



OFFICIAL REPORT
AITHISG OIFIGEIL

Public Audit Committee

Thursday 30 June 2016

Session 5



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PUBLIC AUDIT COMMITTEE
2nd 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)

*Jenny Gilruth (Mid Fife and Glenrothes) (SNP)

*Liam Kerr (North East Scotland) (Con)

*Monica Lennon (Central Scotland) (Lab)

*Alex Neil (Airdrie and Shotts) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Antony Clark (Audit Scotland)

Gemma Diamond (Audit Scotland)

Caroline Gardner (Auditor General for Scotland)

Jillian Matthew (Audit Scotland)

Mark Taylor (Audit Scotland)

CLERK TO THE COMMITTEE

Joanne Clinton

LOCATION

The David Livingstone Room (CR6)

Scottish Parliament

Public Audit Committee

Thursday 30 June 2016

[The Convener opened the meeting at 09:00]

Decision on Taking Business in Private

The Convener (Jenny Marra): Good morning. I open the second meeting in 2016 of the Public Audit Committee. Under agenda item 1, do members agree to take in private items 4, 5 and 6?

Members *indicated agreement.*

Section 23 Reports

“Common Agricultural Policy Futures programme: an update”

09:00

The Convener: Agenda item 2 is on the section 23 report “Common Agricultural Policy Futures programme: an update”. We will take evidence from Caroline Gardner, the Auditor General for Scotland and, from Audit Scotland: Mark Taylor, assistant director; Gemma Diamond, senior manager; and Morag Campsie, project manager. I warmly welcome you all to this morning’s committee meeting.

The Auditor General for Scotland and Audit Scotland have advised in advance of this session that they might be unable to respond fully to questions on the conflict of interest that the report has identified on information technology governance, as the matter is under police investigation. The AGS will clarify in her opening statement what she can and cannot say to the committee.

I invite the Auditor General for Scotland to make her statement before I open the floor to questions from members.

Caroline Gardner (Auditor General for Scotland): Thank you, convener. I am very pleased to be back reporting to the committee in this new session.

Obviously, a lot has happened in the past week and, however events unfold, the committee’s role in scrutinising the public finances will be even more important in this session of Parliament. Big changes are under way with the Parliament’s new financial powers, and they are sure to be high on the agenda for the committee, and for Audit Scotland, in the months to come. I look forward to building on the excellent work achieved by the previous Public Audit Committee and to continuing to support members in their vital role.

The first report in front of you today looks at the progress that the Scottish Government has made with its common agricultural policy futures programme. This is my fourth update on the programme, and it covers progress up to April.

Before I outline my findings, it might be useful if I reflect briefly on the result of last week’s referendum on the European Union. I recognise that there might be implications for the programme, but it is too early to know what the impact might be. We will continue to keep a close eye on developments over the coming months, and we will consider carefully the implications for our audit. The developments do not detract from

the need for the Scottish Government to stay focused on making payments to farmers, crofters and rural businesses as quickly and effectively as possible, both to mitigate the impact on rural businesses and to learn lessons from how the futures programme has been managed to date.

In that respect, the programme's IT system is central. It is intended to process, to validate and to make payments to farmers. The system is in place and operating, but it has not worked as well as it needs to, and some parts of the system are still being developed and redesigned.

I want to acknowledge the continuing commitment of Scottish Government staff to delivering the programme. However, although that commitment is truly commendable, I am concerned that the level of effort is not sustainable and that there is a real risk of burn-out.

I will briefly summarise the report's key points. First of all, a number of milestones and ministerial targets for making payments to farmers have been missed. Farmers report that payment delays have affected their cash flow, with a knock-on effect on the rural economy. The Scottish Government announced three loans schemes, paid from the Scottish Government budget, to get some money to farmers more quickly. In spite of that, however, some farmers had not received a payment by April 2016, when they would normally have expected to receive a payment in December.

I reported in April that the Scottish Government was unlikely to meet the June deadline and could incur financial penalties as a result. Since then, the European Commission has moved the deadline for payments from the end of June to 15 October. A later payment date puts back the immediate risk of financial penalties, but the underlying concerns about the programme remain.

I also highlight in my report that estimating the potential financial penalties is difficult. The matter is ultimately subject to assessment by Commission auditors, and that assessment goes wider than just the number of payments made by the deadline to include the quality of the checks and other controls that were in place before payments were made. Our report highlights a risk of disallowance arising from delays and the workarounds that the teams have put in place to enable them to make payments.

A second issue is the complexity of the programme. There is no doubt that the external environment for the programme is challenging. The EC regulations are complex and have been clarified and developed over the life of the programme. At the same time, decisions that the Government has made, in discussion with the farming industry, on how the CAP is designed and

delivered in Scotland have added to the complexity.

Thirdly, on decision making and governance, we identify some occasions when significant decisions were made outwith the programme governance structures. The programme board was not given the opportunity to fulfil its role in offering advice and support to the programme sponsor. We also identify occasions when decisions took too long, which affected programme delivery. The IT team and the programme team did not work well together, and basic information on delivery and timescales was not shared with those managing the programme. That led to a lack of trust between the two teams and affected delivery.

Finally, there was, as the convener has mentioned, a significant conflict of interest, which was not dealt with effectively. The delivery director, who was a contractor, was able to benefit financially from recruitment decisions. I should note for the record that a police investigation is under way. The Scottish Government put arrangements in place to ensure that decisions were not taken by a single individual, but the delivery director, as a senior member of the resources group, still had the opportunity to influence decisions.

Overall, the programme will not deliver the full range of planned benefits and the Government now aims only to deliver a system that complies with EC regulations without some of the planned enhancements. There is also a risk that the current programme budget will be exhausted before a CAP-compliant system is delivered. I do not expect the programme to deliver value for money.

The report contains a number of recommendations, many of which I have made before in relation to the management of IT programmes. The Government first needs to get the IT system working more effectively, which I know it is committed to doing; it needs to complete a detailed assessment of the risk of financial penalties for all the remaining elements to enable informed decisions about priorities to be made and to manage the remaining budget; and it needs to ensure that appropriate governance arrangements are in place, together with plans for disaster recovery and knowledge transfer.

I have with me the colleagues who prepared on my behalf the report and previous ones on the issue. We are obviously happy to do our best to answer the committee's questions.

The Convener: Thank you very much, Auditor General. In opening up the meeting to questions from the committee, I ask members to indicate to me whether they would like to ask a question on the topic. We will start with Colin Beattie.

Colin Beattie (Midlothian North and Musselburgh) (SNP): Good morning, Auditor General. Looking at the report, I have a certain feeling of déjà vu, as we have had several reports on this particular issue. The report seems to reflect the overall problems with IT procurement throughout the public sector. Those problems do not seem to be restricted to Scotland; we have seen large problems with IT elsewhere, most recently with Her Majesty's Revenue and Customs, which I think wrote off £2 billion or £3 billion on its system down south.

Caroline Gardner: I do not want to comment on specifics, but you are absolutely right that the problem is not confined to the Scottish Government.

Colin Beattie: We have discussed previously the difficulties with skills shortages in the market and the public sector's difficulty in competing with the private sector in buying in the available skills. We have a critical problem that is multiplied by what is happening outside. On page 6 of the report, just below the six bullet points under "Recommendations", you say that you found

"common themes and weaknesses in the management of ICT programmes in the public sector".

You say that you are going to produce a summary of all that, which will be very important. I presume that, when you produce that summary, it will come to the committee.

Caroline Gardner: It certainly will, Mr Beattie. As you have said, this is by no means the first report that I have made on serious problems with major IT systems, and we expect there to be more in future. We are looking at whether we can take the previous recommendations that we have made further by making them more specific or helpful and at how we can add value in other ways.

Gemma Diamond might want to say a little more about that and about how we bring that back to the committee.

Gemma Diamond (Audit Scotland): We are certainly keeping a close eye on developments in the Scottish Government. On the back of our update report on managing ICT contracts, Government officials appeared before the committee in the previous session of Parliament and talked about the arrangements that they are starting to put in place to try to help with the skills issue. For example, the Government is setting up a centralised digital transformation service, which is a central hub of skilled people who can go out to Government bodies that cannot get the skills or who can help those bodies to recruit.

As Caroline Gardner has said, we are thinking about other ways in which we can try to be helpful. We are looking at the common themes to see

whether we can provide more detail on specific issues, including the questions that programme board members might ask when they see papers for scrutiny. We are also thinking about the kind of information that they might expect to receive. Given that we keep repeating the same recommendations, we are now looking at different ways of breaking the advice down and making it more helpful and of helping people to understand the key issues.

Colin Beattie: Obviously there are issues in the report that the committee will want to follow up, but we might need to look at the overall picture. Perhaps we can think about how to do that when the Auditor General's summary report comes out.

This is a big issue. I do not know whether any Administration has been good at identifying the problems and dealing with them, but there might be something that we can learn from elsewhere. It would be helpful if, when the summary comes out, you could make suggestions about where there has been good practice elsewhere in the public sector in managing IT projects. Perhaps we can take that into consideration, too.

