

# NHS Lothian

Report on the 2008/09 Audit

July 2009



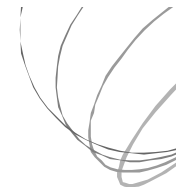
 AUDIT SCOTLAND

# NHS Lothian

**Report on the 2008/09 Audit**

# Contents

<b>Key Messages</b>	<b>1</b>	<b>Performance</b>	<b>26</b>
<b>Introduction</b>	<b>4</b>	<b>Looking Forward</b>	<b>33</b>
<b>Financial Statements</b>	<b>6</b>	<b>Appendix A: Action Plan</b>	<b>35</b>
<b>Use of Resources</b>	<b>13</b>		
<b>Governance and Accountability</b>	<b>21</b>		



# Key Messages

## Introduction

In 2008/09 we looked at the key strategic and financial risks being faced by NHS Lothian. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## Financial statements

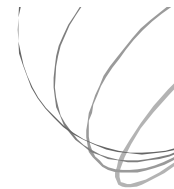
We have given an unqualified opinion on the financial statements of NHS Lothian for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers. It should be noted however that, without qualifying the opinion, we have drawn attention to the current position on potential claims against the Board in respect of equal pay.

## Financial position and use of resources

During 2008/09 the Board achieved a cumulative surplus of £0.188 million. A surplus of £0.364 million was brought forward from the previous year which means there was an in year deficit of £0.176 million. The outturn position against the Revenue Resource Limit (RRL) has been partly achieved through the slippage of developments and recognition of expenditure items as capital grants (£18.7 million) which scores against the Capital Resource Limit (CRL) and not the RRL. In delivering the reported position, in common with other NHS Boards, the Board has also managed a number of cost pressures, for example increased utilities costs and an additional cost of the CNORIS premium.

NHS Lothian's 2008/09 financial plan included a £20 million efficiency savings target. At the financial year end, savings of £20 million were achieved. However, of the total savings achieved, some £7.9 million were non recurrent savings and will have to be re-provided in the 2009/10 financial plan. We have been advised that recurrent schemes to deliver the non-recurrent element of in year delivery have now been implemented. In addition to the savings achieved in 2008/09, some £10.7 million of non-recurring and under achieved savings were carried forward from 2007/08. Management have advised that these were realised on a recurring basis in 2008/09.

The Board's financial statements include significant accruals, particularly in respect of Agenda for Change reviews, and do not reflect any potential liability for Equal Pay claims. Accounting estimates and provisions, by their nature, include a degree of uncertainty and any under-estimate of costs in 2008/09 could have a significant impact in future years.



There has been a funding uplift of 3.15% in 2009/10. In addition, NHS Lothian received a further allocation of £5.5 million from the Scottish Government in relation to recommendations from the National Resource Allocation Committee report which brings the total uplift to 3.73%. This is compared to 6.91% in 2007/08. As outlined in the Board's five year revenue plan these tighter financial settlements will have a significant impact on long term financial planning and the control of costs. In addition, there is a national requirement to deliver a recurrent efficiency savings target of 2% in 2009/10. The achievement of recurring savings will again be challenging.

## **Governance and accountability**

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall, the corporate governance and control arrangements for NHS Lothian operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems underpinning the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

## **Performance**

The Board reports success in progressing a number of HEAT targets. These included waiting time targets for outpatients, the 4 hour accident and emergency waiting time, access to particular cancer treatments and progress towards achieving the stretched healthcare and associated infections target. However, there were a few areas where targets have yet to be fully achieved and these included delayed discharges, sickness absence, agreed personal development plans (PDP) for all staff covered by Agenda for Change and performance against the number of older people (aged 65+) who are admitted as emergency inpatients 2 or more times in a single year. We noted that action is being taken to address all of these issues and the Board considers it is well placed to meet targets in due course. However, as reported previously, there is a continued issue around maintaining targets over the course of each year.

The third year of the Lean in Lothian programme has focused on the delivery of 12 redesign projects and on self sufficiency in training in the toolkit. Cost avoidance and productivity gains have been assessed as being £1.4 million during the year. A review of projects undertaken during year two has confirmed that improvements achieved during 2007/08 have been sustained. The programme continues to provide significant positive impact on efficiency and the patient experience without the need for significant funding.



## Looking forward

The final part of our report notes some key risk areas for NHS Lothian going forward. There are significant challenges around future funding and delivering on HEAT targets, delivering efficiencies and managing a very extensive capital programme, all in a period of expected lower uplifts in allocations. National issues around Equal Pay claims and changes to accounting procedures will continue to provide challenges in future years.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.



**July 2009**



# Introduction

1. This report summarises the findings from our 2008/09 audit of NHS Lothian. The scope of the audit was set out in our Annual Audit Plan presented to the Audit Committee on 2 February 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a number 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. Best value duties apply across the public sector and, in the health service, best value is a formal duty on all Accountable Officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of NHS Lothian's arrangements.

## Exhibit 1: Framework for a best value audit of a public body





4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for NHS Lothian, where appropriate, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of NHS Lothian during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.





# Financial Statements

7. In this section we summarise key outcomes from our audit of NHS Lothian financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

8. 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
  - the consistency of the information which comprises the management commentary with the financial statements
  - the regularity of the expenditure and receipts.
9. 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
  - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

## Overall conclusion

10. We have given an unqualified opinion on the financial statements of NHS Lothian for 2008/09. It should be noted however that, without qualifying the opinion, we have drawn attention to the current position on potential claims against the Board in respect of equal pay. This matter is discussed further at paragraphs 13 and 21-24.
11. As agreed, the unaudited accounts were provided to us on 11 May 2009 supported by a working papers package. The standard of the supporting papers and, on the whole, timely responses from NHS Lothian staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 22 June 2009 as outlined in our Annual Audit Plan.



## Issues arising from the audit

12. As required by auditing standards we reported to the Audit Committee on 22 June 2009 the main issues arising from our audit of the financial statements. The key issues reported were as follows.
13. **Equal Pay Claims.** NHS trusts in England have settled pay claims for female employees and similar claims have been received by Boards in Scotland. As at 31 March 2009, NHS bodies had received in excess of 12,000 claims and these had been referred for the attention of the NHS Scotland Central Legal Office. Whilst it is possible that these claims represent a current liability for NHS Boards generally, NHS Scotland Central Legal Office has advised that it is not possible to calculate the potential liability. An unquantifiable contingent liability has been included in the notes to the financial statements for equal pay. The audit opinion draws attention to this position, without qualification, in an 'emphasis of matter' paragraph (refer to paragraphs 21-24 below).
14. **Capital Grants.** Boards have powers to make capital grants to other bodies to construct or develop assets for their own use for the benefit of the Board's residents. Capital grants must comply with the requirements of the Capital Accounting Manual. Use and application of capital grants has been discussed with management on a regular basis. The risk from an audit perspective is that the expenditure ought more rightly to be accounted for as revenue expenditure. In 2008/09 NHS Lothian applied £18.7m of its Capital Resource Limit to such projects. During the latter stages of our audit work, management produced material to support the application of these funds. We have again recommended that there be better record keeping by the Board to assure themselves that these resources are being applied in accordance with the Capital Accounting Manual, and that they receive assurance from recipients of the funds that they have been duly applied as NHS Lothian intended. We also raised concerns about the payment in advance to West Lothian Council for assets currently being constructed. We were advised that all funds will be expended during 2009/10.

