# Tayside Health Board

Report on the 2006/07 Audit

AUDIT SCOTLAND

**July 2007**

# Tayside Health Board

## Report on the 2006/07 Audit

# Contents

# Executive Summary

## Introduction

Based on our analysis of the risks facing NHS Tayside, in 2006/07 our audit work included reviews of governance arrangements and the Board's Financial Management System (FMS), a review of the Board's financial position and financial and capital management arrangements and a review of partnership working through Community Health Partnerships. We audited the financial statements, including a review of the Statement on Internal Control. This report sets out our key findings.

## Financial statements

We have given an unqualified opinion on the financial statements of Tayside Health Board for 2006/07. The Board carried forward a £1.1 million surplus from 2005/06 and planned to fully utilise this in 2006/07. The Board, however, was able to improve on this plan by achieving a cumulative surplus at 31st March 2007 of £3.1 million which means that there was an in-year surplus of £2 million.

*Table 1*
*Financial Performance*

| | **2006/7**<br>**£ Million** | **2005/6**<br>**£ Million** |
|---|---|---|
| Net operating costs | 635.2 | 604.2 |
| Less capital grants to other bodies | (6.0) | (2.8) |
| Less FHS non-discretionary income | (29.7) | (25.4) |
| Net resource outturn | 599.5 | 576.0 |
| RRL | 602.6 | 577.1 |
| **Saving against RRL** | 3.1 | 1.1 |
| Capital grants | 6.0 | 2.8 |
| Capital expenditure | 13.8 | 12.7 |
| Capital disposals (@ NBV) | (2.5) | (3.8) |
| Net capital expenditure | 17.3 | 11.7 |
| CRL | 21.4 | 11.7 |
| **Saving against CRL** | 4.1 | 0.0 |

Financial balance has been achieved in part this year by managing the position using the sale of assets and slippage on projects. The Board is therefore using non-recurring funding to meet recurring expenditure. While at times this is necessary, the Board should aim to be in recurring balance, and use non-recurring funding only for one-off items of expenditure or specific projects.

The 2007/08 corporate financial plan includes a £10.5 million savings target and £15.1 million of deferred expenditure. Given the levels of savings and deferred expenditure achieved in the previous two years, this is a realistic target. The Board has reported that it has identified 100% of the savings target set by the Board. The Board has revisited financial planning assumptions for 2007/8 and the longer term to reflect the impact of the 2006/07 actual results.

## Performance management

NHS Tayside has a strong performance management culture. In 2006/07 NHS Tayside continued to use the CitiSat methodology for assessing and improving performance and the CHPs began to develop their own performance management frameworks.

During the year we carried out a review of arrangements for the management of Community Health Partnerships (CHPs) and related organisations. Our review was primarily focussed on the use of resources, although it also included work on performance management and data sharing. Our overall findings from this study were:

- there was evidence that three CHP general managers are fully involved in the decision making processes within NHS Tayside;
- a scheme of local delegation for the three CHPs has not yet been put in place. There is a risk that without this accountability for decision making is not clear; and
- all three CHPs highlighted the need to improve performance measurement especially in the area of demonstrating patient benefit.

## Governance

Clinical governance arrangements have continued to develop during the year. During 2006/07 the newly formed Improvement and Quality Sub-Committee was responsible for performance management of compliance with *Delivering for Health*. This committee has the remit of providing assurance that effective mechanisms are in place throughout the local NHS system to support improvement. It also provides the Delivery Group with a monthly management report on process and recommendations designed to ensure improvement in the key areas identified.

The Board's Improvement and Quality Committee monitored the completion of the NHS QIS Clinical Governance and Risk Management Standards self-assessment. This committee also established,

delivered and evaluated a service level agreement with the Board and Delivery Unit to ensure improvement activity is focussed on areas of priority and risk.

A single Delivery Unit was established from 1 April 2006 to facilitate a single system approach to the delivery of services and to combine Community Health Partnerships and the Acute Services Division into a single operating arrangement. During the year the Delivery Unit continued to work towards delivering single system working. We will continue to attend Board and Committee meetings and review developments during 2007/08.

NHS Tayside continued to progress arrangements for the Scottish Regional Treatment Centre and the Centre became operational in February 2007.

