: Was that not supposed to be £31 million?

Liz Ditchburn: Sorry, no, the LPIS—

Tavish Scott: The land mapping cost was £31 million, according to the Auditor General.

Liz Ditchburn: The original estimate for the land parcel information system was £6 million and the cost is now about £3 million, so I think that that must be something different.

Jonathan Pryce: Yes—it is £3.5 million.

Liz Ditchburn: All those savings take us to a situation in which we have £34 million left to spend out of £178 million, and our plan shows that that will deliver the elements of CAP compliance. That budget will last through to March 2017 with £3.5 million remaining, which is money that we need to hold for some specific projects that are part of the business case. Those projects start now but will continue beyond March 2017. One is the land parcel information system and another is a process called SACAMS.

Jonathan Pryce: SACAMS is the scheme and customer account management system.

Liz Ditchburn: Another project is a piece of functionality called claims to payment. Those things need to go over the financial year boundary as they are at a particular stage of development, and we have enough money to continue financing them.

Tavish Scott: You are aware that no crofter or farmer in Scotland has received a letter or notification saying how much they should have had and whether they can appeal that. When will they receive that letter? Will you confirm whether they can appeal the amount on the basis of the utter mess that you have created?

10:15

Liz Ditchburn: The first thing that I should say is that we absolutely regret that we have not been able to issue the full range of letters. We are having to prioritise the payments, and rightly so, but we fully recognise that that is not the situation that we wanted to be in and that, for farmers, it is distressing and can cause confusion and concern.

Because we are prioritising the payments, and because the risk of disallowance through late penalties remains important, we will not be sending out letters before 15 October.

Tavish Scott: That will be after the loan period closes.

Liz Ditchburn: No. I confirm that people will not be disadvantaged in their ability to appeal or to seek a review. The 60-day period for review will be triggered from the date of the letter and not the date of the payment. No one will have a shortened period for challenging or seeking a review of the information that they have been given.

Tavish Scott: But people will have to apply for the loan by 12 October.

Liz Ditchburn: That is for the 2016 loan.

Tavish Scott: I know that it is not easy to understand this, but we are talking about businesspeople who are trying to run a business, and they have to think about tax and accounting. People have not been told how much they are going to get and they are expected to apply for a loan even though their accountants will be saying, “Wait a minute—you don’t even know what you should have got or whether you can appeal that.” You have got this the wrong way round; you are leaving people in the dark.

Liz Ditchburn: People know how much they have got, because they can see it coming into their bank accounts.

Tavish Scott: But they do not know what it is for or whether they can appeal what they have been awarded.

Liz Ditchburn: Absolutely—we completely agree. People can see how much they have got because they can see that money coming into their bank accounts. I completely agree that the letters are also important, but we have had to prioritise payments over letters.

Tavish Scott: That is completely unacceptable.

Liz Ditchburn: It is an area on which we very much hope to be in a better position next year but, for now, that is where we are.

Tavish Scott: Thank you.

Monica Lennon: I note from the Audit Scotland report that NFU Scotland has said that a

significant number of individuals have yet to receive a balance payment for their 2015 claim and that some have received nothing at all.

Mention has been made of the complexity of the IT system. NFU Scotland and others have said—fairly—that they know that area office staff are working flat out and that it looks as if they cannot do any more than they are already doing, but the system appears to be completely broken. Can we be confident that the CAP futures programme will ever be capable of delivering the payments to an acceptable standard, not just for 2015 and 2016 but into the future?

Liz Ditchburn: First, I am sure that the experience for 2016 will be very different from that for 2015. We are starting to see the evidence of why we can be confident about that. The period when farmers were trying to make applications as part of the 2015 process was extremely challenging. Jonathan Pryce might want to say more about that, but we know that the system was not stable and that farmers were unable to use it effectively, with the result that it had to remain open for a significant period.

The 2016 application window has gone very much better. We now have the first year of making payments through the IT system under our belts. I am referring to the 2015 process. Of course, none of us wanted to experience the challenges that we have experienced in getting those payments out. We have not done that as quickly as we would have liked, but the system is now completing that cycle, and that puts us in a much better position for repeating the cycle next time round.

We can be confident that the system is functioning. It is making payments, and it will make payments for 2016. We will see significant improvements. However, as I said in my opening statement, we are asking ourselves the same questions that you are asking. We are asking whether the system is the right one for us to build on into the future and whether it has sufficient stability that we can continue to rely on it. That is why we are doing the independent technical assurance review, which will give us an independent view of the system at that point.

Liam Kerr: I would like to reflect on a few of the things that you have said. You will make the next run of payments early in the new year.

Liz Ditchburn: That is the current plan.

Liam Kerr: Right. In reply to Monica Lennon, you discussed whether the system will ever be fit for purpose. I take it that your position is that it will be.