I am concerned about what you say in your report about

"a lack of trust and blame culture hindering effective progress."

You go on to talk about "little accountability" and "ineffective challenge and oversight". We have heard about that before. Why has this happened? We have previously had uncomfortable reports, but this report seems to be the nuclear option. How did things suddenly get to this point?

Caroline Gardner: The team and I have reflected on that, and our view is that things did not suddenly reach this point and that the seeds of the problem were laid back in 2012 when the original business case was put together. At that point, the business case did not recognise the scale of the challenge that was to be faced. A particular challenge related to the Commission's requirements at that stage, which were known but were not recorded in the business case and were therefore not built into the thinking about how to plan and manage the programme.

As we say in the report, there was also a significant delay in appointing the key senior people who needed to be there to develop the options, procure the system and put the groundwork in place. All of that meant that, when we reached the point when the system needed to be operating to accept applications and start processing payments, it was behind the pace, and people were very much focused on solving the immediate problems.

We think, therefore, that the roots of the situation lie right back at the beginning of the programme. In a sense, that is the frustration; it is often the case that the initial groundwork has not been done well enough, which leads to late problems in delivery and an impact on the people who rely on the system across Scotland.

Colin Beattie: The reports on this issue that the previous Public Audit Committee received from you seemed to indicate that, although the situation was uncomfortable and things were a bit tight, resources were being put in and it should be okay. Now it is not.

Caroline Gardner: I think that people have been doing their absolute best to recover the situation. We know that people have been working very long hours and that extra resources have been brought in. You can see that in some of the exhibits in the report that show, for example, the number of contractors working on the programme. There is no doubt that people were doing their best to deliver it.

At the same time, the pressure to make things right led to some of the other problems, with decisions being made outwith the programme governance structures and the programme board not being given its place to think through the implications of other decisions such as making partial payments to farmers or setting up the loans schemes. All of those things were done for very understandable reasons, but they all added to the sense of tension and pressure between the two teams, the lack of trust and the lack of focus on the bigger picture instead of the immediate day-to-day decisions that were being taken.

Colin Beattie: Alongside farmers not receiving their payments on time is the issue of disallowance. In paragraph 10 on page 10, you mention that the Scottish Government

“incurred around 69 million euros ... in disallowance”

over a period, which represents

“one per cent of the total CAP payments”.

Is that in line with the experience in other countries?

Caroline Gardner: I will ask Mark Taylor to answer that question.

Mark Taylor (Audit Scotland): Disallowance in other countries is not unusual. The rates of disallowance across Europe have varied quite significantly. The disallowance of £51 million quoted in the report was for a variety of factors that related to the information that the Scottish Government had available about land, farms, individual fields and features in fields. They also related to issues around the quality of the

inspection process and wider control weaknesses around checks on eligibility.

The line to be drawn from that to the issue that we face is that there is an indication that with such matters—which are potentially evident in the current system—the European Commission is quite robust in pursuing disallowance and challenging the Government to have in place the controls that the Commission expects it to have in place. In the report, we flag up the fact that there is still a risk of disallowance that relates not just to the deadlines in June and now October, but, generally, to the way in which the system has operated and the robustness of the checking that it has been able to facilitate.

09:15

Colin Beattie: In paragraph 3 on page 12, you say:

“the programme will end when the budget is fully used.”

What are the implications of that? Does that mean that if it is not finished, we will just stop?

Caroline Gardner: The Government has made a commitment to deliver a CAP-compliant programme within the existing £178 million budget. As we report, we think that there is a risk that the budget will not be sufficient to deliver the full programme. I guess that it will be for the Government to decide what it intends to do at that point. My expectation is that it will need to continue to invest in delivering a project that is at least CAP compliant, even if it decides not to take forward the other enhancements that are now outside the scope of the programme. That money would need to be found from elsewhere in the Scottish Government’s budget.

The Convener: I would like to bring in a couple of other members. If time allows, I can come back to Colin Beattie if he has any further questions.

Colin Beattie: Perhaps I will come back in later.

The Convener: Okay. I will bring in Alex Neil.

Alex Neil (Airdrie and Shotts) (SNP): Auditor General, you said that to finish the programme, money might be required from other parts of the Scottish Government budget. Do you have an estimate of how much additional money from elsewhere will be needed?

Caroline Gardner: We do not have an estimate for that. The Government’s current commitment is that it will deliver a CAP-compliant system within the £178 million budget. If you look at paragraphs 38 to 40 on page 19 of the report, you will see that, when I reported, £46.8 million of the budget remained. Of that, £31 million was already committed to things that need to be in place to deliver a system that is compliant with EU

regulations, such as the land-mapping system. That leaves £15.7 million available for all the other things that are needed to get the system fully operating in a way that is quicker and more effective for both the staff involved and the farmers and their agents. My finding is that £15.7 million is tight for that, given the current rate of spend. I do not have an estimate of what else might be needed, because what we are looking at are the Government's plans. However, there is a risk that £15.7 million is not sufficient.

Alex Neil: When will we be able to establish how much additional money will be required from other budgets to complete the job?

Caroline Gardner: I estimate that the £15.7 million will be exhausted by November at the existing rate of spend. Obviously, it is possible that the system may be complete and fully compliant before then. We are watching that closely through the audit work that is going on. Mark Taylor is also the auditor of the Scottish Government's budget and will be able to update on progress in September, when he reports, through me, on the Scottish Government's budget.

Alex Neil: So in September we will have an idea of the order of magnitude of the additional money that might be required.

Caroline Gardner: I would hope so.

Alex Neil: Last week's events mean that we will now become involved in negotiations about the United Kingdom leaving the EU that will last up to two years. I know that it is early days, but the project clearly could be affected quite soon. If we leave the EU, the CAP as is will not, I assume, apply to the UK.

If we are going to spend all this extra money, will it be spent on something that we might not need and could be entirely redundant in two years' time?

Caroline Gardner: That is a difficult question for anyone to answer. The EU referendum outcome casts a doubt across not only this stream of EU funding but other EU funding in Scotland and the rest of the UK. As you say, nobody knows exactly what shape the negotiations might take, or over what timescale they will happen.

We know that the UK will remain part of the European Union for at least the next two years, so the funding will be available to Scotland. To access the funding, the Scottish Government needs to have a system that complies with EU requirements for making payments, so there is no alternative but to complete the system. I imagine that the Government will do that with an eye to what it might need in a range of scenarios in the future for supporting the rural economy. I

absolutely acknowledge that the situation is very difficult.

Alex Neil: Will you keep the situation under constant review?

Caroline Gardner: Yes. Like everybody else, since Friday we in Audit Scotland have been thinking about the implications of the referendum result, which apply to CAP funding and the Scottish public finances much more widely. We are working on a briefing on other EU funding that comes into Scotland. CAP funding is a significant source, but it is by no means the only one. We are thinking through what the referendum means for our audit work and how we will support the Parliament in making decisions over the years ahead.

Alex Neil: I will follow up some of the answers that you gave Colin Beattie on project management and will make a couple of observations. Under successive Governments—in London and Edinburgh—our management of IT projects has been problematic. As a former procurement minister, I compare that with the successful procurement projects that we have undertaken, of which the most notable is the Queensferry crossing project, which is worth more than £1 billion—more than five times the cost of the CAP IT project. We have had comparatively few problems with that massive engineering project, but we have got into all kinds of difficulties with a project that is a fifth or a sixth of its size.

Do we have lessons to learn about project management from non-IT projects, such as those under the Scottish Futures Trust's direct management, in which procurement and project management have run much more smoothly, which have often been well under budget and which have certainly finished on time and to the original specification? Do we need to have a broader canvas for managing IT projects so that we do not end up in such a mess in the future? That is my first point.

My second point is that, to the best of my knowledge, the problems in the CAP programme were not highlighted to the Cabinet until something like October last year. Is something fundamentally wrong when the civil service and the project managers do not flag up difficulties the minute that they arise in a project of such a size? Should we put in place procedures fairly urgently to ensure that the situation is not repeated? If ministers had collectively been aware much earlier of the scale of the problem, that could have forced corrective action much earlier.

The Convener: A question, please, Mr Neil.

Alex Neil: Should we not have such procedures? At the end of the day, ministers carry the can for other people's incompetence.

Caroline Gardner: Mark Taylor will pick up your second point in a moment. Your first point is good and it replays some of the ground that we covered with your predecessors on the committee in the previous session, when we looked at another programme for which it had been difficult to attract people with the right skills and the right seniority to manage a significant investment in IT. Across Scotland, there is a shortage of people with those skills.

We pointed to the parallel with the Scottish Futures Trust, where an investment has been made in building the expertise and bringing the right people together on a scale that can look across projects throughout Scotland. We can see an improvement in how such projects are being managed to cost and to time.