### Risk area 1

15. **Capital accounting.** Our interim work indicated that there were examples of items which should have been more appropriately charged to revenue, in that the expenditure did not comply with the definition of capital as per the Capital Accounting Manual (CAM). Management have pursued this and it has been established that, in certain cases, costs have not been clearly distinguished in originating documents. However management are confident that due to the nature of the finding, it is not indicative of a wider problem in the classification of items, between capital and revenue streams. We have been advised that procedures will be improved in this area.
16. **Revaluation reserve.** The revaluation reserve records a balance of some £141.1 million. This reserve can be allocated against individual assets and represents the element of revaluation attributed to an individual asset. The breakdown of this reserve indicates that two assets are carrying a negative balance (£0.4 million), both of which were reported in 2006/07 and 2007/08. Negative



balances should only be carried forward when there is no permanent diminution in the value of an asset. Management have advised that the Chalmers Hospital site is due to be redeveloped during 2009/10 and Springwell House will be sold in the future for redevelopment (although no definite date for sale is known). Management consider that the increase in value/sales proceeds will exceed book value and the associated negative reserve element in the foreseeable future. In view of the passage of time we considered the negative valuation to no longer be temporary in nature. We therefore considered that the negative revaluation balances should properly be charged against revenue as an impairment. As a consequence, £0.4 million additional expenditure was taken to the Summary of Uncorrected Misstatements.

## Risk area 2

17. **Agenda for Change (AfC).** We drew specific attention to the accounting treatment for the costs of the AfC programme for the period October 2004 to March 2009. The amount included in NHS Lothian's financial statements at the year-end is £24.7 million. NHS Lothian has adopted the national model as a basis for calculating these costs. Due to the fact that this is an estimate, there is an element of uncertainty associated with the accuracy of this accrual. In the course of our audit work we identified an arithmetical error of £0.8 million in the detailed spreadsheet supporting the accrual. Management advised that on reviewing rates of provision they considered that they have overestimated the level provided associated with certain individual elements, and that this would also be in the region of £0.8 million. However, overall, management consider the £24.7 million to be a fair estimate of anticipated costs. We received formal assurances from the Board, in the letter of representation, that the accrual is appropriately disclosed.
18. **Agenda for change.** The full AfC amount has been included as a creditor within the financial statements. However, this figure included a significant element which related to the potential costs of successful appeals; the outcome of which is as yet unknown. We asked management to consider whether this uncertain element should be separated and disclosed as a provision within the financial statements. We received formal assurances from the Board, in the letter of representation, that the creditor is appropriately classified after consideration of FRS 12.
19. **Stock.** Stock holdings of some £13.3 million are recorded in the accounts. We noted two stock areas (£0.5 million) which had been subject to a year end stock count but were not included in the year end balance on the basis that they were not considered to be reliable. Two stock areas (£0.8 million) were included in the accounts where validity test checks had not been undertaken to provide assurance as to their value. Following discussion, management provided assurances as to the validity of the stock holdings and that stock counting and valuation procedures will continue to improve as part of the continuing review of procedures.

## Risk area 3



## Other Matters

20. **Annual Accounts Submission.** We have discussed with management the need to streamline procedures in order to ensure that certification of the accounts is achieved efficiently. In particular, the Board is not obliged to reproduce the content of the Register of Members' Interests in the Directors' Report in the annual accounts. Revisions to this caused delay in concluding the 2008/09 annual accounts. What is required is for all related party transactions to be disclosed in the Directors' Report in accordance with FRS8. This requires the Register of Members' Interests to be kept up to date.

**Risk area 4**

## Equal Pay Claims

21. 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 taken forward by the Equal Pay Directive which made it clear that all such discrimination should be eliminated from all aspects of remuneration. In the UK the Equal Pay Act 1970 is seen as fulfilling Britain's obligations in relation to equal pay. The National Health Service in Scotland has received a number of claims for equal pay in which additional back pay is sought, arising from the requirement for equal pay. The NHS Scotland Central Legal Office (CLO) is instructed by the Management Steering Group of the NHSScotland and co-ordinates the legal response of NHSScotland to this issue.
22. There have been some developments in this area over the past year. Some cases are being pursued that also comprise a challenge to the Agenda for Change pay evaluation system on the basis that it perpetuates discrimination. This has slowed the progress of claims. The challenge to Agenda for Change was recently heard at an Employment Tribunal. The challenge was unsuccessful and the Tribunal rejected the contention that the Agenda for Change job evaluation scheme was discriminatory. This ruling severely curtails the possibility of claims for any period after 1 October 2004. In relation to claims for the period prior to 1 October 2004, claimants will still have to establish that their jobs at that time were of equal value to the comparator jobs. The CLO have stated that claims currently submitted do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The NHS Scotland Central Legal Office and Equal Pay Unit are monitoring the progress of all equal pay claims in NHS Scotland as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.



23. Discussions have been held between Audit Scotland, their partner firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in 2008/09. Given the CLO's advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2008/09 financial statements of affected NHS Boards. It should be noted however that, given the potential significance of the issue, and without qualifying the opinion, we have drawn attention in the audit report to the current position on potential claims against the Board in respect of equal pay.
24. We continue to strongly encourage NHS Lothian management, working with the Scottish Government Health Directorates, the CLO and other NHS Boards to form a view of the potential liabilities as soon as possible taking into account the progress of cases in Scotland and England.

#### Risk area 5

### Regularity

25. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

### International financial reporting standards (IFRS)

26. As announced by the Chancellor in the 2008 Budget report on 12 March 2008, Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
27. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
  - **28 November 2008** – opening 2008 IFRS-based balance sheet was to be presented to auditors for the dry-run audit.
  - **28 February 2009** – the dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.



28. The opening 2008 balance sheet and supporting documentation were submitted by NHS Lothian for review by the deadline date of 28 November 2008. The restated balance sheet and supporting working papers were comprehensive.

29. We made some recommendations for the delivery of the next stage of IFRS reporting, and will consider progress on these when we review the shadow accounts later in 2009. These included:

#### **Tangible assets**

- NHS Lothian had not considered the impact of component accounting for their fixed assets. A specific exercise may be required in order to separately account for components in accordance with International Accounting Standard 16. It is not anticipated that bodies will split assets into components retrospectively but we would expect prospective componentisation.

#### **Intangible assets**

- On preparation of the restated balance sheet as at 28 November 2008, NHS bodies were advised to follow the International Financial Reporting Manual guidance extant at that time, which resulted in NHS Lothian de-recognising most of the intangible assets previously capitalised. However, following advice from the Accounting Services Unit of the Scottish Government certain intangible assets, if they meet the necessary criteria, may be restated on the balance sheet.
- NHSL have not completed a comprehensive review for significant software costs (in-house development costs) which may be currently recorded within revenue or tangible fixed assets but should now be reclassified under IFRS capitalisation criteria.

#### **Leases**

- Following a review of the general ledger and other sources, eight property leases have been assessed as finance leases and capitalised on the basis that these buildings are key operating assets for NHSL into the future. The decision should have been based on the criteria specified in the IFRS guidance.