Liz Ditchburn: We have a system that is functioning. It comes back to the question that Ms Harris asked, which was whether it is the optimum

system for the future or whether we might want to review whether some of its elements might need to be handled in different ways. We will use the review to look at those questions.

We have a system that is functioning and making payments for 2015. There is no reason to suppose that it will not make payments for 2016, or that it will not make them more quickly, because the functionality that we have is working for 2015. However, I am not going to hide the fact that we need to do a different set of things for 2016. We still need to put in place a set of things for functionality for 2016. They are scheduled in a series of what are called in the jargon “drops”, which are new areas of functionality that will be put in place between now and the end of the year. We have a firm commitment from the contractor on that process, which it is putting in place, and on the delivery dates for that functionality.

That is the basis on which we are confident that we will use the system for the 2016 payments. Does that mean that we should not step back and ask ourselves a question about the future? I do not think that it does. We should ask that question.

Liam Kerr: Have you not just spent £178 million on a system that you might not even go forward with?

Tavish Scott: Exactly.

Liz Ditchburn: The review could conclude many things. Mike Neilson might want to say a bit more about what reviews of this nature do. However, it could conclude that the system as it is is absolutely fine and that we should just continue as we are.

Tavish Scott: Impossible to do that.

Liz Ditchburn: I am just trying to describe the kind of conclusions that the review could come up with. It could conclude that some aspects of the system are extremely strong, robust and well built but that other areas have challenges and that we should look at whether there are other options.

Liam Kerr: They would cost more money, would they not?

Liz Ditchburn: We would address such questions by asking what the benefits and costs would be and whether we would be in a better position as a result.

Liam Kerr: For the avoidance of doubt, when will the 600 payments that are outstanding for the current year be made?

Tavish Scott: Exactly.

Liz Ditchburn: I will check my numbers to ensure that I am giving you consistent numbers. We have 209 payments still to go for people who have been paid something, and 401 people still

have to receive a payment. It is important to say that that is an estimate. There are still eligibility questions to be dealt with in the processing, so those numbers could change, but they are our current estimates. We aim to complete all those payments by the middle of October. We recognise that that is important for farmers and to fully avoid late payment penalties.

There are several categories within those numbers, and Jonathan Pryce might want to say a bit more about them. For example, cross-border cases, by their nature, tend to take a bit more time and we sometimes rely on getting information from other paying authorities. There are also cases involving transferring entitlements through a private contract clause, which require to be dealt with in another way, and there are some inspection cases.

We are looking at those different groups and we believe that we have fixes in place, or processes that we need to put in place, that will enable them to be processed by the middle of October. There are always particularly challenging or difficult cases, and cases where information is not available. There is a possibility that some of them could go beyond that deadline, but we are confident that the majority will certainly be paid by the middle of October.

Jonathan, do you want to say a bit more about the types of cases and the actions that we are taking?

Jonathan Pryce: I will take the committee through the plan from now until the middle of October. As Liz Ditchburn said, the first cases that we expect to begin paying in a batch are those that involve the private contract clause. We hope to be able to begin making those payments from today, because some more IT functionality was put in place overnight. I did not get an update on that prior to coming to this meeting, but we expect to have more IT functionality that will enable us to begin paying private contract clause cases. If that is not done this week, it should be done next week.

We should start paying the inspection cases that Liz Ditchburn mentioned, which are affected by the private contract clauses, next week, and we would expect to start paying the cross-border cases from the end of next week or the beginning of the week after. That puts us in a good place to complete the vast majority of those cases—with the financial value that remains outstanding—by 15 October.

Liam Kerr: You mentioned late payment penalties. Will you elaborate on that?

Liz Ditchburn: As I am sure you know because you have seen the report, the system for European funding is that there are two kinds of disallowance or penalties—financial penalties for

late payment and disallowance through other means.

The financial penalty risk that Audit Scotland raised strongly in its report has largely been mitigated, for two reasons. The first is the progress that we have been able to make with making payments across the summer, and the second is the waiver that the European Commission put in place to not use penalties during the period 30 June to 15 October. We are still in a penalty-free period.

It is critical to get out as many payments as possible—ideally all of them—before 15 October. If a small number go over that deadline and there are a small number across the UK, we will come to the final number within the UK. It is not Scotland alone that is responsible. There is no separate ring fence of penalty, if you see what I mean; it applies at the UK level. We will need to wait for final figures to come in from all the UK paying authorities to understand whether the risk is zero or whether there is a small risk of some penalty. The numbers that are mentioned in Audit Scotland's report are extremely large, but they are no longer of concern.

Gail Ross: The summary says that

“the Scottish Government started a five-year programme to improve its business processes and IT systems”

in 2012, so the programme has been going on since then. When was the IT system procured? Why were the problems not picked up until the system started going through the process? As we know, many people in our agricultural sector had to suffer as a result.