In setting up the new Government digital service, the Government intends to take exactly that approach, but it is too early for us to see the impact of that. As I said, the CAP project started back in 2012, which is when many of the seeds of the problem were sown.

We will watch the situation closely, not just because there is the immediate cost of such systems going over budget and not delivering what is intended but because there is a much bigger dividend in the potential to transform public services through good digital use, which will help with the financial pressures that we face. As you said, we need to get right a wider question of trust in government.

Mark Taylor will pick up your point about risk management of the project.

Mark Taylor: In paragraph 2 of the report on page 7, we highlight that the fact that the project was a risky one had been identified by Scottish Government officials through their inclusion of it on the risk register. It was initially identified as a risk issue within the Scottish Government in February 2013. As things escalated, I guess that the question was at what point it was appropriate to bring ministers into that discussion. We have not looked in detail at the mechanics of how that process worked or at whether that happened at too early or too late a stage.

Alex Neil: Will you now do so?

Mark Taylor: One of the things that we are very mindful of in our work on the Scottish Government is how the risk management processes work. As we think about how those risk management processes need to be developed in the new environment—whether that is Brexit or new financial powers coming to Scotland—we will be very interested in how those processes work more generally and in the relationship between them and ministerial involvement.

Alison Harris (Central Scotland) (Con): Good morning. I hear what you say and acknowledge where you estimate we are with the budget and what is left of the spend.

What immediately came to my attention were the potential financial penalties, which are significant and material: they range from £40 million to £125 million. What is being done to ensure that we keep the penalties at the lower end, given that it is a fair assumption that penalties will come into play?

Caroline Gardner: We have assessed the potential penalties. There is still a possibility that there may be no penalties, particularly in light of the extension of the payment deadline. I do not want to prejudge that.

The most important recommendation that I have made in my report is on the need for the Scottish Government to step back and do a close assessment of which parts of the system comply with the EU's requirements and which do not, and to use that information to prioritise the spending of the remaining budget that is available. The Government is trying to balance a range of things, and I recognise the difficulty and the complexity of that process. The range of potential penalties is wide. The penalties could be significant, particularly in the current climate. Prioritising the work to minimise the risk is the most important thing that needs to be done at this point, alongside continuing to make payments to farmers.

Alison Harris: Who would pay the penalties? I assume that it would be the Government.

Caroline Gardner: The money would come from the Scottish Government's overall budget.

Alison Harris: So the cost would not be passed on to farmers; that is fine.

Liam Kerr (North East Scotland) (Con): I want to follow up on the point that Alison Harris has just made. It is clear that the emergency loans that have been made will not have been budgeted for, nor will it have been anticipated that there would be fines, so they will not have been budgeted for, either. Therefore, I presume that work is being done to put a contingency in for various levels of fines. Has any indication been given of where that money would come from?

Caroline Gardner: The answer depends on whether we are talking about loans or penalties. I ask Mark Taylor to deal with that.

Mark Taylor: In relation to the loans, the Government was able to identify that there was scope to make advances to farmers with a view to getting that money back once the payments had been made, recycling it within the current financial year and using it for its original budgeted purposes. That money comes from a financial

transactions pot. Such transactions are essentially loans from Government to private sector individuals, housing associations and bodies outside the public sector that it is anticipated would be repaid to Government in the future.

The risk that we highlight in the report is that that will not be able to happen as soon as it was planned to happen. If payments are made to farmers too late to enable that to happen quickly enough, there is a risk that other loans will be delayed. The Government has given us an assurance that it is working to make sure that it manages that within the same financial year. In the report, we highlight that there are risks in that approach and that it is contingent on the payment system being in place and the final payments being made to farmers in time to enable those loans to be recovered, recycled and allocated to their intended recipients.

Caroline Gardner: In relation to financial penalties, the first thing to say is that one of the key elements of the business case for the futures programme was to reduce the risk of penalties and disallowance in future. Mr Beattie mentioned the £51 million that was disallowed under the previous programme. The Government had the clear aim of minimising that in the current programme, for very obvious reasons.

At the moment, there is no provision for financial penalties, were they to be levied. I would expect that the Government is doing its own assessment of how likely penalties might be and what the range would be, and then looking at how they could be funded. However, I stress that the amounts have not yet been agreed or finalised—they are still potential penalties.

09:30

Liam Kerr: I have a follow up question on loans. I recollect Fergus Ewing suggesting that farmers might have to pay interest on those loans. Is that correct? If so, does that not seem a little harsh?

Mark Taylor: I think that it would be best if detailed confirmation about the Government's plans came from the Government.

Our most recent understanding is that Mr Ewing has indicated that he is reviewing the need for those interest payments.

Monica Lennon (Central Scotland) (Lab): I will pick up the issue around staffing. Auditor general, you said that there is a real risk of burn-out, which is addressed on pages 36 and 37 of your report, but it has not come as an overnight surprise. There have been warning signals and the gateway reviews throughout 2015 highlighted some of those risks. It is evident that people are working very hard, but mistakes are being made,

so there is a real issue around quality. To what extent are you concerned that there is scope for further problems in this area? I note that

“There is also a risk that staff will leave the programme”

before we get to the end. I also note that you recommend in the report that

“The Scottish Government needs to put plans and processes in place immediately”.

That is a very clear statement, but I wonder how confident you are that action is being taken as we speak. Also, what might a reasonable timescale be for those transitional plans?

Caroline Gardner: First, we all recognise that this is a very difficult position to be in for the staff involved. I heard Mr Ewing giving evidence yesterday to the Rural Economy and Connectivity Committee, during which he recognised the commitment and the efforts of the staff involved and the risk of errors being made and burn-out and so on. Clearly there is not an easy answer to that while people are working so hard to get payments made on time and the appropriate controls and checks in place.

The Government's recognition of that risk is an important first step. If people feel that their efforts are being recognised, it is easier to keep up that level of commitment for a period than it otherwise would be. I also think that the immediate short-term efforts going on must not get in the way of recognising the importance of having a plan for transferring knowledge from all the contractor staff who are still employed to the Scottish Government staff who will have to run the programme in the future. Whether that is the long-term future or for a period after the triggering of article 50, we still need a system that can do this and a plan for transferring knowledge is very important. I take comfort from the fact that that is recognised at the highest levels in Government and it is a challenge that all of us completely recognise from managing organisations ourselves.

The Convener: Okay. Do any other members have points that they want to make?

Colin Beattie: There are a couple of things that I want to come in on.

Auditor general, you referred to that other project—presumably you meant NHS 24 and the issues around that. Within NHS 24, there was clear evidence of concealment of the true situation in relation to the contract. That was very evident and that came out in your report on NHS 24. You have not mentioned anything about concealment in relation to this programme and yet, as Alex Neil mentioned, the Cabinet was not aware of it until October 2015.

Was there an element of concealment? Was there an element of, “We hope it’s going to be okay—let’s keep it quiet until it comes out”?

Caroline Gardner: As Mark Taylor said, the risk posed by the programme was included on the Scottish Government’s risk register from its early days so it was recognised as being risky at that point.

My strong sense is that the governance problems around the project that I highlight in the report—the programme board not being able to carry out its full role; difficulties in getting hold of information about delivery, timescales and costs; the programme board decisions being made around it or decisions being delayed—made it much more difficult for the checks and balances that you would expect to have been in place to work effectively and for a clear picture of how bad the situation was to be apparent to the programme sponsor and then, through the permanent secretary, to ministers. I do not have any evidence of deliberate concealment, but I think that those governance failings made it much more difficult.

Gemma Diamond said earlier that we were looking at whether we can help through, for example, providing clear guidance to members of audit and risk committees about their role and the questions that they should be asking about the assurance that they should be seeking. Before the election, I had a session with the Scottish Government’s non-executive directors as part of our regular contact, and it was clear that they were asking the same questions about what they should have known, the extent to which the matter should have been brought to their attention and how far they should have been questioning what they were being told. It is a really clear example of why such governance arrangements matter. They are not just a tick-box exercise; they are the way in which people can understand what progress is being made, what the risks are and what needs to be escalated in very good time.

Colin Beattie: It seems to be a serial issue that we do not learn from the most recent disaster. Here we are again, being told—it is in paragraph 77 on page 27 of your report—that the people running the project

“relied on the skills of the IT delivery partner and external advisers to succeed.”

How often have we heard that? We have been told that about almost every project that we have looked at.

Caroline Gardner: There is no doubt that these problems are still coming to light. As I touched on earlier, I expect to report on at least another one or two projects over the coming months.

The challenge for us and for the Government is in unpicking what problems are still current and what is coming out of problems that were laid when the projects were started three and four years ago. My view is that the problems with this programme originated back in 2012-13, when it was first set up. The Government has given the committee a commitment that its new arrangements will make those problems much less likely to happen in the future, but it is too soon for me to say whether those new arrangements are having the effect that they are intended to have. I hope that they are, but I cannot give you that assurance yet.