During the year we carried out a review of the Board's Financial Position and Financial and Capital Management arrangements. This review, which was carried out across all NHS bodies audited by Audit Scotland, considered whether financial and capital planning is integrated with the overall strategic aims of the Board, that the budget setting processes are robust, and whether there is adequate scrutiny of financial and capital plans and budget monitoring undertaken across the Board. Our overall conclusion was that the Board has continued to develop and improve its approach to financial and capital planning arrangements but there are areas where improvement could be made. Our more detailed findings from this study were:

- during 2006/07 a Capital Prioritisation Group was set up to assess potential capital projects. This group is chaired by the Medical Director and has representation from finance, clinicians, CHP General Managers and the Area Clinical Forum;
- NHS Tayside continues to rely in part on non-recurring funding resources, including deferred expenditure and slippage, to achieve financial balance; and
- £4.5 million of the savings achieved in 2006/07 were achieved on a non-recurring basis. This sum was identified in the 2007/08 financial plan approved by the Board. However, the level of achievement of recurring and non-recurring savings was not made clear within the corporate financial reports.

We will continue to monitor developments in this area.

**Audit Scotland**

**July 2007**

# Introduction

1. This report summarises the findings from our 2006/07 audit of NHS Tayside. The scope of the audit was set out in our Audit Risk Analysis & Plan, which was presented to the Audit Committee on 1 February 2007. This plan set out our views on the key business risks facing the Board and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.

3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.

# Organisational Risks

## Introduction

4. In our audit plan, we identified the key challenges facing NHS Tayside. We also described longer term planning issues which would impact on the Board and our audit in the future. In this section, we describe the risks and our views on their current status.

## Financial management

5. In our audit plan, we commented that there were considerable risks to the achievement of the challenging savings targets contained within the financial plan to 2010/11, with unprecedented levels of recurrent cost efficiencies requiring to be found. Changes to the capital funding regime which restrict capital to revenue transfers also added significant risks to the achievement of the Board's financial targets.

6. In addressing this area we carried out a review of the Board's financial position and financial and capital management arrangements. This area is addressed in the Governance and Financial Statements sections of this report.

## Service sustainability

7. The Board must continue to deliver against operational targets, such as waiting times and delayed discharges and the restructuring of the board into a single operational system, while at the same time addressing the challenges of shifting toward preventative medicine and moving toward continuous care in the community.

8. In November, NHS Tayside signed a contract with a private healthcare provider to establish a Scottish Regional Treatment Centre (SRTC). The centre carries out planned surgical procedures for three health boards at the evenings and weekends. The overall purpose of the project is to work in partnership with the private sector to utilise spare capacity to help reduce waiting times. The SRTC opened in February 2007 but it is too early to determine what effect the centre has had on waiting times. We will continue to review the progress of the centre in meeting the Boards objectives.

***Risk Area 1***

9. A single Delivery Unit was established from 1 April 2006 to facilitate a single system approach to the delivery of services and to combine Community Health Partnerships and the Acute Services Division into a single operating arrangement. During the year the Delivery Unit continued to work towards delivering single system working. New structures were agreed within the Finance, Nursing and

Operations Directorate. The human resources function established a service level agreement with the Delivery Unit where HR performance will be monitored against a range of key indicators. We will continue to attend Board and Committee meetings and review developments during 2007/08.

10. 2006/07 was the first full year of business for the Community Health Partnerships (CHPs) and their committees. We completed a review of the three CHPs. This area is addressed in the Performance Management section of this report.

## People management

11. We highlighted three main challenges for NHS Tayside in this area. These areas were Agenda for Change, national shared support services and modernising medical careers.

12. Last year the SEHD set a revised Agenda for Change deadline for staff to be assimilated of 31 October 2006 which was then revised to 31 March 2007. Across the NHS in Scotland full implementation of Agenda for Change is proving to be a slow, resource consuming process. The progress with Agenda for Change has been regularly reported to the Strategic Policy and Resources Committee. As at the 25 July 2007, 9703 staff had been assimilated which represents 90% of staff who have been matched to Agenda for Change bandings. Arrears have been paid to 5958 staff.

13. In March 2007, following a national decision by the SEHD, NHS Tayside accelerated the movement to new pay bandings in advance of the completion of the Joint Evaluation and Monitoring Group (JMEG) process. This was felt to be necessary because of the delays being experienced by the Boards waiting for the outcome of the JMEG process. The Director of Strategic HR and Workforce Development at NHS Tayside gave assurance to the Board that any overpayments would be reclaimable.

14. Regular reports have been provided to the Board on progress with Modernising Medical Careers. The biggest risk to the Board in this area in 2006/07 was an adverse impact on service delivery and performance due to the time out required by junior doctors and consultants who were taking part in the interviewing process. Plans were put in place to manage the process and the Medical Director assured the Board in February 2007 that the recruitment process would not adversely impact on service delivery and patient care.