Page 16 of the report also says:

“Software to process and validate applications was still being developed when the application period closed.”

Why? Why was that not all in place and functioning before any of the applications were started? Is the software still in the process of being developed? You have said that there is an on-going review of the software. What are the delivery dates for functionality? What is the end date for the review?

What was different from previous years? You say that you are waiting for a lot of information about different applications but CAP payments have been going on for years. Has the information changed? Are we looking for more information? How is the system different from what it was previously?

Liz Ditchburn: I will start, but I think that Jonathan Pryce will also want to come in.

There are a few important principles and pieces of information to establish. When the European Commission negotiates and agrees the common

agricultural policy, it sits in a period of years. We are now in the first year of the new CAP that runs from 2014 to 2020—I think that that is the correct terminology. This is, therefore, a different CAP that operates in different ways from the previous scheme. That is a set of policy changes and choices that the EC and member states made as they designed the new process; this is a new way of operating agricultural subsidies. That is the first thing to say.

Secondly, one of the biggest challenges that the programme faced in the design—it is an interesting lesson that Mike Neilson and others will take into account as they look at other projects—was that we were trying to specify and design the system before the European regulations for the 2014 to 2020 period had been finalised and agreed. In effect, we were trying to design while not knowing exactly what would come out. As you can imagine, that was an extremely challenging situation. Procurements take a long time and systems take a long time to develop, so the design work had to start in some shape or form at a point at which the information to make those decisions was not complete. That is the nature of the beast.

10:30

Agricultural policy is a devolved area, so Scotland made policy decisions. We start with the core European regulations and then have some flexibility to amend, adjust and decide how we want to design our scheme for the particular area. Europe tries to finalise a set of regulations and, alongside that, there is a process in which Scotland decides how to apply those regulations here, where to change them and where to use the flexibilities that are allowed.

There was a new common agricultural policy in the programme and significant uncertainty about what the final system would look like, which is fundamentally why so much of the functionality and so much of the work was so close up to the system needing to operate.

Finally, we require specific information about particular farms on particular dates. That is not the same information. There always needs to be new information every year, as we are finding out what is happening on the farm at that time in that year. That is the nature of the application.

Gail Ross: I am interested in what you are saying about Scotland deciding to do things a little differently. Who made that decision? Did someone in the Scottish Government make it?

Liz Ditchburn: It was ultimately ministers who did so.

Gail Ross: Is there any good practice in other European countries that we can learn from?

Liz Ditchburn: In terms of what?

Gail Ross: In terms of how they administer their CAP payments.

Liz Ditchburn: Are you talking about the information technology aspects of systems?

Gail Ross: Yes.

Liz Ditchburn: I do not have any information on that. I do not know whether Jonathan Pryce wants to say anything about it.

Jonathan Pryce: Very different decisions were taken across all the parts of the United Kingdom about how to implement the common agricultural policy in its new, more complex form. It is very clear to me now that the decisions that were taken in the middle of 2014—I think that they were taken in June 2014—brought in enormously more complexity than we imagined. We knew that we were at the behest of the industry to try to fit the policy to Scotland's circumstances, and we tried to accommodate its requests. We had concerns about the complexity and we discussed all of that but, at the end of the day, we still went for three payment regions.

Gail Ross: Was that at the industry's request?

Jonathan Pryce: Yes, that was at the industry's request. The complexity consequences that came out of that were even more extreme than we expected.

In other parts of the UK, the Welsh and the Northern Irish have used a single region. England went through its troubles with the common agricultural policy back in 2006-07, when it moved to a regionalised model. It had its pain then, although it still has some pain this time round. Those were the most significant differences across the different paying agencies.

The other difficulty that we faced was the fact that our previous IT infrastructure was not capable of supporting the new, more complex CAP. Relatively uniquely, we were building not just a new CAP but the entire infrastructure for it, including the IT infrastructure, at the same time.

Liam Kerr: I have a supplementary question. Surely the whole of Europe had to go through exactly the same process. It had to adapt to a new system. I appreciate what you say about other countries having problems, but I am not aware of any countries that have had such problems—particularly Ireland, for example. Why did we not take best practice and learn from other countries to make things right?

Liz Ditchburn: Jonathan Pryce might want to say more about the process that was undertaken at that time. However, France has had more severe problems than we have had; it is at an

extreme that makes Scotland's problems look small.

You raise the interesting question of whether Europe ought to be thinking about procuring a single system, and there are indeed some areas where Europe procures single systems that can operate across all countries. There is increasing collaboration on some single systems and single solutions that can work across the piece. When we find ourselves in multilateral settings, it is important to continue to ask whether one solution can work and can contain sufficient flexibility for all. However, that is not the route that Europe has gone down for this particular set of things. Different countries' processes and systems look very different, which is why it has been challenging to try to have a single system in this case.