#### **PFI assets**

- Five projects which were previously accounted for off-balance sheet have been brought on-balance sheet under IFRS. More detailed work is required however to fully establish that IFRIC 12 decision criteria have been met, for example, to determine whether NHSL control significant residual interest in the infrastructure at the end of the term of the contractual arrangement and to support the figures/assumptions used in the calculations.
- The Royal Infirmary of Edinburgh (RIE) PFI is currently accounted for on-balance sheet and remains on-balance sheet under IFRS. However, the contract should be subject to detailed review to confirm that it meets the IFRIC 12 requirements and that all elements of the asset should therefore continue to be treated as an on-balance sheet project.



## Embedded Derivatives

- As part of the changeover to IFRS, Boards need to identify any embedded derivatives. These are elements within contracts which are related to an external indicator e.g. the Retail Price Index, which can affect the value of a contract and is outwith the control of the organisation. Where they are identified, separate accounting treatment may be required to identify the effects of embedded derivatives in those contracts. This is the case for both locally arranged contracts as well as national framework agreements.

## PFI/PPP schemes

30. NHS Lothian has a number of PFI commitments which are disclosed in Note 25 in the accounts. Five contracts are off balance sheet while the sixth, and largest, the Royal Infirmary of Edinburgh, is on-balance sheet. Four of the five off-balance sheet projects are 30/60 bedded units for frail elderly and dementia patients while the fifth is a primary care centre which accommodates 3 GP practices and Community Health Partnership community activities. The capital values of the off-balance sheets schemes range from £2.1 million to £3 million and the associated annual revenue cost is £3.9 million. The Royal Infirmary of Edinburgh (RIE), as stated above, is an on-balance sheet PFI and has a capital value of £185.8 million and associated revenue costs of some £39.7 million. Further disclosure of the Board's obligations on the RIE for future years is recorded at note 25 of the financial statements.
31. We provided a final judgement on the accounting treatment of the Midlothian Community Hospital PFI project using current UK GAAP accounting principles. We were able to conclude NHS Lothian's final judgement on the accounting treatment as off balance sheet was reasonable, albeit that the risk spread we had determined through our distribution model was considerably closer between purchaser and contractor. The final business case was approved by the Scottish Government and building work commenced in March 2009 with completion expected by Autumn 2010. We shall continue to monitor progress on this scheme.



# Use of Resources

32. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the following areas:

- financial position
- financial management
- management of people
- management and use of information and communications technology (ICT).

## The Board's financial position

### Outturn 2008/09

33. NHS Lothian is required to work within the resource limits and cash requirement set by the Scottish Government. The Board's performance against these targets is shown in Table 1.

**Table 1**  
**2008/09 Financial Targets Performance £'000**

<b>Financial Target</b>	<b>Target</b>	<b>Actual</b>	<b>Variance</b>
Revenue Resource Limit	1,118,346	1,118,158	188
Capital Resource Limit	49,317	49,310	7
Cash Requirement	1,197,449	1,197,393	56

34. During 2008/09 the Board achieved a cumulative surplus of £0.188 million after repaying an element of brokerage of £3.8 million to the SGHD (leaving a final amount of £3 million to be repaid in 2009/10). As the Board carried forward a surplus of £0.364 million from the previous year, this means there was an in year deficit of £0.176 million, which it utilised during 2008/09 to fund a number of non-recurring expenditure commitments.

35. The outturn position against the Revenue Resource Limit (RRL) has been partly achieved through the slippage of developments and recognition of expenditure items as capital grant schemes (£18.7 million), as appropriate, thus scoring against the Capital Resource Limit (CRL) and not the RRL. Non-recurring funding was generated from a combination of capital grants, deferred income and non-recurring funding allocations. Where this has been used to support recurring expenditure it will have to be re-provided in future years.





36. NHS Lothian's 2008/09 financial plan included a £20 million savings target to achieve financial balance. In addition to this savings target, some £10.7 million had to be re-provided in the 2008/09 financial plan to ensure that 2007/08 non-recurring and under-achieved savings were realised on a recurring basis. During the mid-year review process £2.9 million was identified as in-year underspend for reallocation. By the end of 2008/09, savings of some £20 million were achieved which included the application of the in-year flexibility. However, of the total efficiency savings achieved, some £7.9 million represented non-recurrent savings and this has been re-provided in the 2009/10 financial plan. Management have advised that all 2007/08 required savings were achieved on a recurring basis.
37. Outturn against the Capital Resource Limit (CRL) has been achieved as a result of banking unspent capital allocation with the SGHD during the year (£16.8 million). In addition, a further £34.3 million is available as a carry forward balance from prior years and is available to fund future investments and has been built into the 10 year strategic capital plan as a future source of finance.
38. NHS Lothian disposed of a number of Land and Buildings during 2008/09. NHS Lothian received proceeds of £2.1 million compared to the net book value of £1.2 million and as a result profit of some £0.9 million was recorded in the annual financial statements.
39. Table 2 below, shows how the surplus of £0.188 million was achieved through a combination of recurring and non-recurring funding. Historically, Boards have relied upon a measure of non recurring funding to achieve financial targets. However, with the tightening financial settlement in future years and the option of capital to revenue transfers no longer available to Boards, there is less scope for reliance on non recurring income to achieve financial balance as Boards seek to rationalise their cost base.

**Table 2**  
**Funding Position 2008/09**

	£ Million	£ Million
Recurring income	1,095	
Recurring expenditure	(1,115)	
Recurring savings	12	
<b>Underlying recurring surplus/(deficit)</b>		(8)
Non-recurring income	23	
Non-recurring expenditure	(23)	
Non recurring savings	8	
<b>Non-recurring surplus/(deficit)</b>		8
<b>Financial surplus/(deficit)</b>		0
<b>Underlying recurring surplus/(deficit) as a percentage of recurring income</b>		0.73%



## Financial sustainability and the 2009/10 budget

40. There were tighter financial settlements in 2008/09 with an uplift of 3.47% compared to 6.91% in 2007/08. (The uplift includes an allocation of £3 million from the Scottish Government in relation to recommendations from the National Resource Allocation Committee (NRAC)). This reducing trend has continued in 2009/10 where the uplift was set at 3.15%. However, in addition to the base uplift, NHS Lothian received a further £5.5 million to reflect the gradual impact of the implementation of the National Resource Allocation Committee (NRAC). However, management estimate that NHS Lothian will be some £56.4 million short of their required funding position as identified by NRAC as at 31 March 2010. This will have a significant impact on long term financial planning and the control of pay and non pay costs. In common with other public sector organisations, Boards have been set an efficiency savings target of 2% in 2009/10. However, given the current economic situation and the impact of the UK Government budget in April 2009, there is a risk that the current level of uplift will not be received by Boards in 2010/11.
41. The 2009/10 financial plan recognises significant increases in the following areas: pay by £18 million (2.57%), indexation on the Royal Infirmary of Edinburgh PPP contract (3.76%), drug costs (13.7%) and prescribing costs (3.65%). These costs represent significant elements of the Board's expenditure and therefore present a significant challenge to the Board's Financial Plan in 2009/10.
42. The Board's savings target for 2009/10 has been set at £13.8 million. When this is added to the balance brought forward of £7.9 million, because it was delivered non recurrently in 2008/09, the Board faces a cost savings challenge of some £21.7 million. The achievement of any efficiency savings target is challenging particularly as it has been a continuing feature of NHS Lothian's financial planning process. The board has delivered efficiency savings (recurrent and non-recurrent) in excess of this in earlier years.

