

The 2013/14 audit of NHS 24

Management of an IT contract



Prepared for the Public Audit Committee by the Auditor General for Scotland
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Introduction

1. I have received audited accounts and the auditor's report for NHS 24 for the year ended 31 March 2014. The purpose of this report is to draw Parliament's attention to problems with NHS 24 implementing a major new IT system and the financial implications of the delays.
2. I submit these accounts and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

Background

3. In 2009, NHS 24 started working on its Future Programme. This Programme included the delivery of new technology which was central to the board improving its core telephone and online services to patients. It was also expected that the implementation of this new technology would generate savings for the board. NHS 24 planned to implement the Future Programme in September 2013, but it has delayed implementation as it considers that the new application currently developed by the external supplier does not meet its patient safety requirements. NHS 24 is currently in dispute with the supplier in relation to the performance and functionality of the application and related contractual matters. For financial planning purposes, the board has estimated that the earliest potential date for developing and testing an alternative technical solution, and implementing a new system is now October 2015. There will be more certainty over the achievement of that date by the end of November 2014, once current testing has concluded. The board has ensured that the current IT systems can be maintained in a safe and reliable manner so that current services for patients are not affected.
4. I have previously published a report on common weaknesses in three public bodies' management of IT projects.¹ These included a lack of specialist skills and experience in the public bodies involved and an over-reliance on the supplier for key decisions affecting the design and implementation of the necessary technology. The auditor has highlighted these same weaknesses as concerns in NHS 24's management of the Future Programme.
5. NHS 24 has invested significantly in the Future Programme over the past four years. The delay in implementing the new system has led to additional costs and risks to the board's ability to meet its financial targets in future years. The board has received £20.76 million brokerage from the Scottish Government since 2011/12 to help fund the Future Programme.
6. This report focuses on the significant financial implications for NHS 24 of the problems and delays in implementing the new system. I have not commented on NHS 24's management of the Future Programme at this time because of the ongoing legal dispute between the board and the application supplier.

¹ *Managing ICT contracts*, Audit Scotland, August 2012.

The auditor's opinion

7. The auditor gave an unqualified opinion on NHS 24's accounts. However, he commented that the financial implications of the problems and delays with the Future Programme mean there are likely to be high risks to the board achieving its financial targets in future years. The auditor also commented that the board needs to take all available steps to resolve the dispute and should prepare a business case to allow the viability and sustainability of the Future Programme to be assessed.

Findings

Financial implications of delays in the Future Programme

8. The total cost of the Future Programme to date is £38 million, considerably more than the original business case of £29.6 million. This is due to changes in the contract specification and the costs to date of the delay from the expected implementation date of September 2013. NHS 24 expects to incur further additional costs of £14.6 million to achieve and implement an acceptable solution. This will take the total cost to at least £52.6 million, £23 million over the original business case.
9. The £38 million cost to date includes contractor costs of £29.9 million to design and implement the new system, £1.7 million costs of NHS 24's internal project team, and £6.3 million on other internal costs. These include unplanned costs of maintaining the current system because of the delay in implementing the Future Programme, so that services for patients are not affected.
10. The Scottish Government has provided NHS 24 with £20.76 million in brokerage and £0.8 million in revenue funding since 2011/12 to allow it to fund the Future Programme in a less expensive way than paying financing charges to the supplier ([Exhibit 1](#)). It provided £0.32 million in 2011/12 and £16.58 million in 2012/13. The board's financial plan for 2013/14 included agreed brokerage of £1.7 million to support what was planned to be the final year of implementing the Future Programme.² Due to the delays and ongoing problems implementing the new IT system, the Scottish Government agreed to provide a further £2.2 million brokerage, taking the total provided in 2013/14 to £3.9 million.

Exhibit 1

Agreement with the Scottish Government to provide brokerage

The Scottish Government agreed to provide brokerage to avoid NHS 24 paying financing charges to the main supplier

To avoid paying £4.6 million in financing charges over the life of the contract with the main supplier, NHS 24 agreed with the Scottish Government that upfront repayable funding would be provided to enable the board to fund this programme. The board agreed to repay this from money from savings generated by the new programme.

² NHS financial performance 2012/13, Audit Scotland, 2013. Exhibit 5, page 14.

This is a good example of planning by the board and the Scottish Government to deliver a major investment in services for patients. However the auditors have highlighted a number of significant risks to the board in achieving the planned savings and managing the planned repayment of the brokerage between 2014 and 2017. The auditors concluded that achieving future financial targets will be extremely demanding.

Source: NHS financial performance 2012/13, Audit Scotland, October 2013.

11. The board has estimated that it will incur further additional costs of £14.6 million between 2014/15 and 2015/16. This includes potential new investment in developing the IT system, the costs of continuing to maintain the current system during the delay, and failing to achieve recurring savings that were expected to result from the new system.
 12. In addition to meeting these additional costs, the board will need to start repaying the £20.76 million brokerage to the Scottish Government. This will start from 2015/16, one year later than originally anticipated. These factors mean there are significant risks to the board's ability to meet its financial targets in future years.
 13. The board has prepared a draft five-year financial plan that takes account of the financial implications of resolving the Future Programme issues ([Exhibit 2](#)).
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Exhibit 2

NHS 24's financial position for the next five years

NHS 24 predicts a break-even or surplus position each year but there are high risks to it achieving this.

NHS 24 has produced a draft five-year financial plan for 2014/15 onwards, projecting a break-even revenue position for the first four years of the plan and a small surplus position in year five.... The financial implications of resolving the Future Programme issues are factored into the board's financial plans, and will be updated on an ongoing basis as the situation evolves. Given the extent of the issues to be resolved the achievement of financial targets is likely to remain a high risk area.

Source: NHS 24 Annual Audit Report 2013/14

Looking forward

14. NHS 24 has kept the Scottish Government informed about the problems with the Future Programme. The board and the Scottish Government jointly commissioned an independent review to provide a high-level assessment of the current situation and available options open to NHS 24. NHS National Services Scotland has recently provided additional support to NHS 24 through contract management and technical specialists. The board is also continuing to work with the suppliers of the new IT system on resolving the issues.
 15. The auditor has recommended that the board develops a revised business case for the Future Programme covering all costs to date and a realistic estimate of the further investment required. This will allow all stakeholders to objectively assess the viability and sustainability of the Future Programme. This work is under way and the business case is expected to be
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available by February 2015 at the earliest. The business case will include the cost of maintaining the current IT system in the interim.

Conclusions

16. The auditor highlighted some weaknesses in how NHS 24 has managed the contract with the IT provider in his annual audit report. The board is currently in dispute with the application supplier in relation to the performance and functionality of the system and related contractual matters, although both organisations are working to resolve the issues. Given this, I have not commented on NHS 24's management of the Future Programme. I intend to prepare a further report in 2015 so that I can provide an update to Parliament.
17. The financial implications of delays and disputes relating to NHS 24's Future Programme mean that the board is facing high risks to achieving its financial targets from 2014/15.