We need to think about the current set of problems, but we also need to think about what kind of future we want. There is a real potential to move to the increased use of remote sensing technology to replace some of the current processes. There are therefore potential technological solutions for the medium term that we ought to continue to think about. Rationalisation with other member states is also an interesting proposal.

Jonathan Pryce: There would have been simpler options available to us, which we have seen in other countries. We considered the redistributive model that Wales has looked at as an alternative to the three regions but, in the end, we came down on the side of the industry, which wanted the particular arrangement that we have. The industry is not unhappy with the policy but is obviously and understandably very unhappy with the delivery of the policy—particularly its implementation through the IT system. You should bear in mind the fact that it was not just the IT system that became complex but also the processing tasks that have to be carried out by all the area office staff.

Edward Mountain (Highlands and Islands) (Con): Convener, thank you for allowing me to take part in today's committee meeting.

The Convener: It is a pleasure.

Edward Mountain: In return, any of this committee's members is most welcome to come to a meeting of the Rural Economy and Connectivity Committee, where they will be accorded the same courtesies that I have been given here.

I declare an interest, in that I am a member of a farm partnership.

We have heard a lot about the excellent and extra work of the staff in the area offices, who are the forward-facing staff that have had to deal with the problems that farmers have faced on the

ground. However, neither I nor my committee have been able to get to the bottom of what the extra cost for those staff has been. How much overtime have they put in? What has it cost the Government? How many extra staff have been taken on?

Furthermore, can the witnesses give an estimate of the cost to farmers of getting only 80 per cent of their payment in the early part of this year and estimate the cost of that to the economy? Those are real costs that somebody has to bear and they relate specifically to this project, which has been faltering since September last year as far as the staff in the area offices are concerned.

Liz Ditchburn: I ask Jonathan Pryce to respond to the questions on overtime and staffing costs. I think that we have some information on them.

Jonathan Pryce: We have some detailed information. However, I am conscious that Mr Ewing gave evidence to the Rural Economy and Connectivity Committee last week and that we received a letter from the clerks this week setting out what information we will write to you about.

I will give you an overall impression of the overtime costs. The cost in 2015-16 for overtime for the area office staff, which covers some of the current processing year, amounted to £348,000. In the previous two years, the overtime costs ranged from £184,000 to £210,000. It is common for the area offices to work overtime and, because they are used to doing so at peak periods, there was a good response from them when we asked for more effort over the recent period. You will see that, for overtime costs in the area offices, the difference between this year and the previous years under the old system is of the order of £100,000 to £150,000. However, as I said, we will write to you with more specific details on the overtime.

Edward Mountain: It is my understanding that approximately 70 extra staff were taken on to assist. Is that correct?

Jonathan Pryce: Do you mean in the area offices?

Edward Mountain: Just in the area offices.

Jonathan Pryce: I am afraid that I do not have the figure for the total number of staff. I think that 70 might be the right figure, but staff were brought in temporarily and I am not sure that we ever got as high as an additional 70 all of the time or that we peaked at that. Again, we will write to you and the REC Committee with that information.

Edward Mountain: The question is where that money comes from.

Jonathan Pryce: It comes out of the rural payments budget—the budget that supports the

administration and staff in the rural payments and inspections division.

Alex Neil: I have a couple of quick questions. First, just following up on that issue at this stage, what is your global estimate of the net additional cost of this fiasco to the public purse?

Liz Ditchburn: As I explained earlier, we are on track to deliver the CAP compliance within the £178 million budget, so there should be no additional cost there. You are perhaps raising questions about the ways in which we have had to flex priorities. There is no new money to spend on the programme. If we have to increase staffing in one area, we will remove it from other areas. It is always about flexing our resource to meet the needs.

Alex Neil: That is why we need a detailed account. This is the Public Audit Committee. If you are shifting staff from one resource to deal with the issue, we need to know the implications of that. If staff are to be moved from an existing service to provide additional resource, that suggests that other services will suffer. We need a comprehensive statement on the staff costs and all the other costs that Mr Mountain mentioned. We are the Public Audit Committee and it is our job to look at that. When can we get that statement?

Liz Ditchburn: Jonathan Pryce has something to add.

Jonathan Pryce: I was just going to say that, throughout the process of the development of the new CAP, there was clear acknowledgement at a European level of the administrative costs. Leaving aside the IT and the costs of building the new IT infrastructure—we had to do that anyway, to an extent—it was acknowledged that the additional complexity of the CAP would lead to at least 15 per cent additional administration costs in the paying agencies. That was the view of the European Court of Auditors in a report that it produced. I forget the year, but it was something like 2012 or 2013.

