

# The 2014/15 audit of NHS 24

## Update on 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 2015. 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, which I have prepared under section 22(3) of the Act.
2. The purpose of this report is to update Parliament on the significant financial issues arising from the implementation of a new ICT contract in NHS 24. I previously reported on this matter in October 2014.<sup>1</sup> At that time, legal action was under way between NHS 24 and one of its external IT supplier, Capgemini. As a result, I was unable to report on details that may have been deemed prejudicial to the legal case. Agreement has now been reached to withdraw this legal action and I am able to report on the issues.

## Background

3. NHS 24 is a Special Health Board of NHS Scotland that provides a confidential online and telephone based health advice and information service to the public. It provides an out-of-hours service allowing people who feel unwell or those caring for them to obtain advice. Following an initial assessment, callers are transferred to a nurse, dental nurse or pharmacist for advice and assistance.
4. In 2009, NHS 24 started working on its Future Programme. The objective of this programme was to improve patient service through service redesign supported by the modernisation of its core telephone and online technology. NHS 24 has progressed the service redesign work; but, the implementation of the new technology, which was originally scheduled for June 2013, has yet to be completed. NHS 24 expected the new technology to generate savings of £10.292 million over the ten-year contract period, 2013 to 2023.
5. In 2011, NHS 24 procured the new technology in two lots. Lot 1 tender related to the clinical and patient handling applications together with a ten-year contract for on going support once the system was in operation. Lot 2 tender related to the provision and implementation of the hardware and underlying infrastructure to support the Lot 1 applications, and also included a ten year contract for on going support. NHS 24 appointed Capgemini to deliver the applications under Lot 1, and BT to deliver the hardware and infrastructure under Lot 2.
6. NHS 24 postponed the implementation date for the new technology from June to October 2013 and then indefinitely, due to the new system's failure to meet critical patient safety performance measures such as the ability to function with multiple users at an acceptable speed.
7. Capgemini disputed that the application was not meeting the requirements specified in the contract. It subsequently became apparent that there were flaws within the contract documentation, including the performance measures specified in the tender negotiation documents not appearing in the final contract agreement.

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<sup>1</sup> Management of an IT contract, Audit Scotland, October 2014

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8. In March 2014, NHS 24 raised a Declaration and Rectification action against Capgemini to address these contractual flaws. In an effort to resolve the technical issues Capgemini provided a further version of the application, which was then subjected to a six-week technical evaluation in April and May 2014. Following this evaluation, the Board of NHS 24 concluded the system was not delivering a safe patient handling application.
  9. Consequently, in June 2014, NHS 24 served a Default Notice on Capgemini requiring action to rectify the problems within 20 days. This could have led to NHS 24 terminating the contract, but the Board decided not to jeopardise the £37.9 million investment already made. In July 2014, following a risk assessment by the Future Programme Director (appointed in June 2014), the Board agreed to further diagnostic work to identify a way forward to improve the stability and performance of the application.
  10. In November 2014, during the detailed planning for the October 2015 implementation, NHS 24, Capgemini and BT found differences in their understanding of their respective roles covering the on going 10 year support period. This arose due to insufficient detail contained in the contract documentation. A review of the contractual obligations is currently on going.
  11. Over the past year, NHS 24 has worked with both suppliers to develop the system and resolve the patient handling application performance issues. An implementation plan agreed by the Board at its February 2015 meeting, proposed a first phase of the system (the migration of the core unscheduled service – representing approximately 90 per cent of NHS 24’s activity) becoming operational in October 2015, with the second phase concluded by the end of March 2016. The Programme is currently on schedule to meet these deadlines.
  12. In June 2015, following a mediation process, NHS 24 and Capgemini signed an agreement in relation to the outstanding issues arising from the contract documentation. As part of this agreement, NHS 24 withdrew its legal action.
  13. During the delay in this development, NHS 24 has maintained current IT systems in a safe and reliable manner so that services for patients are not affected.

## Auditor's opinion

14. The auditor gave an unqualified opinion on NHS 24’s financial statements for 2014/15. Whilst the auditor has obtained assurance over the 2014/15 Future Programme accounting treatment, the financial implications remain significant and on going.

## Findings

### Contract management

15. I have previously published a report on common weaknesses in three public bodies' management of IT projects.<sup>2</sup> 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

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<sup>2</sup> Managing ICT contracts, Audit Scotland, August 2012.

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design and implementation of the necessary technology. The auditor has highlighted these same weaknesses as concerns in NHS 24's management of its Future Programme.

16. In reviewing the Future Programme, the auditor identified historic weaknesses in a number of critical areas, including:
  - flawed procurement and contract preparation, further undermined by unrealistic timescales and poor contract management
  - poor programme definition combined with on going and significant changes to scope and functionality, leading to increased development costs
  - the use of a team whose experience was not aligned to the management and delivery of such a large and complex contract
  - over-reliance on suppliers for the testing and evaluation of technical aspects of the contract
  - governance and escalation processes relevant to the current implementation not working fully to allow early identification of issues by the Board.
17. In June 2014, NHS 24 appointed a Future Programme Director. This followed five changes of personnel overseeing the Future Programme between 2009 and 2014.
18. At the November 2014 Board meeting, the Future Programme Director identified that the Board needed to recognise and address its role as Systems Integrator. A Systems Integrator is a person or group responsible for bringing together component systems into a whole, ensuring that those systems function together. This role demanded a significantly more robust engagement with the external suppliers resulting in the need for a highly experienced Programme Management team. The Future Programme Director also highlighted the requirement to engage more with NHS National Services Scotland (NSS) as its strategic technical partner.<sup>3</sup> This was to ensure the availability of expert advice on IT, procurement, and contracts and negotiation.
19. By February 2015, NHS 24 had assembled, with assistance from NSS, a specialist team including a Systems Architect and Test Manager.<sup>4</sup> The team established a Programme Management Office (PMO) within Capgemini's offices in Glasgow. This co-location of resources allowed for greater collaboration, with weekly joint executive team meetings chaired by the Future Programme Director. The meetings were to review and resolve any issues or risks that could affect implementation of the new system.