***Risk Area 2***

## Information management

15. We have reported that the NHS Tayside eHealth strategy did not cover the financial and human resources aspects of information technology development. In February 2007 the Board agreed to

extend the current strategy to March 2008 to allow for an integrated I M & T and eHealth strategy. The updated strategy will cover IT infrastructure, information governance, applications and delivery. We will review the strategy when it is finalised.

## Longer term planning issues

16. Longer term planning issues which we have identified will have an impact on the Board in future years are as follows:

    - modernisation and redesign of mental health services;
    - Scottish Regional Treatment Centre;
    - equal pay claims; and
    - national shared support services.

17. We have been monitoring developments in these areas during the 2006/07 audit. In the following paragraphs, we comment on changes that have taken place.

### Modernisation and Redesign of Mental Health Services

18. The three outline business cases for the Adult Mental Health Review, Psychiatry of Old Age and the Secure Care Clinic were approved by the Scottish Executive in August 2006. The business cases provide detail on the inpatient provision and current and proposed range of beds. These projects will be funded through the Private Finance Initiative route. We will review the projects in due course.

### Scottish Regional Treatment Centre

19. The contract for the Scottish Regional Treatment Centre was signed in November 2006. This contract covers a three year period and is the first project of its kind in Scotland. The main aim of the centre is to reduce waiting times within the three board areas of NHS Fife, NHS Grampian and NHS Tayside. The centre became operational in February 2007. In the future NHS Fife, NHS Grampian and NHS Tayside will have to demonstrate that the centre achieved its aims of reducing waiting times and delivered improved services for patients. The three boards will also have to demonstrate that the investment achieved value for money.

### Equal pay claims

20. There have been significant recent developments in the area of equal pay claims. Article 141 of the Treaty of Rome requires member states to ensure and maintain “the application of the principle that men and women should receive equal pay for equal work”. This was expanded on in the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of

remuneration. The National Health Service in Scotland has received a number of claims for backdated pay increases, arising form this requirement. The NHS Central Legal Office co-ordinates the national NHS approach to this issue.

21. As at 31 March 2007, NHS bodies had received some 10,000 claims and these had been referred for attention to the Central Legal Office. Even taking account of the work which has been undertaken in relation to Agenda for Change, it is still possible that these claims represent a current liability for NHS boards generally. As noted in the 2006/07 financial statements of NHS Tayside, by the end of May 2007 there were 334 grievances and 134 employment tribunal claims registered against NHS Tayside.

22. We have not been able to obtain any estimate of the potential liability for these claims. For 2006/07 we have accepted this position because of its stage of development and as a result of the inclusion within the NHS Tayside financial statements of a contingent liability which sets out relevant details on the matter. Nevertheless, we would have expected further details to have been available to management beyond those currently received from the Central Legal Office, including a reasonable estimate of the Board's liabilities determined in accordance with financial reporting standards. We would strongly encourage NHS Tayside management, working with the Scottish Executive Health Department and other NHS Boards, to resolve this matter in advance of compilation of next year's financial statements.

***Risk Area 3***

## National Shared Support Services

23. During the period from December 2004 to January 2007, NHS Scotland developed proposals for a shared support model for financial services and payroll across the sector. The original Outline Business Case promoted a 'hub and spoke' system to deliver financial and related services for all NHS Scotland bodies from two central hubs, with feeder activities at local Board level. A draft Full Business Case (FBC) was then developed for this model and was made available for consultation at the end of 2006. In responding to the FBC, NHS Boards were supportive of the overall principle of shared services and of the particular proposal to establish a unified core service function. Nevertheless, Boards expressed reservations over the risks inherent in the proposed scheme, the impact on staff and the deliverability of savings.

24. The Shared Support Services Project Board met in February 2007 to consider the responses received and concluded that it would not proceed with the draft FBC in its current form. As a result, the project has now been re-launched as the Shared Support Services Programme. This involves a two-tier approach to build confidence in the new ways of working using common processes and systems, eventually leading to a single services model based on a common finance system. The new approach

comprises a Foundation level of involvement, with all Boards developing common ledger arrangements, as well as Pathfinder initiatives to develop the more advanced elements of the proposed development. Expressions of interest are being sought from Boards for Pathfinder status and a number of workshops have been held to develop potential service solutions. The Programme is currently establishing the costs and benefits (economic and qualitative) of these two tiers of work.

25. This is a highly significant development for the NHS in Scotland which has experienced a major recent change in emphasis. It is estimated that a revised business case for the final organisation of shared services in the NHS in Scotland will be available during 2008.

26. The intention underlying the change of approach is to reduce the risk profile through a distributed programme of projects to be delivered by Boards in support of a common goal. Auditors will continue to monitor the development of these arrangements and the management of related risks.