Alex Neil: We need a very detailed account of each line item where there is an additional cost and what that cost is. We need to know how long the cost exists for and in which financial years the costs have been met. We have had figures all over the place. We need a list, on one piece of paper, of all the additional costs, setting out why they were required. If there were additional staff, that was still an additional cost, so we need to know where they came from and which services they had previously been providing. We need a much more detailed account rather than bits and pieces, which is what we are getting at the moment. We need a comprehensive statement of the costs.

My second point follows Colin Beattie's earlier question. Ms Ditchburn rightly said that responsibility ultimately rests with ministers. As we know, the relevant cabinet secretary is no longer in post. Ms Ditchburn mentioned people's willingness to work and all the rest of it, but one word that she did not use is "competence". I am not referring to people in the area offices; I am referring to the senior management in the rural affairs department. Who is taking responsibility for this fiasco? How many heads have rolled? How many people have been promoted despite their incompetence? Who is taking responsibility in the civil service?

Liz Ditchburn: I am. As the current director general, I am clearly responsible for the delivery of the programme.

Alex Neil: Yes, but you were not responsible for the original fiasco. Who is responsible for that? What is happening?

10:45

Liz Ditchburn: I challenge your question about competence. I genuinely do not think that this is about saying that individual X has been incompetent and individual Y has not. There is no single point of failure in the programme. The programme has faced challenges over a long time. The Auditor General herself says that the roots of the situation lie a long way back and that people have worked extremely hard to put the programme back on track.

This is not a programme about which you can say that there was a single point of failure—that if only a particular person had done their job differently, it would all have been okay. There were complexities in the environment, which we have talked about before—there was the absence of a clear set of regulations at the beginning of the process. The programme has tried its very best to deal with those complexities. People have done the very best that they can with what has been available at the time.

Alex Neil: The point that I am making is that your predecessor and, indeed, the director of the rural affairs department from 2012 onwards had overall direct managerial responsibility for the programme. It has been a total failure, so why has there not been a price to pay for that failure?

Liz Ditchburn: That kind of action can be taken only if it can be demonstrated clearly where the failing was and why a certain person was negligent in their duty. That is not our analysis of the situation. Neither, I think, is it the Auditor General's analysis of the situation.

Alex Neil: I think that people in Scotland would find it amazing that nobody in the civil service has

been disciplined or sacked as a result of this. The cost to the public purse is obviously very substantial indeed, whatever the final figure is. The fact that no heads have rolled in the civil service is, frankly, unbelievable. In any other organisation—in the health service, for example—that is what would have happened. When I was the health secretary, I had the disagreeable role of having to dispose of the services of a chief executive and a board chairman because it had all gone wrong on their watch. However, it seems that, in the civil service, nobody takes the ultimate responsibility.

Liz Ditchburn: We can take actions such as you have described only when the evidence supports that, and that is not my understanding of the situation. I say again that we will see what information we can provide on the costs within the operations budgets. However, if the £178 million, which is the business case approved figure, delivers the programme, I will consider the programme to have been delivered within that budget.

Alex Neil: As a member of the committee, I disagree with what you are saying and I think that other members do, too, judging from their reactions. The civil service has to take its share of responsibility. The people at the top are responsible for managing these projects. It sends out completely the wrong message that, in every other walk of life, people in such positions take responsibility when there is gross failure and the only organisation in Scotland that seems to be exempt from that is the senior civil service.

Liz Ditchburn: I repeat that we, as senior leaders, are—absolutely—responsible for the delivery of the areas for which we are responsible. However, we can take action only if that is what the evidence tells us to do. We sit within a series of proper human resource procedures, which means that we can take those actions only if we have the evidence.

Alex Neil: That is a Sir Humphrey answer, which is extremely unsatisfactory. Can I just—

Liz Ditchburn: It is the answer.

The Convener: Maybe we need to take the matter up with the minister.

Alex Neil: Maybe we need to take it up with the permanent secretary, because it is a civil service matter.

My final point is this: clearly, since all this happened, we have had the Brexit vote. Irrespective of how long the Brexit process takes, it seems to me that, as agriculture is a devolved responsibility, there will be the option for Scotland and this Parliament to look again at how best we can support our farming communities. We should

not be spending money unnecessarily on equipment that might only have a lifetime of three, four or five years.

Has any thought been given to the implications of the Brexit decision and process in relation to how we go forward? One would imagine that there will be a fundamental policy review on how to support the farming community once that responsibility is devolved to this Parliament, which it must be after the Brexit talks are completed. However, we do not want to be spending a lot of money if we are not going to get a return over a long time.

Liz Ditchburn: Thank you very much for that question. We are indeed looking at those issues. The first thing to say is that it is extremely welcome that we now have the UK guarantee of at least the pillar 1 CAP payments all the way through to 2020—which will be the completion of the 2014 to 2020 period—and at least some of the pillar 2 funding. As I am sure that you are aware, some moneys have not yet been guaranteed, but we still have a total of around £4 billion-worth of payments for the CAP period to 2020.