### Risk area 6

43. There is continuing challenge for the Board to identify additional efficiencies in the service within a tightening financial settlement. It is important that the Board has access to accurate cost base information to inform investment choices and continues to encourage innovation and creativity in the future provision of services from all stakeholders both internal and external to the organisation. In the complexities of the financial planning process where internal savings are being generated to support service developments, as well as to meet efficiency targets, it is essential that mechanisms are in place to record and report upon financial savings.
44. NHS Lothian's five year financial plan assumes that additional funding would be received in order to bring the Board closer to its NRAC calculated level. The plan assumed that some £35.5 million would be received over the period 2010/11 to 2013/14. However, while the financial plan for the 2 years 2009/10 and 2010/11 have been agreed, the Board has been advised by the SGHD that any



additional funding assumed beyond 2010/11 is not affordable with the resources available. This will have a significant impact on the Board's ability to meet its current and projected level of service and the achievement of its HEAT targets.

## Risk area 6

### Financial management

45. Audit Scotland is developing a range of audit toolkits to cover key best value principles. These are being developed so that they can be used both by auditors and by NHS bodies themselves for self-assessment purposes. The first of the toolkits, which covered financial management, was piloted in NHS Lothian during 2008.
46. Our detailed report was issued in February 2009 and drew upon examples of good practice across the NHS in Scotland. Our report concluded that the Board's arrangements in this area are soundly based and in 2009/10 we plan to monitor the Board's progress in developing an action plan to address the areas where performance could be improved.

### People management

47. The Staff Governance Committee met four times during 2008/09 to discuss topics such as agenda for change, the knowledge and skills framework and policy development.
48. The Board introduced its Human Resources and Organisational Development Strategy (2008 – 2011) towards the end of 2008 which focuses on three areas: Living Values, Engaging Leadership and Delivering Quality. The objectives of the strategy are to be delivered through the development of detailed action plans which should ensure that the mechanisms, roles, responsibilities, specific resource requirements and success measures are developed. These action plans will be monitored by the Lothian Partnership Forum and the Staff Governance Committee. The delivery of the strategy will support the effective implementation of the Board's Corporate Objectives.
49. As with other Health Boards in Scotland NHS Lothian faced a major challenge in striving to achieve the sickness absence target of 4% by March 2009. The actual sickness absence rate for the Board at 31 March 2009 was 4.23% (a rate of 4.02% was achieved in February 2009). This was a significant achievement. NHS Lothian continue to seek ways of addressing sickness absence and these include sickness absence targets being included in line management objectives for 2009/10 and the establishment of a programme of sickness absence based audits targeting those areas with high levels of absence. The major issue for NHS Lothian going forward is the sustainability of the current level of performance over the long term.



50. The Board, like many others in Scotland, did not achieve the original national Agenda for Change target for assimilating staff and paying outstanding back pay by the end of December 2006. The vast majority of employees have now been assimilated and received payment of the arrears owed to them but a significant number of cases still require to be revisited after staff requested their case to be reviewed. NHS Lothian's main focus remains on ensuring all staff are assimilated on the new Agenda for Change pay scales and that any grading reviews are concluded. The review process continues with 427 posts (4,000 post holders) under consideration. Based on current progress, it has been projected that the review exercise would take up to 3 years to conclude. NHS Lothian has discussed how to increase the pace of the review process and is looking at the creation of a second review panel and the resourcing of this to allow the process to move forward quicker than currently forecast. In the meantime, an accrual for £24.7 million has made in the 2008/09 financial statements (see also paragraph 17).
51. During 2008/09 we carried out a brief review of NHS Lothian's process for the completion of its staff governance action plan. The work was carried out in response to a request from the Scottish Government to Audit Scotland for external auditors to review Boards' procedures in relation to staff governance. The main purpose of our review was to ensure that the staff governance action plan addresses issues arising from:
- staff survey results
  - mandatory statistics on people management
  - any outstanding issues from the previous year's action plan.
52. Our review also included checking that the staff governance action plan includes clear timescales, identify responsible officers and set out measurable actions. Overall, we noted that NHS Lothian has a robust process in place for the production of its staff governance action plan.

## Management and use of ICT

53. As part of the 2008/09 audit we have reviewed several aspects of the Board's management and use of ICT:
- a best value review on information management
  - a review of the ICT control arrangements in relation to the eFinancials ledger system
  - a Your Business @ Risk staff survey
  - a review of data handling arrangements.



## Information Management

54. Audit Scotland is continuing to develop a range of audit toolkits to cover key best value principles. These are being developed for use by auditors although they may also be used by NHS bodies themselves for self-assessment purposes. The second of the toolkits, which covers information management, was piloted in NHS Lothian during 2008/09. The review sought to establish the Board's position in relation to:

- information governance and leadership
- information for decision making
- service delivery
- compliance and control
- knowledge management.

55. Our review established that the Board's arrangements in this area are generally soundly based, with a number of areas of good practice. However some areas have been identified where the Board's arrangements are at the 'basic and better' levels in our categorisation system. We plan to submit our detailed report in August and, where possible, will draw upon examples of good practice across the NHS in Scotland.

## eFinancials ICT controls

56. As part of our 2008/09 annual audit we carried out a review of the ICT controls in place for the eFinancials ledger system. During November 2008 NHS Lothian completed the migration of their financial ledger service to the eFinancials consortium led by NHS National Services Scotland (NSS). Our review sought to ensure that appropriate local and consortium-wide ICT controls were in place.

57. Our draft letter, issued in June 2009, identified a number of good practices. These included:

- a local support team is in place to manage user access and standing data changes
- ICT disaster recovery is provided as a core aspect of the service, and a consortium-wide test of these arrangements has been carried out
- service audit arrangements are in place to provide management with assurance about common, consortium-wide aspects of the eFinancials service.



58. The letter also highlighted a number of risk areas that we suggested management should consider as eFinancials operational practices continue to develop. These included:

- a Service Level Agreement between NHS NSS and NHS Lothian has not been agreed
- the ICT disaster recovery arrangements for the eFinancials service have been tested; however a formal report detailing successes, issues and lessons to be learned has not been prepared
- the eFinancials service is hosted as part of the national IT services contract; however there is no specific system security document that demonstrates the measures in place to secure NHS Lothian's ledger data from inadvertent access by other NHS organisations.

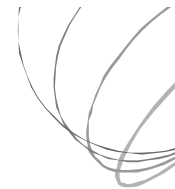
## **Your Business @ Risk**

59. The *Your Business @ Risk* survey provides an assessment of staff awareness of, and attitude towards, data confidentiality and protection. We initially used this survey in NHS Lothian as part of our 2006/07 audit where a response rate of 4% of staff was achieved. In light of the increased public interest in the topic of information security we agreed to run the survey again during our 2008/09 audit. Lead clinicians in both the acute and primary care operating divisions promoted the completion of the survey to all staff, and the data collection phase was completed during June. Following analysis of the results we intend to issue a report in August 2009.