Alex Neil: I appreciate the issue about the problem not having been escalated, but we have director generals in the Scottish Government who are, in effect, the chief executives of their departments. Surely, they should be personally monitoring projects of this size or ensuring that they are being monitored on their behalf. Although, rightly, the matter should have been escalated at a much earlier stage, surely, had the director general been doing their job properly, they should have picked up the problem much earlier than they did.

Caroline Gardner: You are absolutely right that there is a very clear system of accountability from the permanent secretary, through the director generals and, for outside bodies, to the accountable officers of those bodies. The challenge in this case seems to have been whether the arrangements that were in place to give the director general the assurance that he needed that the programme was progressing as planned worked properly, and there is evidence that they did not work well because of the governance problems that existed. We have also seen, in IT systems across Government and further afield, a strong optimism bias—people hope that it will all turn out okay and pile the resources in. You can see evidence of that here.

Alex Neil: Yes, but my point is a different point. With all due respect, surely any director general worthy of the name and the salary should not always rely on escalation. They, themselves, should be making sure—proactively—that a project of this size is going to plan. That clearly did not happen. It seems to me that the chiefs have something to answer for as well as the people on the ground floor, as it were.

Caroline Gardner: They are certainly accountable to Parliament for their use of public money—there is no question about that. I would, however, make a slight distinction between their seeking out evidence of progress and their putting in place arrangements that give them the assurance that they require. They should be accountable for having a system in place that

gives them accurate, reliable and fair information about progress that is a basis for their digging down when problems arise. That clearly did not happen in this case, and they are accountable for that—such is the nature of the accountable officer role.

Liam Kerr: In answer to Monica Lennon, you talked about contractor staff and knowledge transfer. Has the Scottish Government done any analysis of the split between employed individuals and contractor staff and has it done any risk assessment based on that, particularly in relation to the inevitable cost overruns that a contractor will now seek to pass on?

Caroline Gardner: Gemma, do you want to take that?

Gemma Diamond: Certainly. The majority of staff on the programme were contractor staff. There is an exhibit in the report that shows a high number of contractors working on the programme. They came through the main partner, CGI, but the report makes the distinction that, for the calendar year 2015, they were under the direction of the Scottish Government. The Scottish Government took accountability for IT delivery for that calendar year, so it provided the direction on how many staff it needed and what it wanted them to do. It simply asked CGI for the resources that were needed and CGI provided the staff, but they worked under the direction of the Scottish Government.

The risk assessment of what knowledge transfer needs to be done forms part of the plan to which the Auditor General referred. It is necessary to identify the key staff with the key knowledge, what knowledge needs to be passed over and the critical points for that of when people will leave.

Liam Kerr: If a contractor is providing services, it will presumably have provided them against an initial specification that is now likely to be exceeded and the contractor will not bear that cost without seeking to pass it on.

Gemma Diamond: The contract that was set up at the start was not a fixed-price contract. It was made on the basis that the specifications would be developed as the Commission regulations became clearer. As I said, for a year of the programme—2015—the contract did not operate as a partnership agreement as intended because the Scottish Government had taken accountability for IT delivery.

Caroline Gardner: You are absolutely right about the broader point, Mr Kerr. In exhibit 10 of the report, we show the number of contractors who are employed at the rate that was set in the original framework contract, those who are at discounted rates and those who are at rates above those that are set out in the framework. Significant

numbers are being paid above the framework rates simply because, with the style of contract that had been put together and the urgent need to have a programme up and running, there is no alternative but to have the staff available and market conditions shift from month to month.

In many ways, it is not surprising to have a contract that is not a fixed price at the beginning of a large and complex programme such as the one we are discussing. We have seen it elsewhere. However, if a body has a programme that is designed to flex as the requirements become clearer, it needs to be very clear about how the changes will be managed. We did not see evidence of a clear challenge about the number and type of staff who were being used and how much they were costing. Those are the sorts of governance problems that we set out in the report.

Alison Harris: Is there any indication of the level of loans that have been issued to farmers and what has been done to assess that risk? My understanding is that loan payments were made to help farmers because they did not get their CAP payments, but if the farmers do not get paid, what happens to the loans? How has that been considered? Do we have an idea of how much it could be if farmers do not get their money and do not repay the loans?

Mark Taylor: We have a summary of the loans that have been made in paragraph 51 on page 20 through to paragraph 53 on page 21. You will see the main thrust of that in paragraph 52, which gives the position at the end of April 2016: 5,119 loans were made to individual farmers and crofters and those were worth around £91 million at that point. The Government is best placed to give you an update.

The expectation is that individual farmers will be paid at some point and, at the point at which they are paid, they will be able to repay those loans.

Alison Harris: The loans are based on the expectation that the farmers and crofters will be paid. It is quite a substantial sum, £91 million. We are hoping that they will be paid and that the loans will be repaid to the Government.

Mark Taylor: The expectation is that, at the point at which individual farmers are able to receive payments that are equivalent to their loans, the loans will be repaid from those payments.

Alison Harris: Okay. What provision has been put in place in case of farmers not making the loan repayments?

Mark Taylor: We highlight in the report that there are risks to the Government.

Alison Harris: It is just a risk. The potential is not calculated yet.

09:45

Mark Taylor: It is worth highlighting that we are auditing the Scottish Government accounts for the year ending 31 March 2016 and are exploring with the Government how it accounts for its expenditure during the year and the loan balances and other balances that it has at the end of the year.

Alison Harris: I was thinking more of the farmers' accounts in the longer run and how the loans would be repaid if the farmers were not here a year or two years from now. However, thank you.

The Convener: I will pick up on a couple of issues. I want to go back to something that we talked about at the start of the meeting. The Auditor General admitted in response to Mr Beattie that problems with IT projects are not confined to Scotland. Obviously, the CAP payments need to be made right across the European Union in all member states and they all have very different requirements in terms of their rural economy. Have you come across anything from the IT systems used in other member states that Scotland could have learned from? Has the Scottish Government already been looking to other member states to learn lessons?

Caroline Gardner: One of the challenges is that although all member states are entitled to apply for funding under the common agricultural policy, they are not all starting from the same place. Members might recall the significant problems in England, for example, with the Rural Payments Agency under the previous CAP programme that caused problems for the rural economy there. At that point, Scotland's payments proceeded much more smoothly, but this time round it looks as though—I stress that it looks as though—payments in England are going more smoothly and Scotland is having more problems.

My hunch is that one of the reasons for that is that, for the previous programme, England did some of the difficult things around land mapping and having much more of the process digitised. Scotland must now do that for the new programme. That said, there are also differences in the schemes that have been agreed. For example, after discussions with farmers in Scotland, the Scottish Government agreed to additional schemes for sheep and beef here, and added a third category for land payments. All that is designed to reflect Scottish circumstances, but it also makes the system more complex.

There is a limit to how much learning there can be among member states. Mark Taylor is closer to this issue than I am and might be able to give you a sense of exactly how that learning has played out in practice.

Mark Taylor: All that I can do is emphasise the point about different contexts in different places and how much that influences the extent to which experiences can be shared. The other little detail that is probably worth sharing is that one of the things that the Scottish Government considered was using a system that was in operation in a number of other countries as not quite an off-the-shelf option but an alternative to building its own system from scratch. Ultimately, the Government ruled that out. We highlighted some delays around decisions on what we call in the report the contingency option. I think that the decision that the Government took in that regard emphasises that the context is different in different places in terms of both the detail and the way in which the overall principles of the schemes are implemented in individual bodies and what their starting point is.

The Convener: Thank you. The second point that I want to pick up on is about something that we have rehearsed a bit this morning regarding escalation, responsibility and accountability. Alex Neil said that the issue did not come before the Scottish Cabinet until October 2015. However, Mark Taylor said in one of his responses that the issue was on the risk register with the Scottish Government in February 2013, which is quite a long time ago now. At what point were ministers brought into this? Alex Neil referred earlier to a director general having to be responsible for what has happened. I am not under any illusions; the previous cabinet secretary, Richard Lochhead, spent a lot of time with farmers in Scotland over the past few years and was well aware of the issues with the system. In terms of accountability, if the issue was on the risk register with the Scottish Government, should there not have been much earlier ministerial involvement in asking for briefings and updates on how the project was progressing?

Caroline Gardner: There is no question but that ministers are responsible for setting policy and civil servants deliver that policy on their behalf. Government is big and complex, with a range of policy priorities to be delivered across the whole programme for government.

At an early stage, as Mark Taylor said, it was identified that the CAP programme was complex and had significant risks associated with it in terms of both the costs and the impact on farmers and the rural economy. It was included on the Scottish Government's risk register for that reason.

One of the things that we as auditors look at in any body that we audit is how well the risk management arrangements are working. It is not enough just to capture the risk and carry on with business as usual. There must be another step in which people ask, "How do we know what is really happening here?"