## Financial implications

20. The total cost of the Future Programme has risen by 55 per cent to £117.4 million, compared to an outline business case cost of £75.8 million (Exhibit 1). This covers the ten-year contract period. The increase was due to changes in the contract specification and costs associated

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<sup>3</sup> NHS National Services Scotland provides national strategic support services and expert advice to NHS Scotland.

<sup>4</sup> A Systems Architect defines how a computer system composed of software and hardware is built to deliver its specified function. A Test Manager manages the computer software testing process.

with the delay in implementing the system. These included the running costs of the existing system as well as training, legal, accommodation, travel, and contractor and in-house team costs. Additional ongoing application support costs have also arisen because of gaps identified in the level of required support over the ten-year contract period.

### Exhibit 1 Comparison of the outline business case and current forecast costs for the new IT system

	Outline business case £ million	Current forecast £ million	Forecast overspend £ million
Implementation costs (including double running costs)	29.6	56.9	27.3
Ongoing support costs - ten-year contract	46.2	60.5	14.3
Total	75.8	117.4	41.6

21. The Scottish Government agreed to provide NHS 24 with additional loan funding to help it manage unexpected changes to planned expenditure. This form of loan funding is known as brokerage. The Scottish Government has provided brokerage on the basis that the board gives an assurance that it can repay the loan over an agreed period
22. In order to cover the expenditure incurred in the development of the Future Programme, the Scottish Government has provided brokerage of £20.756 million to NHS 24 over the period 2011/12 to 2013/14. NHS 24 repaid £0.4 million during 2014/15, leaving £20.356 million to repay (Exhibit 2). This has recently been updated as a result of the conclusion of the mediation process. NHS 24 is now expected to repay all brokerage by 2019/20, which is two years later than originally agreed.

## Exhibit 2 Scottish Government brokerage received by NHS 24 and repayment plans

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m	£ m
Brokerage received	0.320	16.577	3.859						
Repayment				(0.4)	(0.788)	(3.580)	(4.334)	(6.224)	(5.43)

23. To improve clarity over the ongoing support arrangements, NHS 24 has now developed a detailed specification with BT and Capgemini, to deliver the operational support they need. The detailed contractual arrangements are currently being finalised. NHS 24 has extended the period of use of existing systems whilst work continues on the Future Programme, incurring additional licencing and servicing costs of around £0.45 million per month.
24. NHS 24 kept the Scottish Government informed about the problems with the Future Programme. The Chief Executive has provided regular updates on progress to the sponsor division and since August 2013, these have been formally recorded and have involved various senior officers within NHS 24 and the Scottish Government.

## Looking forward

25. A number of reviews have been undertaken on NHS 24's management of its Future Programme. The reviews included:
  - a Gateway Review by the Scottish Government in July 2013
  - an independent review by Ernst & Young in March 2014, jointly commissioned by Scottish Government Health & Social Care Directorate and NHS 24
  - an independent lessons learned review by PricewaterhouseCoopers of the Minute of Amendment process for both the BT and Capgemini contracts, at the request of the NHS 24 Chairman, in May 2014
26. In June 2014, NHS 24 used the findings of these reviews, specifically the review commissioned jointly with Scottish Government Health & Social Care Directorate, to improve their programme governance and focus on constructive negotiation with their suppliers to ensure the future implementation of the IT system.
27. In September 2014, at the request of the current Future Programme Director, NHS 24 also commissioned an internal audit review to ensure all actions arising from the various reports and reviews were being implemented in line with agreed timescales. In November 2014, NHS 24, Capgemini and BT undertook a forward planning review.
28. NHS 24 is now focusing on developing a benefits realisation strategy to ensure that it can recover the investment in the Future Programme, through additional efficiency savings and productivity gains.



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29. There are key lessons to be learned from the Future Programme for the benefit of NHS 24, NHS Scotland and the wider public sector. The auditor has recommended that the board undertakes a comprehensive lessons learned exercise covering all aspects of the Programme including:
- programme definition and approval
  - programme management including roles and responsibilities, resourcing and the experience and qualifications of those involved
  - procurement processes including support received
  - technical evaluation and management
  - overall governance and risk management
  - financial controls and reporting.
30. NHS 24 has now addressed many of the issues associated with the Future Programme, and the Board expect that they will implement the new system in October 2015 in line with current plans.

## Conclusion

31. NHS 24 has invested significantly in the Future Programme over the past five years. The delay in implementing the new system has led to additional costs and risks to NHS 24's ability to meet its financial targets in future years.
32. The auditor gave an unqualified opinion on NHS 24's accounts. However, he commented that there are substantial financial risks in 2015/16 and beyond. These include the cost pressures associated with the additional expenditure involved in delivering the new operational system, and the costs associated with the maintenance of the current system (servicing costs and licence extension).
33. NHS 24's financial plan assumes that the first phase of the system will be operational in October 2015, with the second phase concluded by 31 March 2016. There are significant additional costs incurred for running the existing systems up until this date. Each month the Future Programme is not operational, NHS 24 incurs around £0.45 million in additional costs. If the implementation is not successful, double running costs will increase during 2015/16.
34. NHS 24 have factored the costs involved in the on going implementation of the Future Programme into their financial plans. However, given the scale of the challenge, the delivery of financial targets will be very challenging and will largely depend on the achievement of efficiency savings.