## **Data handling**

60. The confidentiality and security of personal data held by public sector bodies continues to be a topic of public interest. During 2008/09 we planned to conduct a review of data handling policy and management. This review considered the policies that NHS Lothian has in place to identify and manage information risks with specific emphasis being placed on the control of personal information, how it is identified and used, who it is shared with and what processes are in place to assure its confidentiality.

61. Due to staff resource issues within the eHealth department, progress of this review has been slower than planned. We are currently reviewing the information provided and we anticipate that this work will be concluded during July with a draft report being issued in August 2009.



## National Studies

### Asset management in the NHS

62. This study examined how the NHS is strategically managing its assets to support effective service delivery. The study's objectives included assessing the extent to which the Scottish Government provides strategic direction to NHS bodies on asset management in general and the assurance that NHS estate is being used in the most economic and effective way. It also evaluated how well NHS bodies strategically manage all of their assets to ensure effective service delivery.
63. The report recommended that NHS bodies should:
- develop strategies for each type of asset and then develop a corporate asset management strategy and plan, which links with their clinical strategies
  - ensure they assess estate condition, statutory compliance, functional stability and space utilisation on a regular basis
  - ensure all information on assets is held electronically
  - review their performance management arrangements and, where required, develop performance measures and targets for assets.
64. The report is to be presented to the July 2009 Operational Audit Committee together with a position statement. Management are of the view that NHS Lothian is in a strong position to meet the challenges presented by this national report.

### Managing the use of medicines in hospitals: follow-up review

65. This review followed up the key recommendations from Audit Scotland 2005 report on '*Managing the use of medicines in hospitals.*' It also provided an overview of national developments since 2005. The report recommended that NHS Boards should ensure that pharmacy workforce plans are based on an assessment of need, which considers the appropriate numbers, skill mix and other resources such as automation, to meet future needs for dispensary, clinical and other work.
66. The report will be presented to the September 2009 Operational Audit Committee.



# Governance and Accountability

67. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our main findings arising from our review of NHS Lothian's arrangements.
68. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

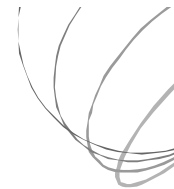
## Overview of arrangements

69. This year we reviewed:
- patient safety and clinical governance
  - partnership working arrangements
  - key systems of internal control
  - internal audit
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
70. A number of senior managers in NHS Lothian, both in the Finance department and outwith, left during 2008/09. These included the Director of Finance, the Associate Director of Finance, the Nurse Director and the Chief Internal Auditor. All posts have now been filled.
71. Our overall conclusion is that arrangements within NHS Lothian are sound and have operated through 2008/09.

## Patient safety and clinical governance

72. Patient safety is a significant concern to patients, the public and the NHS. Therefore, patient safety is at the heart of the Healthcare Governance and Risk Management Committee (HGRMC) in NHS Lothian.
73. NHS Quality Improvement Scotland (QIS) published national standards for clinical governance and risk management in October 2005. NHS Lothian was assessed against three clinical governance and risk management standards and was awarded a QIS score of 5 out of a possible 12. Ongoing





assessment against the standards has been undertaken. The next QIS review is scheduled for September 2009 where it will be formally reported whether NHS Lothian has achieved its HEAT target of scoring 8 or above. We shall continue to monitor progress in this area.

74. The Scottish Patient Safety Programme (SPSP) was launched in 2007 by the Scottish Patient Safety Alliance. The aims of the programme are to ensure early interventions for deteriorating patients, deliver evidence-based care to prevent deaths from heart attack, prevent adverse drug events deliver a change in the safety culture in NHS organisations. NHS Lothian is implementing the tools and techniques of the SPSP to ensure the risk of harm to patients in hospital settings is reduced. While the national target is to reduce Healthcare Associated Infections by 30% by March 2010, NHS Lothian has increased this target to 40% (299 cases). As at the end of March 2009, performance had improved and a reduction of some 18% in cases had been achieved (362 cases).
75. The HGRMC receive a quarterly incident report which summarises all the incidents within NHS Lothian sites. The quality of this data has been improving throughout 2008/09 which has allowed the HGRMC to conclude that the incident reporting system is now providing useful information such that the effectiveness of the system can be reviewed. However, they also noted that the system for closing the loop on incidents by regular reporting to staff, and demonstrating that changes have occurred to prevent recurrence, does not yet seem to be effective.

## Effective partnership working

76. Partnership working in the NHS covers a number of areas, including partnerships with staff groups, local authorities, the voluntary sector, private healthcare providers and regional planning with other NHS Boards.
77. The Board has undertaken significant work in partnership with local authorities in establishing a Community Health Care Partnership and Community Health Partnerships (CH(C)Ps) to provide care and public health services in a local setting to meet the needs of the local population. Public Partnership Forums are established in each CH(C)P area with relevant committees meeting during the year. Such mechanisms should ensure that service users are involved in service developments and links are established with other local governance structures, for example, community planning committees, to co-ordinate services which meet the needs of local areas.
78. 'Shifting the Balance of Care' (SBC) was raised as a formal concept in 'Better Health, Better Care'. The SGHD has indicated that as part of the annual review process Boards will be expected to demonstrate significant shifts in the balance of care and associated shift in resources. This requirement will apply not only to Boards but also to their planning partners. NHS Lothian has agreed to work with the SGHD in piloting a SBC integrated resource framework. The purpose of this development is to give greater focus and a more systematic approach to shifting the balance of care.



79. We are pleased to note that NHS Lothian is committed to the delivery of shared outcomes with its community planning partners. Single Outcome Agreements (SOAs) have been discussed and agreed with the relevant CH(C)Ps and have been signed off by the Chief Executive, and performance management processes and reporting have also been introduced.

## Systems of internal control

80. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2008/09 NHS Lothian and Borders Internal Audit provided their opinion that, based on the internal audit work undertaken during the year, adequate and effective internal controls have been operating throughout the year. Reference was made, however, to two reports which were issued with an 'unsatisfactory' rating (NHS Cost Recovery Scheme, and Working Time Directive Compliance).
81. As part of our audit we reviewed the high level controls in a number of NHS Lothian systems that impact on the financial statements. This audit work covered a number of areas including cash and bank, payroll, accounts payable, accounts receivable, fixed assets, general ledger, Family Health Services, stores and procurement. We identified a number of areas where controls could be strengthened and agreed an action plan with management. We were however able to conclude that there were no material weaknesses in the accounting and internal control systems and that the key controls were operating effectively.
82. In addition we placed formal reliance on aspects of internal audit's systems work in terms of International Standard on Auditing 610 (*Considering the Work of Internal Audit*) to avoid duplication of effort. This work provided us with additional assurances on the adequacy of the internal control environment within NHS Lothian.

## Statement on internal control

83. The Statement on Internal Control (SIC) provided by NHS Lothian's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and sets out the Board's approach to this. The SIC included details of the Board's Accountability Arrangements, Risk and Control Framework and approach to Best Value and complied with the guidance issued by the SGHD on 25 March 2009. The SIC records that information governance arrangements will be reviewed by the Healthcare Governance and Risk Management Committee in August 2009.



84. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on NHS Lothian internal audit function. We concluded that the internal audit service operates in accordance with the NHS Internal Audit Standards and therefore placed reliance on their work in a number of areas during 2008/09, as we anticipated in our annual audit plan.

## **Prevention and detection of fraud and irregularities**

85. NHS Lothian has in place a number of measures to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and supporting policies and procedures. The Board has a formal programme of internal audit work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud. The Board has also agreed a formal protocol covering a programme of Payment Verification checks with the Practitioner Services Division of NHS National Services Scotland. In 2008/09 these checks included verification against patient records, requesting patients to confirm treatment by letter, visits to practices and examination of patients.
86. A Counter Fraud Champion has been appointed in accordance with Scottish Government requirements and a NHS Lothian Counter Fraud Action Group has been set up to provide an additional focus on counter fraud activity.

## **NFI in Scotland**

87. In 2008/09 NHS Lothian took part in the National Fraud Initiative (NFI) in Scotland. The SGHD and NHS Counter Fraud Services have strongly supported the involvement of health bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue Boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. The NFI has generated significant savings for Scottish public bodies (£40 million to date) but, if fraud or overpayments are not identified, assurances may be taken from internal arrangements for preventing and detecting fraud.
88. The NFI 2008/09 data matches were made available to health bodies in February 2009 via a secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored the Board's involvement in NFI during the year.



89. The current NFI process is still at an early stage. Some 2,360 matches were identified and of these 68 were considered to be of the highest quality. Following the data matching exercise the Board set up an NFI group which included key officers from Internal Audit, Human Resources and Payroll. Specific areas e.g. payroll to payroll within and between bodies, payroll to pensions have been allocated to members to follow up. As at June 2009, of the 68 high quality matches, 14 matches have been cleared with 9 more currently being investigated. The Board may wish to consider whether there would be any benefit in reviewing a sample of the remaining cases. NHS Lothian has also responded to requests from other public bodies involved in the NFI process. We will continue to monitor the Board's progress in this area.

## National Studies

### Review of the new General Medical Services contract

90. This report considered how the new General Medical Services (GMS) contract, which is UK wide, was implemented in Scotland. The review focused upon the approach taken by the Scottish Government and NHS Boards to plan and implement the contract, the cost and effect of the contract on patients and GPs and the wider NHS arrangements for monitoring and managing the contract.

91. The report recommended that the Scottish Government and NHS Boards should:

- monitor the investment by NHS Boards in enhanced services to make sure that they achieve value for money as well as meeting local needs
- collect comprehensive data on local GP and GP practice staff numbers to support workforce planning at a national and local level.

92. The report was presented to the Audit Committee together with a review of its impact on NHS Lothian by the General Manager, Primary Care Contracting Organisation. It was noted that the report was generally positive in relation to NHS Lothian.

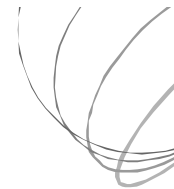


# Performance

93. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
  - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes for citizens.
94. In this section we comment on:
- the Board's corporate plan and risks to its achievement
  - performance against targets
  - performance management arrangements
  - efficiency
  - best value.

## Vision and strategic direction

95. NHS Lothian is committed to developing a sustainable health service through its strategic vision, *Improving Care, Investing in Change* (ICIC) which includes plans to change the way acute healthcare services are organised and delivered across NHS Lothian, and plans to achieve a better balance between in-patient care and community based care. The ICIC programme brings together the various strands of Better Acute Care in Lothian (BACIL): care for the elderly; mental health and well-being; and various new-build proposals including the Royal Hospital for Sick Children and East and Midlothian Community Hospitals.
96. The Local Delivery Plan (LDP) sets out NHS Lothian's agreement with the Scottish Government to the delivery of HEAT (**H**Health improvement, **E**fficiency, **A**ccess to services, **T**reatment) targets in the light of the *Better Health, Better Care* action plan. The delivery plan is part of the wider national strategy. The targets are designed to help NHS Lothian tackle local health issues such as waiting times and life expectancy, and they demonstrate a commitment to identifying where the greatest need lies.
97. The 2008/09 Corporate Objectives focus on the actual delivery of the LDP targets and considers cost versus quality and tries to improve patient experience and safety. It is in an action plan format with specific actions and associated timescales and names the lead executive director. These objectives then link downwards into personal development plans.



## Managing risk

98. The Healthcare Governance and Risk Management Committee (HGRMC) is responsible for ensuring that there are effective clinical governance and risk management processes. The Quality Improvement Strategy which replaced their Risk Management Strategy outlines the key aims and objectives of the risk management process. In addition, an annual risk management report was presented to the audit committee which provided assurances that adequate and effective risk management procedures were in place for the year. The corporate and divisional risk registers continue to be systematically reviewed and updated by the Executive Management Team and HGRMC and relevant risk managers.
99. NHS Lothian has continued to make progress to enhance their risk management processes including progress with their risk registers, incident reporting and risk management training.
100. The Board's risk register process continues to develop. Risk registers are being transferred onto the Datix risk management information system which records not only "reactive" risks, identified from incidents, complaints and claims, but also "proactive" risks which have come from other sources. Risk can be captured and recorded on a timely basis. In addition, Business Continuity planning risks have now been linked to the risk register process. The Datix system is also being used to record incidents within NHS Lothian. This allows NHS Lothian to have standard incident reports which cover the entire organisation.
101. We are pleased to note the progress being made in standardising risk management systems and procedures within NHS Lothian. However the challenge remains to ensure risk management becomes fully embedded within all areas of the organisation and that the information provided by Datix is used effectively. In addition, the risks facing the organisation, for example securing financial stability, working in partnership, performance management and workforce capacity, are complex and comprise multiple issues which will require careful management to resolve.

## Service Development

102. There are significant developments planned for the delivery of future healthcare services by NHS Lothian. The ICIC programme brings together plans to deliver projects such as the re-provision of services at a new Midlothian Hospital, a new Royal Edinburgh Hospital, a new Royal Victoria Hospital facility at the Western General and a new Hospital for Children and Young People, amongst other major capital projects. The programme involves significant capital investment of approximately £430 million.



103. One of the challenges that the Board faces in relation to this significant capital programme is its ability to fund a sustainable level of service and implement major service developments. With the current level of service redesign, there is an inevitable increase on the demands of senior officers of the Board in terms of knowledge and skills to manage the individual service priorities. The Board has taken account of this as these developments progress.

## Performance Overview

104. The Finance and Performance Review Committee (FPRC) conducts the overview of the performance management process on behalf of the Board and in particular the delivery of the HEAT targets as contained within the LDP. The performance report reviewed by the FPRC is still under development with the disaggregating of data across various sites, as appropriate, to give senior management an improved picture of performance not only at divisional level but also at levels below.