The way in which any accountable officer aims to exercise that accountability is by having in place a system whereby people know what they are responsible for. Those people within the organisation are monitoring good, robust, reliable, fair and balanced information about costs and progress and where the risks currently are. They understand when they should escalate those risks to their manager, the director general, the permanent secretary and ministers.

Our view is that in this case the governance arrangements did not work as they needed to or were planned to, because decisions were being taken outside the programme board, and because decisions were being delayed because of the tensions between the programme team and the IT team, with information not being passed on properly.

It would be worthwhile for the committee to explore that area with Government at an appropriate point. As Gemma Diamond said, we are thinking about how we can help people to apply such arrangements better in complex situations such as this case, particularly with regard to the role of the non-executive directors, who felt that they were not necessarily in a position to understand what progress was being made and where they should be applying the challenge that is at the heart of their role.

Is there anything that my colleagues want to add to that?

Gemma Diamond: No.

Mark Taylor: I will add one bit of detail. It would be wrong to characterise the project as one in which things were going wrong locally and nobody at the top, in Government or the civil service, knew what was happening. There was awareness, as was illustrated by the inclusion of the project on the strategic risk register for the organisation. There was an escalation process that made it clear that issues were emerging.

The Auditor General has spoken before about optimism bias, and that was one of the issues. In raising a concern about risk and saying, "There is a problem here and we are dealing with it, and this is how we are doing so," people are inevitably open to the suggestion that an issue is able to be fixed.

The Auditor General has touched on how the project was constructed at the start, but it was evident throughout that the priority and pressure in the project was to get payments made to farmers. We understand why that was, but there was a tension between that aim and the need to ensure that the systems were in place, that teams worked well together and that the approach was sustainable in the longer term.

We highlight a number of times in our report what the effects of that were. We are not suggesting for a moment that it is not important to get payments out to farmers—of course it is. However, the pressure on the team and on the organisation throughout the project made it very difficult for people to get out of the here and now, and to raise their heads and look at how the system would move forward in the future.

The Convener: Given the experience—to which Colin Beattie referred—with other public sector IT projects such as NHS 24, was the original Scottish Government estimate of £50 million too low an estimate for how much the CAP project would cost?

Caroline Gardner: With hindsight, it is clear that it was, but hindsight is a wonderful thing. It is difficult to untangle how much of the current projected cost of £178 million has arisen because of the delays and problems that have been encountered along the way.

Mark Taylor touched a moment ago on one of the points that we make in the report: the original decision about which route to take, which was made in 2012, took too long. At that point there were other options such as buying an almost off-the-shelf system that is used by other EU member states, or designing and building a new system. Other options were available, but the time that was taken to make that decision meant that, in effect, the only decision that was left on the table at the point that the decision was made was the option of designing and building a new system.

I do not have a crystal ball that allows me to say what the cost would have been had one of the other options been chosen, but some of those options were ruled out simply because of the time that was taken to make the decision. There is no doubt in my mind that the cost of £178 million has come about at least in part because of the delays in making those early decisions and in getting the right skills in place, and the consequences of that over the past four years.

The Convener: I have one final question. You have referred a couple of times to the skills shortage. Is that something that you have identified in other IT contracts? Can you give us a flavour of the extent of the IT skills shortage in Scotland?

Caroline Gardner: Yes. There are two dimensions to that. First, you are absolutely right: we have referred to a skills shortage in other reports on IT systems that have failed. Colin Beattie referred to NHS 24, and there have been other smaller-scale failures.

There are two dimensions. First, across Scotland we do not have the number of highly skilled IT professionals that we need, not only in

the public sector but for private businesses and the wider economy. That is a recognised priority in the Government's economic strategy that needs to be taken forward.

Secondly, specifically in public sector projects, one of the recurring problems that we have seen is a failure to get the really good commercial and programme skills in place right at the beginning to enable the Government, NHS 24 or another public body to manage the project tightly themselves, rather than being held hostage by very skilled private companies that specialise in negotiating contracts and delivering.

That is why we think that the Government's commitment to developing a highly skilled Government digital service is the right way forward. We can do that once for Scotland and invest in getting the highest-level skills in place for all public bodies to use. However, it is too early for us to say whether that commitment is having the intended benefits in practice.

The Convener: I thank all of you for your evidence. I will suspend the committee for a couple of minutes while the Audit Scotland witnesses swap over for the next agenda item.

09:56

Meeting suspended.

09:59

On resuming—

“Changing models of health and social care”

The Convener: Item 3 on the agenda is consideration of the Auditor General for Scotland's report “Changing models of health and social care”. The Auditor General is staying with us for this item. I also welcome from Audit Scotland Carol Calder, Jillian Matthew and Antony Clark, who is an assistant director. As before, I invite the Auditor General for Scotland to make an opening statement before I open up the session to questions from members.

Caroline Gardner: The report assesses how national health service boards, councils and partnerships are transforming the services that they deliver to meet the changing needs of the population. It also considers some of the challenges to delivering the Scottish Government's 2020 vision of enabling everyone to live longer, healthier lives at home or in a homely setting by 2020 and the actions that are required to address those challenges. In the report, we have put a strong focus on supporting learning and improvement by providing examples of the kinds of services that are being developed and the kinds

of things that need to be done to make that transformation and increase the pace of change.

Obviously, it is vital that people can receive effective care when they need it, at home or in a homely setting if possible. It is also important that people have a say in the care that they receive. The Government's 2020 vision aims to do that, but the shift to new models of care is not happening fast enough to meet the growing need, and the new models of care that are in place are generally small scale and are not widespread.

The committee will know that health and social care services are facing increasing pressures from an ageing population and a tightening financial position. We have reported on that previously. In this report, we provide more detail on some of those pressures, including the growing pressures in general practice and the increasing number of emergency admissions to hospital, particularly for people aged 85 and over. Those pressures on health and social care services are likely to continue to increase in the next 15 years and more. For example, our analysis suggests that, if the population increases as predicted and services continue to be delivered in the same way, the impact across the system will be significant. Compared with 2013, there could by 2030 be an extra 1.9 million GP appointments and 1.5 million practice nurse appointments; an extra 20,000 home care clients and 12,000 more long-stay care home residents; and 87,000 more emergency admissions to hospital, with an additional 1.1 million bed days.

It is clear that our existing services cannot continue as they are and that health and social care services will need to be delivered differently to cope with the increasing pressures. I want to make it clear that new approaches to health and care are being developed in parts of Scotland. We have summarised those in exhibit 6, which is on pages 20 and 21 of the report, and we have given more detail on particular examples in a supplement to the report, which members should have.

Those emerging models are generally designed to prevent admissions to hospital or to get people home from hospital more quickly. For example, NHS Tayside is providing enhanced community care to elderly people who are at risk of admission to hospital and GP practices in Govan are trying out new approaches to patient care in one of the most deprived areas of Scotland. Several partnership areas are making good use of data to understand the needs of their local population and how services are currently being used. Good examples include Perth and Kinross, West Dunbartonshire and East Lothian. Those partnerships are using the information to look at how services can be provided more effectively and

closer to people's homes. At the same time, ISD Scotland is developing a database of linked health and social care data, and ISD analysts are working in each partnership area to provide expertise and advice.

However, more needs to be done to make the transformational change that is required. NHS boards and councils will need to work with the new integration authorities to develop and adopt innovative ways of working that are different from traditional services. That will involve making difficult decisions about changing, reducing or cutting some services in order to invest in others. It will also require a significant shift in how all of us across Scotland access, use and receive our services.

The Government needs to provide stronger leadership in making that change by developing a clear framework to guide local development and by consolidating evidence of what works. The Government could also do more to help to remove some of the barriers facing NHS boards and councils by identifying longer-term funding to allow bodies to develop sustainable new care and by identifying a mechanism for shifting resources from hospital to community services.

As always, my colleagues and I are here to answer the committee's questions.

The Convener: Thank you, Auditor General. I open up the meeting to questions.

Monica Lennon: I draw the committee's attention to my entry in the register of members' interests, as an elected member of South Lanarkshire Council.

The report says that a "focus on short-term funding" is having an impact on service delivery. There is increasing reliance on the private sector to help to meet targets, and it is clear that that is not demonstrating value for money. Do you see that trend continuing? If that is not inevitable, what steps need to be taken to reduce the reliance on the private sector?

Caroline Gardner: That is a very good question. There is a lot in there, so if you will forgive me, I will pull back just a little bit.

In my reports over the past three or four years, I have highlighted that the focus on targets to which you referred has clearly had some real benefits in bringing down the times that people wait for elective care, admission to accident and emergency, and other things that matter to all of us. At the same time, however, the targets have tended to draw attention to what is happening in acute hospitals instead of what is happening in the health and care system as a whole, and there is a real risk that they can make it more difficult to develop the sorts of systems that would prevent

people from being admitted to hospital by providing some of the care that they need at home or much closer to their homes. I have therefore recommended on a number of occasions that the focus on targets be reviewed, and I was delighted with the cabinet secretary's recent announcement of such a review. I think that, as part of the wider view of what the system needs to do, the targets themselves need to be seen as part of the system rather than in isolation.