The business case was that we should have a system that would manage and administer that £4 billion. That is still a sensible decision to have taken. We need a system to do that.

As you rightly say, there is significant uncertainty and we do not yet know how many options will play out. Whatever the situation, though, there is an important debate to be had about the right way to support the farming industry and the way in which, as a country, we would like to do that. I am sure that Mr Mountain's committee, the Rural Economy and Connectivity Committee, will very much engage in that debate, which is one that we would hope to have with the farming industry and others who have interests in the rural economy and indeed in the economy generally. There is a very important set of questions, but we have a level of certainty around the immediate period.

Alison Harris: I want to come back on one final point. You said that you had identified £34 million of savings—I know that the word is not quite accurate.

Liz Ditchburn: No, sorry. Out of the £178 million budget, we have £34 million left to spend between now and March.

Alison Harris: Yes, because—

Liz Ditchburn: Because we have made some savings.

Alison Harris: That is what I was saying. You can categorically tell the committee today, 100 per cent, that the system will be CAP compliant before that budget runs out.

Liz Ditchburn: That is what our current plans are telling us. I would be very foolish if I sat here and gave you an utter, unconditional guarantee, because some things may happen between now and March that mean that that budget will be under more pressure; some things may happen that mean that it will be under less pressure. Our current plans, which have been stress tested and have a firm commitment from the supplier behind them, tell us that that budget will take us all the way through to March and will deliver us a CAP-compliant system.

Alison Harris: What happens if that budget runs out?

Liz Ditchburn: We will be monitoring it very closely. We have a strong commercial management arrangement in place now. Our commercial manager is sitting down with the contractor—they are actually sitting in the same room, so they are working very closely together. They are looking, all the time, in an extremely dynamic and reactive way, at how they can increase savings or deal with any unforeseen circumstances.

That monitoring will go on and the programme board and the executive steering committee will take receipt of the information that comes out of that. If we see anything heading in the wrong direction, we will, at that point, say, “What are our options? Can we make more savings? Are there other actions that we can take to bring that back on track?” It is the standard process—it is not rocket science, but it needs to be done, and done well—of close monitoring, close commercial management of the contract and acting quickly if we see things moving off track.

Alison Harris: But we still have the possibility of the budget running out.

Liz Ditchburn: Not according to current plans. Our current plans are robust. Of course, there are always unforeseen—

Alison Harris: Life is always unforeseen.

Liz Ditchburn: Absolutely, but I am sitting here before you saying that our stress-tested plans, in which I have confidence, will deliver that budget all the way through to CAP compliance.

Tavish Scott: First, I should apologise. I should have done the Edward Mountain bit there and thanked you very much for coming along. I think that, like Colin Beattie, I thought that I was still on the committee. The convener should be grateful that I have not called her Paul Martin today.

The Convener: I am grateful for that.

Tavish Scott: Let me ask one final question, which is about Audit Scotland. In its update in May, it recommended that the Government should

“develop and test a disaster recovery solution”.

Have you done that?

Liz Ditchburn: Let me just make sure. I have not got this in my head, but yes—

Tavish Scott: I thought that you would probably recognise the phrase “disaster recovery solution”. It is quite emotive.

Liz Ditchburn: The situation—it is the information that we gave in our published response—is that there is a full IT recovery provision in the event of a major incident, which is specified to deliver no more than 72 hours’ loss of service and a loss of transaction data of no more than one hour for all the systems on the new futures platform.

Tavish Scott: So there is a disaster recovery solution in place.

Liz Ditchburn: There is one in place for all the systems on the new futures platform. The first failover test of that system is planned for November and the regular cycle testing will follow that.

The only caveat that I wish to put on all that is that, for the time being, the business continues to rely on a land parcel information system that is based on old infrastructure and will not support modern recovery systems. We are exposed to a level of risk, in a sense, for the interim period, but the future system is compliant with the disaster recovery processes that you would expect to have in place. Did you want to say anything, Jonathan?

Jonathan Pryce: I would simply add that the land parcel information system has a full offsite backup of the data, so we are not saying—

Tavish Scott: It is called paper, is it not?

Jonathan Pryce: No, no. In this case, 400,000 records are on the land database.

Liz Ditchburn: Digital records.

Jonathan Pryce: Yes, digital records are on the land parcel information system.

It is perfectly possible to recover all that data if there is a problem with the infrastructure. However, it would not be done within the 72-hour period that is possible on the modern infrastructure.

Tavish Scott: Thank you.

Monica Lennon: With my earlier question, I was looking for comfort from the panel that we could be confident looking to the future. I have heard the evidence. Although people have been frank, the response is not convincing. Alex Neil’s characterisation of the matter as a “fiasco” is probably fair.