105. We note the continued development of the Lean in Lothian Programme. The programme was established in 2006 with the support of GE healthcare to allow NHS Lothian to develop capacity and capability to deliver significant service improvements. The third year of the programme has focused on self sufficiency in training in the Lean in Lothian toolkit. Twelve redesign projects were delivered during 2008/09 leading to a number of improved outcomes, including a 10% reduction in Scottish Ambulance Service accident and emergency turnaround time, an improvement in the information flow of cancer services leading to achievement of a 62 day cancer being achieved for 96% of cases at the year end compared with 92% previously. A review of projects undertaken during year two has confirmed that improvements advised during 2007/08 have been sustained. The programme continues to provide significant real impact on efficiency and the patient experience without the need for significant funding.

## Performance Management

106. The Board was successful in progressing a number of challenging performance targets by 31 March 2009. These included waiting time targets for outpatients, inpatients and those waiting for MRI, CT or other key diagnostic tests, access to particular cancer treatments, progress towards achieving the stretched healthcare and associated infections target and the combined 4 hour Accident and Emergency (A&E) waiting time. This latter target was particularly challenging with continued rises in A&E attendance.

107. There were, however, a few areas where performance targets were not fully delivered. Whilst a significant achievement was made in reducing sickness absence to 4.23% at 31 March 2009 (4.02% in February 2009), this fell short of the national 4% target. Other targets which proved challenging included, agreed personal development plans (PDP) for all staff covered by Agenda for Change (84.9% of staff covered by Agenda for Change had a PDP at 31 March 2009), the number of delayed discharges and the number of older people (aged 65+) who are admitted as emergency inpatients 2 or more times in a single year. We noted that management action continues to be taken to address all of these issues.



108. However, there is a continued issue around maintaining targets over the course of each year. For example, A&E waits less than 4 hours dropped from 98.1% in March 2009 to 95.9% in April, which is below the target of 98%. The targets for patients delayed in short stay settings and patients delayed more than 6 weeks have both moved from zero to 6 and 13 respectively.

## **Risk area 7**

### **Efficiency**

109. As part of Audit Scotland's performance audit programme a national study on the delivery of efficiencies within the Scottish public sector is being undertaken. The study will provide an overview of the Scottish Government's Efficient Government Initiative 2005/06 – 2007/08 and consider the extent to which public bodies are set up to deliver year on year efficiency savings.

110. To assess the readiness and ability of public sector bodies to deliver year on year efficiency savings Audit Scotland undertook fieldwork across central government, the NHS and councils, with five bodies being selected from each. NHS Lothian agreed to participate in the study.

111. The fieldwork was carried out during March and April and included interviews with senior officers and analysis of supporting documentation. The fieldwork used Audit Scotland's Best Value Efficiency Toolkit. The toolkit is a document specifically created to enable auditors or public sector bodies to assess the efficiency arrangements in place within an organisation. The fieldwork assessed the arrangements for monitoring and measuring efficiencies and how public bodies seek to ensure that reported savings have are delivered without affecting service delivery. Audit Scotland's national report will be published in late 2009.

112. In NHS Lothian, service redesign has contributed to the overall ability of the Board to derive savings and efficiencies from its activities. This affects a range of both clinical and support functions. For example the centralised stores operated by NHS National Logistics Service, replaced the need for Boards to hold stocks of general consumable items.

113. E-procurement has been introduced throughout the organisation with most departments being able to order goods and services directly from the National Distribution Centre operated by NHS National Logistics. Cost savings are expected to be derived from reduction in the cost of ordering and stock-holding and also from discounted prices on goods and services obtained through bulk purchase contracts with suppliers.

114. Moving forward, the Board continues to derive cost efficiencies through a programme of service reviews and budget monitoring. The cost savings plan includes projects designed to produce recurring and non-recurring savings which are incorporated into the financial plan. A corporate approach is adopted for the identification of suitable cost reduction programmes and savings targets are devolved to operational budgets where appropriate.





## Best Value

115. In 2005/06 a baseline review of best value arrangements across the health service including NHS Lothian was undertaken. The baseline review was built around the then Scottish Executive's nine best value principles and also considered whether there were overall arrangements in place.
116. During 2008, we reviewed the baseline information to ascertain what arrangements NHS Lothian had put in place to take forward the best value agenda and demonstrate continuous improvement. We presented our final report to the Audit Committee in April 2009. The position reported in 2009 is that eight areas have been assessed as 'well developed' and one as 'under-development' with the corresponding assessment for 2005/06 being six and three respectively. We noted that overall arrangements for best value are well developed.
117. We also recognised that the aim to meet or exceed Government targets and NHS QIS standards promotes a culture of continuous improvement within the organisation. We noted that while we consider the Board to be in a strong position, monitoring and review procedures need to be developed to determine whether policies and practices are having the intended impact on clients and stakeholders and to demonstrate that resources are being used effectively in the delivery of planned outcomes.

## National Studies

### A review of palliative care services

118. The study examined a number of issues including access to, and quality of, palliative care services and services for adults with long term considerations. The report recommended that NHS Boards should:
- have an up-to-date strategy for delivering palliative care based on an assessment of the current and future needs of their local populations
  - work with the voluntary sector to develop and agree protocols for primary care staff and non-specialist hospital staff to refer patients to specialist palliative care services
  - apply service improvements such as the Gold Standards Framework Scotland, Liverpool Care Pathway and Do Not Attempt Resuscitation policies in all care settings and ensure these are used appropriately.
119. The report was presented to the Audit Committee together with a completed self-assessment. The results of the assessment have been compared to each of the report recommendations and from this an action plan has been developed and a nominated lead identified.



## **Day surgery in Scotland – reviewing progress**

120. This study highlighted that ten years after the first review of day surgery in Scotland, Audit Scotland has found that the rate of day surgery continues to rise but there remains wide variation in performance among health Boards. Performing more operations as day cases, which involve no overnight stay in hospital, could potentially free up about £8 million a year.

121. The report included some important recommendations:

- there is an urgent need for the Scottish Government Health Directorate, NHS Boards and ISD to agree how best to ensure accurate and complete recording of surgical procedures undertaken in an outpatient setting
- all NHS Boards should adopt the British Association of Day Surgery (BADS) Information System and make effective use of this system.

122. A paper was provided to the Audit Committee which highlighted specific issues arising from this report which affected NHS Lothian and recommended future actions.

## **Review of NHS diagnostic services**

123. This review examined the efficiency and effectiveness of radiology, endoscopy and laboratory services. It focused mainly on the eight key diagnostic tests covered by the national waiting times target and examined the four main disciplines within laboratory services. The new 'referral to treatment' waiting times target states that, by the end of 2011, the time between any referral and a patient starting treatment should be no more than 18 weeks. This target covers all stages of a patient's care including diagnostic tests and will, in effect, replace existing targets relating to different parts of NHS services such as outpatient, inpatient and diagnostic services.

124. The report made a number of significant recommendations for the Scottish Government, NHS Boards and ISD Scotland. In particular, it recommended that the Scottish Government work with NHS Boards and ISD Scotland to improve data collection systems for all diagnostic services as a matter of priority and also ensure that robust benchmarking data are available to allow NHS Boards to compare efficiency. Furthermore, the report recommended that ISD Scotland work with the Scottish Government and NHS Boards to improve the quality and consistency of national data sets that include diagnostic services, particularly the Cost Book.

125. The report was presented to the Audit Committee together with an assessment of NHS Lothian's diagnostic services. Current practice was reviewed to ensure it reflected best practice and delivered an efficient service as highlighted in the national report. An action plan was developed to take forward the issues identified.