The other part of my recommendation that you referred to relates to longer-term financial planning and longer-term streams of funding. At the moment, it is not clear whether the Government knows that the shift that it wants can be achieved within the funding that is available for the NHS and care services over the life of this Parliament. It is clear that additional investment has been made; indeed, I have set out the figures in the report. In the past, the Government has been committed to protecting spending on the health service, but we do not know whether that is enough to make this shift. We therefore need to model what the costs of a new model of care would look like and to ensure that the funding that is in place is there for long enough to let local services right across Scotland plan for what is happening.

An additional £30 million has been announced for this year in the budget, and quite recently we have had the four-year £300 million change fund. However, my reporting on the change fund found that it was often used for quite small-scale and time-limited projects that had a local impact but which did not shift the whole system, and it is that system-wide and longer-term financial planning that I think is needed to really transform services.

Monica Lennon: Thank you for that.

The case studies in the report are useful in showing that there is already good practice out there, but my attention is drawn to the comment that

"Councils and NHS boards are finding it difficult to agree budgets for the new integration authorities."

That issue should be looked at in the context of real-terms reductions in NHS and council budgets. To what extent do you feel that those reductions are making it difficult for councils and NHS boards to reach agreement? Have you seen any examples of areas across the country where more progress is being made than in others?

Caroline Gardner: There is no doubt in my mind that it is harder to set new ways of delivering services—which is the intention behind integration authorities—at a time when budgets are under pressure than it is at a time when they are growing. When we reported on progress on setting up the new integration authorities back in December, we found that there were some real

risks to their ability to deliver what is expected of them. Now that they are formally up and running, as they have been since 1 April, we are carrying out some more work on their progress. Antony Clark might be able to give us a bit more information on what we know about that without pre-empting the follow-up reporting that we will be doing.

Antony Clark (Audit Scotland): We are in the relatively early stages of planning the next phase of our audit work on health and social care integration, but we will be assessing how well the governance arrangements are leading to shifts in services. In our previous report, we were very focused on how well the integration authorities were putting in place the structures and processes that they needed to plan together, but our focus looking forward is on whether all of that is actually making a difference.

We know that there have been some delays in agreeing budgets in some health and social care partnerships, but that situation is not universal across Scotland. Some places have been able to agree their budgets relatively easily. I think that it depends, to an extent, on the quality of the relationships that they have in place that they developed over time.

Monica Lennon: This will be my final question for now. The report says that at this stage there is still

“a lack of evidence about ... impact ... and outcomes for service users.”

Given that that is the most important aspect, what improvements do you feel need to be made with regard to local accountability and scrutiny? The report says that it is very difficult to carry out an extensive cost benefit analysis because of what appears to be a lack of local costs information. What steps are being taken to address that? What more can the Scottish Government do in that regard?

Caroline Gardner: That is one of the big recommendations in the report. For reasons that I entirely understand, the Government is encouraging local areas to find their own solutions. Given that every population and every community is different, that the services that are currently in place differ from place to place, and that the skills and experience that professional staff and community groups bring are different, this is absolutely not about taking a cookie-cutter approach, whereby we try to do the same thing across Scotland. However, there is also a real risk in taking an approach that lets a thousand flowers bloom and means that people try different things in different parts of Scotland without the support and guidance that we ask for in the report. Some things work and some things do not, and we never

really know what made the difference. We do not know what made the successful approaches work in practice and what went wrong with the ones that did not work.

We are certainly not seeing the overall shift in services that we need to. I draw the committee's attention to exhibit 8 on page 27 of the report, which shows the amount spent on acute hospitals compared with the amount spent on community and social care services over the four years between 2010 and 2014, when the 2020 vision was first launched. It shows that there was no shift at all over that time. That is a stark reminder that, for all the good work that is going on, we are still heavily reliant on acute services and the shift is not happening locally.

What we would like to see—there is a checklist in the report that the team will be able to point me towards—is that when people set up their projects, there is much better support for them that says how whether the project is working will be measured, how we will learn from that and how the approach can be spread across the area and across Scotland so that that investment has the biggest possible pay-off. We think that that is the counterbalance to the Government's focus on outcomes. The outcomes approach is widely celebrated, not just in Scotland but further afield. However, alongside the outcomes there needs to be a plan and we need to know what progress is being made. We think that that bit is missing at local level and that the Government can help to push it forward. For the record, exhibit 9 on page 30 of the report sets out what we think should be in place when people plan and deliver their local services.

Colin Beattie: Auditor General, I think that I detect a subtle change in the way that this report has been produced. I welcome its focus on success stories and on alternative models that are being tried up and down the country. That is really helpful, and it indicates that people are experimenting with the new models and that there might possibly be some transfer of good practice. That is really positive.

Caroline Gardner: Auditors are always delighted to be called “subtle”, as that is not our usual image. We are genuinely trying to be helpful and to fill the gap by using our insight across Scotland to look at what is working and at what is needed to make the approaches that work much more widespread.

Colin Beattie: I refer to paragraph 5 on page 8 of the report. I want to look at how you gathered the evidence. We have previously talked ad nauseam on the committee about the problems with the figures that are produced nationally and the fact that, while the situation is improving, this is a big beast to get accurate information from so

that we can use it usefully. You say that you gathered evidence by

“analysing national and local information,”

which helped you to identify “pressures in the system”. You also say that you carried out “projection analysis”, conducted “desk-based research” and worked closely “with one partnership area”. That sounds a bit narrow.

Caroline Gardner: I will ask Jillian Matthew to talk you through how we did that work. I can see that that list might look narrow. In many ways—this reflects the slightly different approach that you focused on—the report was a much more outward-looking piece of work than many that we have done in the past, because we wanted to get a grass-roots perspective. Jillian, do you want to give a flavour of that?

Jillian Matthew (Audit Scotland): Yes. I will say a bit more about the approach. We liaised closely with colleagues across the Government on different strands such as primary care, secondary care and the improvement side of things. We drew on the knowledge that was already there and examples that they were aware of. When we started the audit, we wrote to all the health boards and councils across Scotland to explain the audit that we were doing, to ask what kind of things were going on in their areas and to invite them to point us to any good practice that they wanted to share.

We did not go to every area in Scotland and we did not look at every different type of model, but we tried to cover a good range of what was going on. We pushed across various networks, including through ISD, because it is doing a lot of close work with different boards to help them to understand their data and what is going on with services. We put the feelers out quite widely to find out where there was good practice. We struggled to find a lot of widespread practice, but we tried to draw on different examples to demonstrate the different types of things that were going on. We tried to highlight where some of the challenges are and what different bodies are doing to overcome them in an effort to be helpful on the different approaches that can be taken.

10:15

Colin Beattie: As the Auditor General said, what is in paragraph 5 looks a wee bit narrow on the surface.

The report is similar to previous reports in that it says that progress is being made but not fast enough and not all at the same pace. One of the themes that I pick up is leadership at the local and national levels. The Scottish Government has left a lot of the leadership at local level to suit local

needs so that what is necessary locally can develop along the broad guidelines and paths that everybody is following. In saying that you want the Scottish Government to provide more leadership in various areas, you seem to be saying that perhaps a more centralised approach would be more effective. That is not the way it has been done, but is that what you are trying to get across?

Caroline Gardner: I would not use the word “centralised” at all, Mr Beattie. As I said in response to Ms Lennon’s question, we are not looking for a cookie-cutter approach that pretends that each part of Scotland is the same and that the same model of care will work in each part. That is obviously not the case.

We have two concerns. First, the vision is very clear and it has been in place since 2011, but progress towards it is very slow. I pointed Ms Lennon to the exhibit that shows that the balance of spend between hospital care and community and social care services did not really shift in the four years after 2011. A lot of support is being given—we list the joint improvement team, the quality, efficiency and support team, the work that ISD does and some other elements—but it feels to us as though that support is quite unco-ordinated and it is hard for local services to get good information about what is being tried elsewhere and what makes a successful change programme work.

We are therefore looking for something that provides a framework that will help local partnerships and services to see what the vision looks like in practice, to work through what it looks like in their area and to do the financial modelling and planning.

It might be useful to draw an analogy with what we have seen in relation to the Government’s priority on educational attainment recently. Yesterday, the Deputy First Minister announced a plan for a clear outcomes focus on attainment and for how Education Scotland and the Scottish Qualifications Authority will work with schools and local authorities to move people in that direction. Different approaches will be used in different areas but there will still be a clear plan. We are talking about something similar here. It is not micromanagement or centralised control; it is clear and more aligned support between the outcome and the local plans.

Colin Beattie: Coming back to information, paragraph 20 on page 14 talks about quite a big gap in information. How good is the information that the Government and local authorities are working on? Is it robust or are there real gaps that are causing them problems or delays?

Caroline Gardner: The gap that you are referring to is specifically the lack of information

about GPs in primary care. I will ask Jillian Matthew to expand on that in a moment.