I have a couple of questions on the back of what my colleagues have teased out. You have talked about the increase in staff—there is an increase of about 70 staff at any one given time; perhaps we will get more information on that—but it strikes me that if people are being brought into a complex environment temporarily, they are not getting a lot of time to understand what is going on. Is any training involved? I would like to hear more about those issues. What impact is bringing in people from other departments having on other parts of the business? If contractors have been brought in, what induction process has been undertaken?

Stress testing was mentioned. What about the stress that the staff on the ground are experiencing? We are hearing a lot about the staff in the area office. I really would not like to be in their shoes. It sounds as though they are working around the clock. There is also a lot of public interest in the issue. What is it like for the staff? Are people going off sick? Is support in place to ensure that their physical and mental health is not affected?

To return to my original point about confidence, there have been a lot of questions today about the system. On the one hand, we are hearing that there are checks and balances and risk controls in place and we have been talking about disaster recovery, management and so on; on the other hand, when you were asked to pinpoint failings, what has gone wrong and where the fault lines are, we hear that there is not really any evidence on that, so it has not been possible to pinpoint human error. Is this fiasco—this disaster—that we are talking about wholly down to IT error? Is there an element of human error? Can we get some honesty around that? It is difficult for us to leave here feeling confident if we are still not getting clear answers about why things have gone wrong and why they continue to go wrong.

Liz Ditchburn: I will ask Jonathan Pryce to talk about the staff welfare issues, which are extremely important and very much on our minds and I will take your first question.

I am fairly new to a programme that has a long history. It is clear that there is no single point at which you could say, “If we had only done this differently. If that person had only done that differently.” It is a complex and cumulative set of problems that have compounded themselves but that, as the Auditor General said, dates right back to the beginning. The nature of the cumulative failures is that you find yourself locked into a position where you seem to have very few options: farmers must get their money; we must make those payments. It is very hard for people in those circumstances.

When people are trying to take decisions, they are faced with a really challenging situation:

farmers must have the money. We try to do everything that we can in the situation, but by then the die is already cast and we are locked into a restricted set of solutions.

The really important thing about the work that Mike Neilson is leading on the new digital assurance processes and why they should mean that this should not happen again is that they enable you to step back and force you to look again at questions such as, “Is this our only option?” and “Do we understand the costs and implications of the complexity that we’ve chosen as a policy basis?” If we had been able to say at the time, “Do you know what? This set of choices you’re making makes the whole system pretty undeliverable”, would we then have made a different decision? I think that those are the questions. We do not know, but the process that we are putting in place will enable us to have different conversations in future.

This is a complex and cumulative series of failures, but we need to enable people to step back from that and allow an independent view to come in. A lot of it is about correcting optimism bias, which I think runs very deep.

11:00

Monica Lennon: With respect, you have addressed the question with reference to very generic terms such as systems, options, stepping back and so on. The difficulty for someone in my position who does not really understand the sector is that you have not really been able to pinpoint and get to the heart of what went wrong. I am not convinced that lessons can be learned if we continue to speak in broad-brush terms about the system.

Liz Ditchburn: Lots and lots of lessons have already been learned and are feeding into the way we think about the—

Monica Lennon: Do you have an example of one of those lessons?

Liz Ditchburn: For example—and this brings us back to an earlier exchange—we have learned that we must be realistic and build in contingency. It sounds simple, but we must be utterly realistic and absolutely disciplined about putting contingency into our plans to ensure that we do not fall prey to optimism bias and say, “We hope to make payments in month X,” when that is not underpinned by a plan that has been sufficiently challenged and stress tested, and has sufficient contingency to give us certainty.

The hard-learned lesson is that when people find themselves in the same situation in future and are tempted to say, “Well, if this, this, this, this and this worked, we could just do it”, they should step

back and say, “No, we cannot make that commitment because we cannot have sufficient certainty around delivering it.” That is one of the most important lessons that we can learn to make sure that we are always competent.

Jonathan Pryce will talk about the staff questions, which are extremely important.

Jonathan Pryce: Indeed. Understandably, because this is a professional discipline for the agricultural staff in the area offices, we have a training and induction programme for them. In practice, when we reinforced area office staff, we did so by bringing people back, sometimes from retirement, or by redeploying them from other parts of the Scottish Government that they might have moved into, as a result of which they were no longer involved in agriculture. We did quite a lot of that in the course of the year. As I have said, there is quite a lot of turnover in the area office staff, simply because they move into and out of agriculture and the wider industry, but they go through a good induction programme.

The pressure on staff in the area offices has been high, as indeed has the pressure in the centre. However, from the statistics that we get through our human resources management information, we cannot discern any increased levels of sickness absence or absence levels related specifically to stress. Because of my concern for staff welfare, I have looked closely at the management information, but I have seen nothing in it that is significantly out of line with other parts of the Scottish Government. There are always differences in different areas, but when we look at it across the piece, nothing is flashing red in the management information. That being said, from my experience and contact with individuals, I know how hard they have been working, the long hours that they have been working and the stress that they are facing.