# Financial Statements

## Our responsibilities

27. We audit the financial statements and give an opinion on:

- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements, and
- the regularity of the expenditure and receipts.

28. We also review the Statement on Internal Control by:

- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control, and
- assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

## Overall conclusion

29. We have given an unqualified opinion on the financial statements of Tayside Health Board for 2006/07.

## The Board's financial position

30. The Board is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department. NHS Tayside's performance against these targets is shown in Table 2 below.

### Table 2

**2006/7 Financial Targets Performance £ million**

| Financial Target | Target | Actual | Variance |
|---|---|---|---|
| Revenue Resource Limit | 602.6 | 599.5 | 3.1 |
| Capital Resource Limit | 21.4 | 17.3 | 4.1 |
| Cash Requirement | 592.1 | 592.1 | - |

31. The Board has achieved a cumulative surplus of £3.1 million. The Board carried forward a £1.1 million surplus from the previous year which means there was in an in-year surplus of £2 million. Achievement of the Revenue Resource Limit (RRL) target has partly been achieved through the sale of assets, slippage of developments and recognition of expenditure items as capital grant schemes, as appropriate, thus scoring against the Capital Resource Limit (CRL) and not the RRL. Non-recurring funding was generated from gains on disposals of assets of £1.7 million and non-recurring funding allocations of £17.8 million. Where this has been used to support recurring expenditure it will have to be re-provided in future years. Stripping out the application of this non-recurring funding out allows us to reflect the underlying recurring funding gap in NHS Tayside for 2006/07, as illustrated below.

## Table 3

**Funding Position 2006/07**

| | £ Million | £ Million |
|---|---|---|
| Recurring expenditure | 709.9 | |
| Recurring income | 688.7 | |
| Underlying recurring deficit | | (21.2) |
| Non-recurring income | 17.8 | |
| Non-recurring expenditure | 13.7 | |
| Balance of non-recurring | | 4.1 |
| Difference | | (17.1) |
| Other income sources | 1.7 | |
| Non-recurring SEHD income/year-end support | 0 | |
| Corporate savings programme | 18.5 | |
| Total other income | | 20.2 |
| Financial surplus | | 3.1 |

32. NHS Tayside's 2006/07 financial plan included a £14.6 million savings target to achieve financial balance. This target was increased to £17.9 million to account for the impact of the 2005/06 outturn. By the end of 2006/07, £18.5 million of savings had been achieved of which £12.5 million was on a recurring basis. £1.5 million of the non-recurring savings were against a non-recurring target, therefore £4.5 million of savings have been re-provided in the 2007/08 financial plan.

33. The 2007/08 corporate financial plan includes a £10.5 million savings target and £15.1 million of deferred expenditure. Given the levels of savings and deferred expenditure achieved in the previous two years this is a realistic target. The Board reported in March 2007 that it had identified 100% of the savings required.

34. The majority of additional funding in 2007/08 will be spent on pay modernisation and commitments carried forward from 2006/07. The 2007/08 financial plan includes £12.6 million for pay modernisation. This expenditure is analysed as follows:

**Table 3**

**2006/07 pay modernisation expenditure**

| | £Million |
|---|---|
| Pay Award | 6.5 |
| Agenda for Change | 4.9 |
| New consultants contract increments | 0.7 |
| Modernising Clinical Careers Provision | 0.5 |
| Total | 12.6 |

*NHS Tayside Strategic Plan 2007/08 – 2011/12*

35. Other cost pressures identified within the plan are increased costs of capital, replacement of capital to revenue expenditure and activity growth and prescribing.

36. As already mentioned, financial balance has been achieved in part this year by managing the position using the sale of assets and slippage on projects. The Board is, therefore, using non-recurring funding to help meet recurring expenditure. While at times this is necessary, the Board should aim to be in recurring balance, and use non-recurring funding only for one-off items of expenditure.

37. The Board revised the financial planning assumptions for 2007/08 and the longer term to reflect the impact of the 2006/07 actual results.

## The issues arising from the audit

38. We reported the following main issues to the audit committee on 21 June 2007:

- **Disposal of Fixed Asset**. The sale of Hillside land and related gain on sale of £1.5 million is included within the financial statements. Payment for the sale was received on 5 June 2007. To recognise this sale within the current financial year it is essential that we review legal documentation which evidences that the sale took place before 31 March 2007.