We have reported to this committee in previous sessions that, in Scotland, we have extremely good information about hospitals and acute care. It is probably among the best in the world. We have got much less information about what is happening in communities. Given the clear focus of the 2020 vision on people's homes and homely settings, that is a really important gap.

Jillian Matthew: As has been pointed out, there is a big gap in data on primary care and general practice. That caused us problems when we were looking at the scale of the issue and the demand for general practice services. However, we pulled together various bits of information, and exhibit 5 is an infographic on the pressures around general practice. There is other information that we would like to see and which would be helpful locally for boards and partnerships to use—

Colin Beattie: That was just an example. Are there other areas where there are big gaps? The Auditor General mentioned local information perhaps not being as robust as the information from hospitals, which has been well honed over the past few years. Do we still have major information gaps locally that are causing problems with integration?

Caroline Gardner: The gaps in data around GPs and primary care are probably the most significant. That is partly because information that was collected until about 2012 is no longer collected. There are plans to collect new information, but those plans are not fully in place yet. It is also partly because, under the new clinical strategy, GPs and primary care are seen as being at the heart of making the shift. We know that there are pressures on general practice, which we set out in the report, but we do not currently have good information about how many GPs there are, how many hours they work and how that matches the needs of the population. That information—it is really quite basic—would let you invest in GPs in the right way and get the new GP contract negotiated in ways that would let GPs play the role that they are expected to play in the new clinical strategy.

Liam Kerr: First of all, thank you for the report, which I found very clear and accessible. Because we have been speaking about GPs, I will ask about that topic. You mentioned that the pressure is likely to increase over the next 15 years and that, by 2030, there would be an extra 1.9 million GP appointments. The strategy is all about—or at least in major part about—preventing admissions to hospitals.

Obviously, this is a very people-intensive industry, and your report contains a clear

infographic about the pressures on GPs. What is going to be done about the shortage of GPs? Page 37 of the report talks about £2.5 million being allocated to explore the issue. Do I take it from that that the work on recruitment and retention is not on-going yet and that we are still at the stage of exploring the problem?

Caroline Gardner: This is not quite the case. GPs are an unusual part of the public service workforce, because almost all of them are independent contractors who are contracted to NHS boards to provide general medical services. Therefore, the health service is not in a position to plan that workforce and recruit in quite the way that it can for hospital doctors and nurses and so on.

As you said, we have an exhibit in the report that aims to show the pressures on the GP workforce. It is clear that those pressures are significant and that they are getting worse, partly because of demographic changes. GPs are expressing concern about their workload at the same time as we are seeing an increase in female—and male—GPs looking for a better work-life balance.

The Government would be better placed to answer your question about how the £2.5 million is being used. I think that it would probably also say that what will make a bigger contribution to resolving the problem is the new GP contract that is being negotiated. That will fundamentally review the terms under which GPs provide general medical services, how they work and how they are paid for that work. The hope is that the new contract will not only improve recruitment and retention, but will enable GPs to play a central part in the new clinical strategy.

Do you want to add anything to that, Jillian?

Jillian Matthew: No, I do not think so.

Liam Kerr: Other jurisdictions have had difficulties with GP contracts. Do you see anything in the pipeline that gives cause for concern?

Caroline Gardner: As you would expect, auditors are not in the business of speculating. We are keeping a close eye on the Government's policy commitments and the progress that is being made. At this point, it is too soon to say what outcome will be achieved, but it is a matter on which we will keep our audit work focused over the period up to the contract agreement and then, as it comes into effect, in the years at the end of the decade.

Liam Kerr: As I said, I found your report very interesting. Page 19 addresses the issue of the new care models that are being introduced and talks about

“a lack of evidence about the impact, implementation costs, efficiency gains or cash savings, and outcomes”.

However, page 28 says that the Government lacks

“a clear framework of how it expects NHS boards and councils to achieve”

progress in the areas for action and concludes that

“there are no clear measures of success”,

the previous page states that the Scottish Government now plans to launch

“a new national conversation on the future of healthcare in Scotland.”

What I take from that is that the Government almost seems to be saying to organisations on the ground, “Look, here’s the intention but, rather than telling you what success looks like or how to achieve it, we’re going back into a national conversation on what is going to happen.” Is that a fair summary?

Caroline Gardner: I do not think that that is quite the conclusion that we have drawn. The starting point is that there is a clear vision for 2020, which is, as we say in the report, widely accepted and recognised as being the right way forward. The Government has taken an outcomes-based approach to its overall set of priorities, which, again, is recognised as being an effective way of focusing on what is most important rather than on short-term measures or inputs and outputs. However, given the scale of the challenge that is presented by our growing population, the needs that we will all have as we get older and the financial pressures on public services, there is a need for something between that vision and what individual partnerships, health boards and councils are doing on the ground.

In response to Mr Beattie’s question, I said that there has recently been a shift in relation to education, with a national delivery plan that addresses the outcomes and what schools and local authorities are doing. My sense is that we need something similar in relation to the health and social care vision, not to micromanage it or centrally control it, but to give people more support in thinking through how they go about deciding what is best in their area, how they do the long-term financial planning and how they measure whether they are moving in the right direction.

Alex Neil: As it is less than two years since I was the Cabinet Secretary for Health and Wellbeing, I declare that as an interest.

I want to pick up on the point that Monica Lennon made in relation to South Lanarkshire, which is a good example of what is happening elsewhere. Progress is being slowed by—if I may put it like this—haggling between the health board and the council about the budgets for the partnerships. I think that that is going on right

across the country, and it defeats one of the major purposes of having the partnerships in the first place.

Is it not time for us to consider a different approach at national level instead of having the health side of the funding of the partnerships going through the current route, which is from the Scottish Government to the health board and then from the health board, through negotiation, to the partnership, and the social care budget going from the Government to the local government settlement, then to the social care part of the local authority’s budget and then to negotiation with the partnership? Would it not make more sense and help to deal with some of the problems that you have identified if the Scottish Government directly allocated a health and social care budget to each partnership, with the residue on the health side going to the health boards and the rest of the local government settlement, excluding social care, going to local authorities?

Caroline Gardner: The legislation that governs my role explicitly precludes me from commenting on the merits of policy. That is the Government’s job. I am here to look at how it is implemented. Having said that, in this report and the one that we published on the integration of health and social care at the end of 2015, we have also said how complex some of the arrangements are.

I am conscious that the committee is likely to take on a role in post-legislative scrutiny. If the committee wanted to look at implementation of the legislation that set up the integration authorities, we are well placed to support you, given the range of work that we have done in that area.

Alex Neil: Convener, I propose that we consider that offer later, when we look at our work programme.

The Convener: Yes. It is an interesting idea and the committee should certainly consider taking up the offer. Do you have any further questions, Mr Neil?

Alex Neil: I have a question about the slowness of progress. It seems to me that some of that slowness is due to the social care sector’s inability to deal with the additional demand that would come from reducing the number of people who are hospitalised. As we know, in Scotland at any one time, about a third of the people in hospital do not need to be there, but are there because of lack of social care provision in their community. It seems to me that, with the introduction of the living wage throughout the social care sector from 1 October, we need to put a bit more emphasis on, and oomph behind, further improvements in the social care sector to enable it to have sufficient capacity.

10:30

Recruitment and retention is a major problem; payment of the living wage is not the only issue. All the evidence shows that the major problem is the lack of a career structure in social care. Do we need to put our foot on the accelerator to bring about further improvements in the social care sector? That should include provision of proper funding to care providers: two years ago, in a joint statement with the Convention of Scottish Local Authorities, we admitted that funding needed to be dramatically improved to enable us to deal with the challenges in social care.

In parallel with that, we need to put our foot on the accelerator on the community health hubs, which are based on the model in Alaska, where dehospitalisation is done to a massive extent. If we did both those things across the country, would not that have a major impact on how quickly we could realise the 2020 vision?

Caroline Gardner: There is no doubt that we need to invest in transforming social care. Just as the health service has been overfocused on the acute sector and on acute targets, which has made it more difficult to think about the wider system, social care services have been very bound up in getting people out of hospital as quickly as possible rather than in pulling back and considering how to keep people healthy at home for as long as possible.

The only note of caution that I would sound is that looking at any bit of that in isolation is not very helpful; we need to pull back and look at the system as a whole, which is what tends to happen in the great examples that we give in our report. In such cases—in Scotland and further afield—a whole-systems approach has been taken.

Alex Neil: My final question is about the need for a strategic business plan. I commissioned one, but it disappeared after the reshuffle. A strategic business plan provides the connection between the vision and making it happen. I think that you are saying that rather than just having guidelines and frameworks and visions, there is a need for the Scottish Government to produce a strategic business plan on how we can make integration happen by 2020.

Caroline Gardner: Over the years, I have spent a long time arguing with the Public Audit Committee about what a business plan might mean in relation to police reform and other areas. What you describe sounds like what we intend when we talk about having a framework that describes what the new models might look like, a financial plan and a list of milestones and targets on progress.