## **Drug and alcohol services in Scotland**

126. The aim of this study was to identify how much of the public sector spends on 'labelled' drug and alcohol services as well as the impact the money has had. The report recommended that public sector bodies should:

- ensure that all drug and alcohol services are based on an assessment of local need and that they are regularly evaluated to ensure value for money
- ensure that service specifications are in place for all drug and alcohol services and set out requirements relating to service activity and quality
- set clear criteria of effectiveness and expected outcomes for the different services that they provide and undertake regular audits to ensure services adhere to expected standards.

127. We have been advised that this report will be presented to the September 2009 Audit Committee.

## **Overview of mental health services in Scotland**

128. This report provides an overview of mental health services and its main aim was to highlight areas for improvement and identify priorities for future audit work. The study covered mental health services provided by the NHS, councils, prisons, the police and the voluntary sector and examined the accessibility, availability and cost of services. The report recommended that the Scottish Government and local partners should, amongst other things:

- ensure that they work together to deliver services for people with mental health problems which are joined up and that appropriate services are provided on the basis of need
- collect information about services in the community to enable better planning and development of services
- work together to identify and address any gaps in services, including services for children and adolescents and the availability of psychological therapies
- ensure that data on waiting times for mental health services are collected and reported routinely. Action should be taken to address services with long waiting times.

129. We have been advised that this report will be presented to the September 2009 Audit Committee.



# Looking Forward

130. NHS Lothian faces a number of challenges in 2009/10, which include:

- **Capital investment** – There are significant developments planned for the delivery of future healthcare services by NHS Lothian. The ten year capital plan includes significant capital investment of approximately £762 million on projects as yet unapproved. With funding only available to meet investment of some £396 million the Board will need to consider how to fund the capital investment programme. The Board will also need to plan to fund a sustainable level of service while implementing these major service developments.
- **Financial management and affordability** – The financial settlement in 2009/10 provides an uplift of 3.73% (including NRAC allocation) which may reduce in 2010/11 given the current economic situation and the impact of the UK Government budget in April 2009. This will have a significant impact on long term financial planning and the control of non pay costs. NHS Lothian have also identified that during 2009/10, some £22 million of recurrent efficiency savings are required to be achieved to remove the Board's reliance on non-recurring funding and to achieve recurring balance. Delivering these efficiency savings without impacting on services presents a significant challenge for the Board.
- **International Financial Reporting Standards (IFRS)** – Officers are required to prepare shadow accounts under IFRS for 2008/09 by September 2009. The move to full compliance in 2009/10 will require significant resource and it will be important that these issues are addressed early in 2009/10.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how NHS Lothian is addressing this developing area as part of the 2009/10 audit.



- **Efficiency, future funding and the wider economy** – Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility until the next Spending Review and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for NHS Lothian is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives. This will be even more challenging in the context of the current economic downturn which may impact on a number of elements of the Board's operations including both its resources and the demand for its services.
- **Equal Pay** - The Equal Pay Directive has made it clear that pay discrimination should be eliminated from all aspects of remuneration. NHS Lothian has received 1,907 of the 13,000 claims received nationally on this matter. Significant ongoing uncertainties have been identified by the CLO resulting in an unquantified contingent liability disclosure in 2008/09. However, Board management, working with the Scottish Government Health Directorates and other NHS Boards, will require to form a view of the potential liabilities as soon as practicable, taking into account the progress of cases in Scotland and in England.
- **Best Value** - The concept of Best Value is seen as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year, particularly in the area of Use of Resources. NHS Lothian will wish to respond to this important initiative as it develops.
- **Agenda for Change** – The review process is forecast to take 3 years to conclude based on current practice. The Board will need to consider whether this is reasonable that reviews remain outstanding over this period or whether action can be taken to address this time lag.
- **Swine Flu A/H1N1** – In terms of clinical activity a key risk going forward is the potential impact of H1N1 Influenza. Although the full extent of the swine flu situation is still emerging, all Boards require to ensure plans are in place to deal with the local impact of the developing situation.

131. 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.	NHS Lothian should ensure that there is better record keeping in relation to Capital Grants. There is a risk that these resources are not being applied in accordance with the Capital Accounting Manual.	Whilst changes to the guidance on capital grants present an ongoing compliance risk, NHS Lothian accepts the need to improve internal record keeping to support approval of capital grant proposals by the Finance & Performance Review Committee of the Board. Where applicable, capital grants will be linked to specific business cases.	S. Goldsmith	Immediate
2.	Negative balances continue to be carried in the revaluation reserve. There is a risk that there is a permanent diminution in the value of the associated assets.	The market values giving rise to the current negative revaluation reserve balances under UK GAAP were considered to be conservative. However, as reporting arrangements develop under IFRS, it is recognised that the negative balances will be mandatorily written off under the new international standards.  Market value changes will continue to present a risk going forward under either of the accounting regimes.	S. Goldsmith	September 2009
3.	Action should be taken to ensure that stocks are properly identified and are subject to a year end count where appropriate. There is a risk that the year end stock figures have been misstated.	Financial services procedures for the identification and evaluation of inventories under ownership of the Board have been steadily improving over the years. This process of improvement will continue under the direction of the Head of Financial Services in conjunction with operational staff in stock holding areas.	S. Goldsmith	Immediate
4.	Final account review procedures should be streamlined to ensure certification by the due date. There is a risk that the accounts will not be certified by the auditor by the due date.	Whilst certification of accounts was achieved by the due date, final account review procedures will be re-assessed for 2009/10, as part of the ongoing improvement of the year end process.	S Goldsmith	Ongoing as required



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
5.	NHS Lothian as with other Boards has not been able to quantify the extent of its liability for Equal Pay claims. There is a risk that these liabilities will have a significant impact on the Board's financial position.	The position disclosed in the 2008/09 accounts was struck in close consultation with SGHD and the legal advisors to the service. Any quantifiable liability arising from developments in pending cases will be addressed as part of formal financial risk management arrangements and will be part of any ongoing financial settlement discussions with SGHD.	S. Goldsmith	Ongoing as required
6.	The Board faces a wide range of financial challenges and there is a risk that it may not be able to make its savings targets in 2009/10. The longer term financial plan remains at risk of not being affordable and is a significant challenge to the Board moving forward.	The Board has noted and accepts that financial budgets and projections are subject to risk and financial risk management (including regular updates to end of year projections) is part of the core Corporate Governance activity of the Board and the supporting finance team.	S. Goldsmith	Ongoing as required
7.	A number of the performance targets were not achieved by 31 March. In addition, performance can fluctuate from period to period. There is a danger that the service experienced by NHS Lothian residents is not provided at the expected standard.	<p>NHS Lothian has a rigorous performance monitoring and management system in which the Board's Finance and Performance Review Committee plays a pivotal role.</p> <p>The Committee notes and reviews action plans for areas where performance has not met minimum or stretched targets as well as acknowledging where (in many more cases) performance has met or exceeded targets within an environment of increasing financial and operational pressures.</p> <p>Annual reviews have continued to acknowledge that NHS Lothian has an excellent record in meeting overall performance targets.</p>	S. Goldsmith	Ongoing as required