  ***Resolution***: Officers obtained appropriate documentation from the Central Legal Office.

- **PFI Deferred Asset.** The Board is accounting for the PFI contract for the Whitehills Community Care Centre by building up this asset over the period of the contract through the creation of a fixed asset which will be added to every year. However the Board does not yet own this asset and only has the right to the asset in the future. Other NHSScotland Boards are accounting for this through the creation of a long term prepayment which will be added to for the period of the contract, transferring to fixed assets at the end of the contract. The Capital Accounting Manual does not give detailed guidance on this matter, but NHS Tayside should be aware of the differing accounting treatment between Boards.

  ***Resolution*** No adjustments have been made for this due to the fact that an element of the total asset is a donated asset. This accounting treatment is agreed as being reasonable.

- **Contingent Liabilities**. NHS trusts in England have settled equal pay claims for female employees and similar claims have now been received by Boards in Scotland. NHS Tayside should evaluate the financial impact of any potential equal pay claims and make appropriate disclosure in its financial statements. As a minimum there should be disclosure within the Contingent Liabilities note to the accounts.

  ***Resolution:*** An unquantified contingent liability is included in the accounts.

- **Waste Electronic and Electrical Equipment**. Boards may have an obligation resulting from the Waste Electronic and Electrical Equipment Regulations 2006 which comes into force on 1 July 2007. In accordance with the regulations, where waste arises from assets obtained prior to 13 August 2005, boards will be responsible for the costs of collection, treatment, recovery and environmentally sound disposal of waste equipment disposed of after 1 July 2007, unless they are purchasing a direct replacement. NHS Tayside is to demonstrate that they have considered the implications of these regulations and do not require a contingent liability or provision for the potential cost of disposal within the 2006/07 accounts.

  ***Resolution:*** An unquantified contingent liability is included in the accounts. Appropriate assurances were included in the letter of representation.

- **Capitalisation of ICT infrastructure costs.** Within the 2006/07 accounts there is a charge to the Operating Cost Statement of £1,479,000 relating to ICT infrastructure costs. In 2005/06 there was an amount for ICT infrastructure which has been treated as capital and we requested written assurance on the consistency of the accounting treatment between the two financial years.

  ***Resolution:*** The Board confirmed the consistent application of the policy and agreed to include appropriate assurance in the letter of representation.

- **Fixed Assets – negative revaluation reserve.** At 31 March 2007 there was £583,000 of equipment with negative revaluation reserves. These reserves have arisen due to the indices for medical equipment falling over a five year period from 1999 to2004. In accordance with the Capital Accounting Manual, the Board needs to consider whether these diminutions in value can be deemed to be temporary. Where this is not the case, the negative reserves should be written off to the operating cost statement.

  ***Resolution:*** The Board has agreed to write off negative reserves for assets where the net book value is zero. All other negative reserves are to be reviewed during 2007/08.

## Statement on internal control

39. The Statement on Internal Control provided by the NHS Tayside Accountable Officer reflected the main findings from both external and internal audit work. The Statement did not include any areas of internal control which needed to be strengthened.

## PFI/PPP schemes

40. There are two PFI schemes included within the accounts. These are both treated as off-balance sheet. A description of the projects is given below.

    - Carseview Centre – provides in-patient facilities for Adult Psychiatry and Learning Disability. The estimated capital value of the scheme is £10 million.
    - Whitehills Community Care Centre – provides a range of health, social work and voluntary services. At the end of the contract residual interests will pass to the Board (these are currently valued at £11.6 million).

41. The Mental Health Developments Project was progressed throughout 2006/07. The following outline business cases were approved by the Scottish Executive in August 2006:

    - Adult Mental Health Review;
    - Psychiatry of Old Age Developments for Perth and Angus; and
    - Secure Care Clinic.

# Performance Management

## Introduction

42. This section covers our assessment of the way in which NHS Tayside secures value for money in the use of its resources. This year we focused primarily on the management arrangements for Community Health Partnerships (CHPs) and related organisations.

## Community health partnerships

43. As part of our risk based assessment carried out during the initial planning stage of our audit, we identified partnership working, specifically through Community Health Partnerships (CHPs), as an area for review in 2006/07. Our report focuses on the arrangements put in place by NHS Tayside to develop partnership working in relation to health care services. CHPs are new organisations that were set up in April 2006 to develop community based health services in the Board area.

44. The main findings from our review were:

***Areas of good practice***

- NHS Tayside moved to single system working on 1 April 2006 with the creation of a single delivery unit. The three CHP general managers are members of the delivery unit and the delivery unit executive committee. This ensures they are fully involved in the decision making process for the operating division; and
- The three CHP general managers are fully involved in the budget setting process, savings identification and the capital planning process.