The Convener: I can see that Ms Ditchburn wants to add something. Can you make it quite brief, please?

Liz Ditchburn: I am sorry—I will try.

Monica Lennon is absolutely right to focus on the area offices, because those people are in the front line and are having to have conversations with farmers, who, rightly, are concerned about when the payments might be made. When I ask people in the area offices the same question, one of the things that they say has made the situation more manageable for them is the fact that their work has peaks and troughs throughout the year. There are particularly intense periods—for example, when certain processes are being gone through or inspections are taking place—and then there are periods of lower intensity. I think that that

has helped them to maintain equilibrium throughout.

Liam Kerr: That does not check out with what the Audit Scotland report of May 2016 says.

The Convener: Do you want to tell the panel what the report says?

Liam Kerr: On page 36, it says:

“Staff have been working hard and there is a risk of burn-out”.

It goes on to say that staff

“have been working at a very high pace for the past 18 months”.

That suggests a degree of consistency in the way that they have been working; it does not suggest that they have been working in peaks and troughs, as has been alluded to.

Liz Ditchburn: As Jonathan Pryce said, there are no peaks and troughs in some of the headquarters and IT-related work. Some of that central work has been intense the whole way through. There is a high risk of burn-out in that.

Liam Kerr: What is being done to ameliorate that risk?

The Convener: Have you done a staff survey?

Liz Ditchburn: A staff survey is done every year. One is about to be carried out, so we will have an interesting new data point. The annual staff survey will be carried out between 3 October and 31 October this year.

In addition, the contractor has done a survey of its own staff, which shows that morale has increased significantly during the past few months.

The Convener: Does anyone want to probe any further on the staff issue?

Gail, did you have a final question?

Gail Ross: It is just a quick one. Allan Bowie, the president of the NFUS, has been quoted as saying:

“Audit Scotland has questioned whether the CAP futures programme will ever be fit for purpose”.

Do you think that what we have heard today will give the industry confidence going forward?

Liz Ditchburn: I think that I have already answered that question directly. Will the industry have confidence?

Gail Ross: Yes.

Liz Ditchburn: We—the teams, the cabinet secretary and officials—stay in close contact with the NFUS in an effort to understand the views of its members. It is also important that we hear from farmers who are outside the mechanism of the

NFUS. The NFUS is an important stakeholder, but it is good to hear from a range of diverse voices.

Gail Ross: The NFUS does not represent the whole of the agricultural community.

Liz Ditchburn: I am keen to deepen engagement with the industry. I recognise that the NFUS is a critical part of the industry, but I would like us to be able to engage with more people directly and not through intermediaries.

Colin Beattie: In response to Monica Lennon's request for an example of a lesson learned, the example that was given was to have a contingency plan of some sort. That is basic management. In a different world, I used to have an IT division reporting to me. Contingency is at the top of the list. If the managers do not have an understanding of contingency, they are not fit for purpose. That is basic.

Liz Ditchburn: I agree that it is basic. However, when people are trying to get payments out of the door to meet deadlines, they make what might be suboptimal choices.

Colin Beattie: Good managers do not do that. This is basic stuff.

Liz Ditchburn: Good managers who feel that they have no option other than to squeeze everything in sometimes find themselves in a situation in which they think that it is their only option.

Colin Beattie: Why did managers find that they had no option? Was there pressure from a senior level?

Liz Ditchburn: There was pressure from the whole external environment. Everyone who is involved in the enterprise is determined to get payments to farmers at the time at which we would want to pay them. That is the pressure that people put themselves under.

Colin Beattie: At what level were corners being cut on things such as contingencies to achieve that? That simply builds up problems.

Liz Ditchburn: We are not hiding from those challenges. The Audit Scotland report tells us that we have a problem, so we have put in place a workaround to solve that in the short term, but it will have an impact six months down the line. We need to get out of that cycle; I am determined to break it. I want us to build contingency back in and stop doing short-term things that will have further impacts without planning for how we are going to address them. We need to get the process on to a proper footing, so that when we say that something is going to happen, it does indeed happen.

I cannot turn the tap on and off from one day to the next. It is a long, slow grind, which involves

putting in place the appropriate protocols and processes. Our contractor is doing that with its staff, and we are doing that, too. The situation will improve and we will get to where we need to be. It is manifestly the case that that is not the history. Otherwise, we would not be here having this discussion.

Colin Beattie: As far as that example is concerned, it is not a very satisfactory response.

The Convener: As members have no further questions, I thank all the witnesses for their evidence.

I now move the meeting into private, as previously agreed.

11:09

Meeting continued in private until 11:26.

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