The Convener: You said that information on general practitioners has not been collected since

2012. Given the shortage of GPs, what impact does that lack of information have on your ability to scrutinise GP services and on the Government's ability to forecast public spending on general practice?

Caroline Gardner: That does affect our ability to do our work, but much more important is that it has an impact on the Government's ability to plan public spending and services. The new clinical strategy, which has been widely celebrated in the health and social care world, is strongly based on GPs playing a much wider role in the future and on their being at the heart of services for all of us, with hospital being used only when it is absolutely needed. To do that, we need enough appropriately skilled GPs in the right places, and they need to feel that they are being appropriately rewarded. It is a drawback not to have the information to plan that and to think through the implications of the new GP contract. There are plans in place to fill that gap, which is, as far as we know, still there.

Jillian will respond on the question about information.

Jillian Matthew: All that I can say about information is that ISD has, for the past few years, been working on a new system to fill that information gap. It was through ISD that information was available up to 2013. However, we do not yet know what the new system—which I think is due to be available in the next few months—will look like or what kind of information will be available. We are keeping in touch with ISD on that.

The Convener: Do you know why the information ceased to be collected and why a gap has been allowed to occur between the old system, under which information stopped being collected in 2012, and the new system, which is to come online in the next few months?

Jillian Matthew: I think that the system before was based on a sample of general practices across Scotland and there were issues around how representative the information was; the figures were scaled up to estimate what they would be Scotland wide. There were also issues with how the data were collected. It was seen that the system could be greatly improved: unfortunately, it has been stopped while the new system has been implemented, which is why no information is available for the past few years.

The Convener: It is worrying, when there is a GP crisis, that we have a four-year gap in the information. Are you saying that we do not know how many GPs there are in Scotland, and how many hours are being worked by general practitioners?

Caroline Gardner: We do not have good enough information about that. We have pulled

together the information that is available, using estimates from surveys and other places, to give the committee the information in our report. However, in my view—as the report says—that information is not strong enough, given the pressures that we know currently exist and the central place of GPs in the new clinical strategy.

The Convener: We have talked about the integration joint boards' budgets. Just a couple of months ago, it was reported in the press that those budgets would not all be set by June. Your report was published in March; do you know whether all the integration joint boards have now set their budgets?

Caroline Gardner: They have not all done so, as far as we know. Antony Clark can update you on the position.

Antony Clark: We do not have information across all 31 IJBs at the moment, but we will look at that as part of the next phase of audit work on health and social care integration. We will also explore the extent to which there have been delays in budgets being agreed between health and local government partners.

The Convener: You do not know whether all the IJBs in Scotland have set their budgets for the next year.

Caroline Gardner: I do not want to give the committee misleading information. We know from our audit work and the from the same press coverage that the committee has seen, that there have been problems. We also have a concern that some budgets that have been set may not be realistic or fully agreed between the people who will have to deliver them. I do not want to give the committee a headline figure that does not do justice to the complexity of the picture throughout Scotland.

The Convener: I am interested in the part of your report where you talk about the balance between local provision and national guidance and strategy on health and social care. We have rehearsed the subject already this morning, and I am sure that it is something that Alex Neil, as a former cabinet secretary, has wrestled with. During the election, that balance was discussed at length in the context of local accountability and differing needs. Your report comes down on the side of saying that there needs to be some national guidance on outcomes. What kind of framework of priorities or—I hesitate to use the word “targets”—structure would be useful to ensure sustainability and equality of delivery throughout Scotland?

Caroline Gardner: From paragraph 51 of the report onwards, we try to set out what we think is needed. I stress that we are talking not about centralised control or micromanagement but about

bridging the space between the clear vision and what happens on the ground. We think that it would be really helpful for the Government to clarify the immediate and the longer-term priorities that partnerships should be focusing on.

In the report, we give some examples of the approaches that people are taking, many of which are about short-term prevention—avoiding people needing to be admitted to hospital because there is no good community alternative in place—all the way back upstream to helping people to stay active and healthy for longer so that they are less likely to need admission to hospital as they get older. We talk about the need for a clear framework and the type of models that need to be tested, which we have tried to put into six categories, some of which involve short-term prevention and some of which are population health models. We have set those out in the exhibit that is at the centre of the report.

We talk about the need for a long-term funding strategy that gets a better estimate both of how much money might be needed in the long term to run the new overall health and social care system, and of what—if anything—is needed for double running or investment in development of new services. We also talk about how the Government will measure progress—what milestones it expects to see in place for things such as the balance of spend between acute hospital-based services and community-based services, through to shifts in the number of people who are being admitted to hospital and the number of people who are being looked after in care homes rather than in their own homes. All those measures would let the Government know whether progress towards the vision was being made as planned.

The Convener: For five years, we have had the 2020 vision that recommends a shift from acute to community spend, but your report clearly identifies that that shift has not happened. From your analysis, what are the pressures on Government that are preventing it from making the shift that it wants to make?

Caroline Gardner: As well as clarity about the support for local partnerships that we have just been talking about, there are a couple of other clear barriers that get in the way. One is that it is always harder to make a shift when funding is constrained than when it is growing. We had a decade at the beginning of this century when public services had huge amounts of investment, but we are not in that position now and, without doubt, it is harder to make a shift when you have to press down on costs across the piece.

In response to Ms Lennon's earlier question, we touched on the effect that the acute targets have had on the health service. All of us understand why those targets exist; quick and predictable

access to acute care matters to us. However, in the long term, it matters much more to us to have good community-based services that will look after our parents and—in not so very long—us, as we get older and need that support at home. We need to be shifting the conversation away from whether 12 weeks' wait for elective surgery or four hours' wait for A and E is right, to talking about the sort of care that we want to be provided in communities across Scotland.

Something else that we touch on in the report, but have not talked about today, is the need for a shift in the culture that we are all part of in relation to the health service. It is easy for all of us to see a hospital, to recognise it, and to have a real emotional attachment to it. They are where most of us were born, where parents have died and so on. One can see a hospital; it is much harder to see some of the services that we are talking about and to recognise the good work that they are doing. We have not yet found a way of involving people right across Scotland in the community empowerment agenda and the wider political debate about why the 2020 vision is a much better way of providing health and social care than the things that lots of us think about when we think about the health service. I would pull out those three things as priorities.

The Convener: Thank you very much. Do colleagues have any more questions for the auditor general and her team?

Colin Beattie: There is just one thing. On page 18, paragraph 27, reference is made to the Scottish Government working

“closely with the ten test sites over the next two years to offer support and guidance and share learning.”

We touched on the suggestion that there is perhaps a need for the Scottish Government to be more involved across the board. Do we know the dimensions of what the Scottish Government is going to be doing with those 10 test sites? Is it going to be giving the level of guidance that you seem in the report to be indicating is required or will it be something totally different?

Caroline Gardner: Jillian Matthew will talk you through what we know about the 10 test sites.

Jillian Matthew: When we were carrying out the audit, that idea was still in the very early stages and it was not entirely clear what the role of the Government was and how it was linking with the sites, apart from their having been identified as 10 pilot sites at which to try out different ways of working. We will be picking that up with the Government during this year as part of our annual overview of the NHS, so we will find out what progress has been made with the pilot sites and what learning is coming out of them.

Colin Beattie: So at this point, you do not know what it means?

Jillian Matthew: We do not know entirely, but we will be picking that up with the Government this year.

Liam Kerr: I have a quick question. Forgive me—I am just in the door in the committee, so this question may have been answered in the past. The services and levels of pressure that you are talking about in the report are a function of use; they are a function of people needing the services. More use requires more funds, at whatever level that use is. Can you help me out? Can you point me to any work that is being done on preventative measures that mean that people do not need to access the services at any level in the first place?

Caroline Gardner: That is a really good question, which brings us back to my response to the convener's earlier question. We talk about prevention in very broad terms, but it can operate in a wide range of ways. Many of the examples that we talk about in the report are very narrow—for example, about preventing frail older people in particular from needing to be admitted to hospital when they have a fall, an infection or something. That is obviously important, not only because of the pressure that such admissions place on the health service but because it is not good care for most of those people. Most of us do not want our parents to be in that position.

However, we need to be thinking about prevention in the big sense, from how we avoid admission at the point where somebody is frail and struggling to stay at home, to how we build primary and community healthcare services that know who is at risk—who are the people who are hanging on now but may be vulnerable to winter, bad weather, colds, flu and so on—and all the way back to how we keep whole populations more active and less likely to be falling into that category in 10 or 20 years.

There are projects looking at those levels of prevention. What we are not seeing at the moment is the very strategic approach that Mr Neil outlined, which would let you plan what you intend to do and assess the priorities and how you might take pressure off the system to release resources that you could invest further upstream. We are looking for that strategic approach.

The Convener: I thank the auditor general and her team very much for their evidence today.

10:45

Meeting continued in private until 11:21.

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