***Areas exposed to risk***

- The Angus CHP budget was exceeded and half of the savings achieved were on a non-recurring basis. Action plans have been put in place to resolve this issue but there is a risk that if these are not successful the CHP will not achieve financial balance;
- schemes of local delegation for the three CHPs have not yet been put in place. There is a risk that without this, accountability for decision making is not clear;
- Contingency plans detailing how CHP services will be provided in the event of an incident resulting in the loss of an ICT service are not fully defined. There is a risk that some CHP services may not be able to respond in a structured manner to incidents resulting in the loss of resources critical to service delivery; and

- All three CHPs highlighted the need to improve performance measurement especially in the area of demonstrating patient benefit.

45. Our overall conclusion on the management of CHPs within NHS Tayside is that governance arrangements are continuing to develop and some areas of good practice have been identified. All three CHPs have been fully involved in the budget setting process and where deficits have occurred, action plans are in place to address issues. Performance management arrangements are in place but these need to be improved.

***Risk Area 4***

## Performance management

46. As stated in previous annual reports, NHS Tayside has a strong performance management culture. Since 2006, the Scottish Executive has placed a requirement on NHS Boards to produce a Local Delivery Plan (LDP). Each LDP sets out a delivery agreement between the Health Department and each NHS area Board The Board's corporate objectives and local delivery plan for 2007/08 were approved by the Board in February 2007. The corporate objectives are made up of key targets and measures from the LDP and locally determined objectives. The corporate objectives are reported and managed through the NHS Tayside Executive Team.

47. NHS Tayside continued to use the CitiSat methodology for assessing and improving performance and as stated above the CHPs are developing their own performance management framework.

## National studies

48. In 2006/07, Audit Scotland published three national studies:

- Informed to Care: Managing IT to deliver information in the NHS in Scotland (November 2006);
- Catering for Patients: A follow-up report (November 2006); and
- Planning ward nursing – legacy or design? (January 2007).

In December 2006 an overview report was published: Overview of the financial performance of the NHS in Scotland, and two publications to assist NHS Boards and their members were published:

- Health and community care bulletin (May 2006), a summary of the key findings from the 2005/06 national studies; and
- How the NHS works: Governance in Community Health Partnerships; a self-assessment tool (May 2006).

## Informed to Care: managing IT to deliver information in the NHS in Scotland

49. This national study sought to provide a high-level overview of the national picture at a time when new structures were being put in place across the NHS (unified boards and community health partnerships), new staff contracts are being implemented, there is increasing joint working with other parties, such as local authorities, and there is increasing opportunity for innovation in service delivery and data management with developments in Information Management and Technology (IM&T).

50. The report concluded that 'Delivering for Health', published by the SEHD, signalled a more corporate approach for IM&T, with a shift away from local autonomy for strategic planning and associated decision-making, and that the SEHD recognised the need to review governance and management arrangements for IM&T throughout the NHS and was taking steps to improve them. Nevertheless there is still the need to develop an overarching information framework or strategy to inform the development of integrated IT solutions for the NHS in Scotland, taking account of all information needs and recent policy initiatives.

51. The report highlighted that the NHS does not know how much it spends on IM&T overall, but recognises that it falls short of the Wanless target of 3-4% of total health spend and the SEHD will have to consider the future funding of IM&T developments. It was felt that greater stakeholder engagement is required to ensure all information needs are effectively addressed. Finally, it was recommended that best practice in identifying, monitoring and reporting expected benefits from IM&T is adopted consistently across the service.

## Catering for patients – a follow up report

52. This follow-up study assessed progress in implementing recommendations made in a baseline report, published November 2003, in the areas of nutrition, quality, patient satisfaction, costs and management of the catering service.

53. The key findings were that catering services are offering an improved level of choice, there are improvements in collating the views of patients, there are improvements in associated management information systems and Boards have reduced the level of wastage.

54. However more work has yet to be done in the areas of nutritional care of patients, conducting patient satisfaction surveys, and closer management of the level of subsidy for non-patient catering services.

55. The report highlighted NHS Tayside's Nutrition Standards Project which was established to implement the NHS QIS standards on food, fluid and nutritional care in hospitals. The report also noted that a Facilities Management System which aims to provide managers with regular monitoring reports on catering services is being piloted at NHS Tayside.

## Planning ward nursing – legacy or design? – a follow up report

56. This follow-up study assessed progress made in implementing recommendations made in a baseline report, published 2002, in the areas of workload and workforce planning, recruitment and retention, the use of bank and agency nurses, information on the quality of nursing care, and information to inform workforce planning and management of resources at ward level.

57. The key finding was that the SEHD has made progress in addressing the recommendations, thus laying the foundations for better ward nursing workload and workforce planning in the future. A wide range of recruitment and retention programmes have been implemented, and dependency on agency nurses (ie external to the NHS) has reduced, whilst use of bank nurses (ie internal to the NHS) has increased.

58. Areas for further improvement were identified in respect of management information on workload and workforce, planning establishment to take account of annual leave, average sickness cover, study time, protected time for senior nursing staff, closer management on the use of bank nurses and the development of quality indicators.

59. The report noted that bank use as a proportion of all nursing WTEs rose from 3.1% to 4.7% in Scotland as a whole, although NHS Tayside's use was below the average level at just over 2%.

# Governance

## Introduction

60. This section sets out our main findings arising from our review of NHS Tayside's governance arrangements as they relate to:

    - clinical governance; and
    - corporate governance.

## Clinical governance

61. The Board changed its organisational structure from 1 April 2006 and the Quality and Clinical Governance Committee was dissolved from 31 March 2006. Clinical Governance is now the responsibility of the newly formed Improvement and Quality Committee.

62. During 2006/07 the committee monitored the following actions:

    - completion of NHS QIS Clinical Governance and Risk Management Standards self assessment. NHS QIS visited Tayside in March. The outcomes of this visit have not yet been published;
    - establishment of a service level agreement with the Delivery Unit and Board to ensure improvement activity is focussed in areas of priority and risk; and
    - establishment of specific improvement measures to support the delivery of key improvement programmes including long term conditions and unscheduled care.

## Corporate governance

63. Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and the Board's financial position. We have made comment on the financial position at paragraphs 30 to 37.

64. We relied on the work of Internal Audit to give us assurance in relation to aspects of our governance responsibilities, particularly those relating to systems of internal control. Additionally, we performed reviews of:

    - financial position and financial and capital management arrangements; and
    - financial management system computer services.

## Financial position and financial management arrangements

65. During the year we carried out a review of the Board's financial position and financial and capital management arrangements. This review, which was carried out across all NHS bodies audited by Audit Scotland, considered whether:

- financial and capital planning was integrated with the overall strategic aims of NHS Tayside;
- budget setting processes for capital and revenue, including the use of savings targets and non-recurring funding were robust; and
- adequate scrutiny of financial and capital plans and budget monitoring reports is undertaken at all levels within NHS Tayside.

66. To address those objectives we conducted interviews and reviewed documentation in respect of planning and budgets, budget setting and budget monitoring, reporting and scrutiny, and forward planning.

67. The main findings from our review were:

***Areas of good practice***

- creation of an efficiency review group with clinical input to review cost pressures, determine priorities for earmarked funds and challenge assumptions within the financial plan; and
- during 2006/07 a Capital Prioritisation Group was set up to assess potential capital projects. The group is chaired by the Medical Director and has representation from finance, clinicians, CHP General Managers and the Area Clinical Forum.

***Areas exposed to risk***

- there is scope for more detail to be added to the financial plans to show how assumptions were derived;
- NHS Tayside continues to rely in part on non-recurring funding resources, including deferred expenditure and slippage, to achieve financial balance;
- the level of achievement of recurring and non-recurring savings is not made clear within the monthly corporate financial reports presented to the Strategic Policy and Resources Committee;
- consideration should be given to reviewing the criteria for prioritising capital projects. Criteria should be weighted to reflect their relative importance;

- capital expenditure has associated cost pressures, for example maintenance and running costs. The limited availability of revenue funding may have a negative impact on the continued performance and condition of capital projects; and
- there is a lack of documented procedural guidance for the capital approval process within NHS Tayside, although we note that this is currently being developed and is at a draft stage.

***Risk Area 5***

## Financial Management System Computer Services

68. NHS Tayside provides a Financial Management System (FMS) computer service based on the CedAr 'eFinancials' system to seven other Boards through the eFinancials consortium. A review is completed annually to advise NHS Tayside and the other members of the consortium of any risks or issues that may impact on their accounts and also share our findings with the auditors of the NHS Scotland organisations who are members of the eFinancial consortium, so they can consider any issues that may impact on their audit. There were no significant matters identified through our audit which would impact on the operation of the FMS computer service. The main findings of our review included:
    - plans are being developed, in conjunction with the NHSScotland Shared Support Services (SSS) team, to upgrade the eFinancials system to the latest release during 2007/08;
    - staffing within Maryfield Financial Services Centre (MFSC) eFinancials team has remained at a level that ensures appropriate system administration skills are deployed for the eFinancials consortium;
    - regular, automated data backups are performed, with backup media stored off-site; and
    - ICT contingency procedures are in place to facilitate recovery of the FMS computer service in the event of a disaster. However these procedures have not been tested.

## National Fraud Initiative

69. The National Fraud Initiative (NFI) was extended to cover the NHS in Scotland by HDL (2006) 44. The NFI is a biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies and on various financial systems to identify potential fraud, error or anomalies for investigation.

70. Under the NFI, payroll data is downloaded and provided to the Audit Commission's NFI appointed auditor (who processes the data for Audit Scotland) who matches this information against other data sets such as housing benefit applicants, local authority pensioners, students, deceased persons, etc. The results are passed back to Boards for further investigation and analysis.

71. Auditors are required to monitor the Board's progress in implementing the National Fraud Initiative and we undertook this as part of our audit. The results of our review were that:

- NHS Tayside has reviewed the information and the process for selecting cases to follow-up is robust;
- The Board is in the process of reviewing all high quality matches; and
- The Board has agreed that Internal Audit will review a sample of the medium quality matches during 2007/08.

# Looking Forward

72. NHS Tayside faces significant challenges in 2007/08 which include:

- 24% of savings achieved in 2006/07 were on a non-recurring basis and have therefore been re-provided in 2007/08 which increases the risk that recurring balance will not be achieved in 2007/08 as planned;
- 2006/07 was the first full year of business for the Community Health Partnerships and their respective committees. The CHPs will be required to demonstrate that they have improved services to patients. CHPs and the Delivery Unit will be required to demonstrate they have shifted the balance of care into the community;
- the Mental Health Developments project progressed throughout 2006/07. The outline business cases for the three projects were approved by the Scottish Executive in August 2006. The projects will be funded through Private Finance Initiative. The procurement for these projects will continue during 2007/08;
- the Scottish Regional Treatment Centre became operational in February 2007. NHS Fife, NHS Grampian and NHS Tayside will have to demonstrate that the centre achieved its aims of reducing waiting times and delivered improved services for patients. These three boards will also have to demonstrate that the investment achieved value for money; and
- the implementation of the European Working Time Directive and Modernising Medical Careers is continuing into 2007/08. The Board must manage the risk of shortage of doctors and the adverse impact on service delivery and performance due to the time out required by staff taking part in the interviewing process.

73. The Board recognises these challenges and is taking steps through its planning processes to address them. We will continue to monitor the progress that the Board is making on these key issues.

# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

| Action Point | Risk Identified | Planned Action | Responsible Officer | Target Date |
|---|---|---|---|---|
| 1 | There is a risk that the Scottish Regional Treatment Centre will not achieve the desired outcome of reducing waiting times. There is also a risk that the Board cannot demonstrate value for money for the investment. | SRTC is one component of the action plan to develop capacity to assist in achieving waiting time targets. The action plan also includes developing NHS capacity across Tayside. The volume and pricing parameters of the contract demonstrated value for money. The Board is seeking to ensure that referral volumes do not fall below the threshold at which unavoidable costs are payable. | Chief Operating Officer | 31 March 2008 |
| 2 | There is a risk of adverse impact on service delivery due to the implementation of the European Working Time Directive and Modernising Medical Careers. | Clinical leaders are closely monitoring staff appointments to identify if there are any services at risk of interruption due to vacancies. Clinical leaders will also closely monitor the experience of staff appointed in August. The Financial Plan for 2007/08 has earmarked £0.5 million should it be necessary to supplement resources to obviate interruption to service. | Chief Operating Officer | 30 Sept 2007 |
| 3 | The crystallisation of equal pay claims would increase the risk to the achievement of the financial plan. | The legal process is at a very early stage and the Central Legal Office has been unable to provide sufficient information to quantify the potential liability. This situation will be closely monitored by the Board. | Director of Strategic Human Resources and Workforce Development<br><br>Director of Finance | 31 March 2008 |
| 4 | There is a risk that the community health partnerships cannot demonstrate improvements to patient services. | There is evidence of improved access to services, improved care and clinical control and indications of an overall shift in the balance of care. CHPs will continue to monitor improvements to patient services. | CHP General Managers | 31 March 2008 |
| 5 | Financial targets in 2006/07 were achieved using non-recurring funding. £4.5 million of savings were achieved on a non-recurring basis and deferred expenditure was greater than planned. There is a risk that recurring balance will not be achieved in 2007/08 as planned. | The Efficiency Review Group (ERG) is currently undertaking an exercise to identify recurring savings to replace non-recurring savings achieved in 2007/08. The outcome of this exercise is due to be reported to the ERG in Sept/Oct 2007.<br>The level of deferred expenditure is monitored throughout the year. | Assistant Chief Executive<br><br>Director of Finance | Nov 2007 |