

The 2013/14 audit of NHS Orkney

Financial management



Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
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Contents

Introduction	4
Auditor's opinion.....	4
Findings	4
Looking forward.....	7
Conclusion	7

Introduction

1. I have received audited accounts and the auditor's report for NHS Orkney for the year ended 31 March 2014. The purpose of this report is to draw Parliament's attention to weaknesses in financial management in NHS Orkney during 2013/14.
2. I submit these accounts and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

Auditor's opinion

3. The auditor gave an unqualified opinion on the board's accounts. However, he highlighted in the annual audit report for 2013/14 that weaknesses in financial management were a factor in NHS Orkney requiring brokerage of £1 million from the Scottish Government to break even. The board's financial statements were submitted to the Scottish Government on 4 July 2014, after the 30 June deadline. This was due to additional work required to correct an error identified by the auditor. The auditor has raised concerns about the capacity of the finance team, given the pressures facing the board.
4. The auditor reported that the need for brokerage was mainly due to hiring locum doctors to cover vacant medical posts. The board continues to face difficulty recruiting staff and this remains a pressure. The auditor also highlighted the board's continued reliance on non-recurring savings.

Findings

2013/14 outturn

5. NHS Orkney's total budget for 2013/14 was £51.1 million: £50.3 million for revenue and £0.8 million for capital.¹ NHS boards have two financial targets, which are to break even against each of these budgets at the end of the financial year. NHS Orkney met both targets in 2013/14, but it needed brokerage of £1 million from the Scottish Government to reach this position (two per cent of its revenue budget). The fact that the board needed this level of additional funding highlights its tight financial position.

Financial management

6. Throughout the year, NHS Orkney was reporting an overspend against its revenue budget to its Finance and Performance Committee. This increased considerably over the second half of the financial year, and an overspend of £0.836 million was reported to the Board meeting in February.² The board continued to forecast that it would break even. However it did not have

¹ The revenue budget is known as the Revenue Resource Limit (RRL) and the capital budget is known as the Capital Resource Limit (CRL).

² We use the term Board to refer to NHS Orkney's board of governance whose members include non-executive and executive directors.

detailed plans for how it was going to bridge the gap between its ongoing overspend position and its forecast break-even position at the end of the year, or provide reports to its Board of directors about how it would achieve this. We were informed that officers discussed actions with Board members. NHS Orkney approached the Scottish Government in February 2014 to request brokerage of £0.75 million. This was later revised to £1 million in March 2014. The auditor highlighted that the board needs to improve its financial management and financial forecasting arrangements.

7. During the audit of the board's 2013/14 annual accounts, the auditor identified a significant error relating to accounting entries associated with the five-yearly revaluation of its land and buildings during 2013/14. Due to a lack of capacity in NHS Orkney's finance team, staff from NHS Fife assisted the board in resolving this issue. The board's financial statements were submitted to the Scottish Government after the 30 June 2014 deadline due to the additional work required to correct the error.
8. The auditor has expressed some concern about the capacity of the finance team, given the pressures facing the board. Financial expertise in the board was reduced in the period from December 2013, when the head of finance left the board. The board chose not to fill this post during the rest of the financial year.

Financial pressures

9. The Scottish Government agreed to provide NHS Orkney with brokerage to enable it to meet its financial targets in 2013/14. The main reason for NHS Orkney needing brokerage was increased spending on locum doctors and agency nursing staff. This increased from £1.06 million in 2012/13 to £1.38 million in 2013/14, an increase of 30 per cent. Most of this spending was on locum doctors. The board recruited a number of staff to key posts in 2013/14, but it has underlying recruitment problems and has not been able to fill some posts despite several recruitment campaigns. This means it needs to use locum doctors and agency nurses to maintain levels of patient care. Agency locum doctors in particular command much higher rates of pay than staff employed directly by the board.³
10. This is the fourth time that NHS Orkney has needed brokerage to break even in the past five years ([Exhibit 1](#)). It has received a total of £5.38 million, and has already repaid £1.32 million. NHS Orkney is about 12.2 per cent (£4.8 million) below its target funding allocation.⁴ The Scottish Government is aiming for all NHS boards to be within one per cent of their target funding allocations by 2016/17. The board expects to receive additional funding of £0.5 million in 2015/16 and £3.8 million in 2016/17 to bring it to its target funding allocation. The Scottish Government has agreed that the board does not need to start repaying the remaining brokerage of £4.06 million until 2016/17, when the board should be closer to its target funding allocation.

³ NHS Orkney Annual Audit Report 2013/14.

⁴ The Scottish Government uses a formula developed by the National Resource Allocation Committee (NRAC) to allocate funding to NHS boards.

Exhibit 1

Brokerage received by NHS Orkney over the past five years and planned repayments

NHS Orkney received over £5 million in brokerage since 2009/10

	Brokerage received (£m)	Brokerage repaid / planned repayment (£m)
2009/10	1.11	
2010/11	1.01	
2011/12	2.26	0.32
2012/13	-	
2013/14	1.00	1.00
2014/15		-
2016/17		3.21
2017/18		0.85
Total	5.38	5.38

Source: *Health Finance Directorate, Scottish Government*

11. NHS Orkney continues to rely on non-recurring savings to help it break even.⁵ These are savings that are only made for one year, rather than savings that the board will continue to make every year. I have previously reported the risk of relying on a high percentage of non-recurring savings.⁶
12. The board's financial plan for 2013/14 set out that it needed to make savings of £1.03 million. It forecast that it would make 100 per cent of its savings on a recurring basis. The board achieved the total £1.03 million savings, but £0.61 million were non-recurring (59 per cent) and £0.42 million were recurring (41 per cent).
13. The board also relied on a higher than planned level of non-recurring savings to break even in 2012/13. It planned to make 80 per cent of its savings on a recurring basis, but achieved 69 per cent.⁷ The board has forecast a break-even position for each of the next five financial years. The auditor has highlighted that the board will need to achieve planned efficiency savings and receive the anticipated increased funding to break even. Making the required efficiency savings will be challenging given the pressures facing the board. The board has prepared a plan for how it will achieve its required savings of £1.57 million in 2014/15. It has reported that it plans to make over 66 per cent of its planned savings on a non-recurring basis

⁵ NHS financial performance 2012/13, Audit Scotland, October 2013.

⁶ NHS financial performance 2011/12, Audit Scotland, October 2012 and NHS financial performance 2012/13, Audit Scotland, October 2013.

⁷ NHS financial performance 2012/13, Audit Scotland, October 2013

due to the non-recurring nature of the pressures facing the board. These non-recurring financial pressures include: using locum and agency staff until permanent staff are recruited; preparing and planning for a new hospital site to replace the Balfour Hospital from 2018; and essential maintenance at the Balfour Hospital until the new hospital opens.

Looking forward

14. There are specific pressures that may affect NHS Orkney's ability to achieve the savings required for longer-term sustainability, particularly workforce pressures and the associated costs of hiring locum doctors. The board has made progress in recruiting staff to a number of posts but continued reliance on locum doctors will have a significant impact on its plans to achieve savings. One of the key elements of the board's five-year financial strategy from 2014/15 is to address workforce pressures.
15. The Chief Executive has asked the board's internal auditor to undertake a detailed review of the board's 2013/14 financial position. This includes an examination of the board's approach to budget setting and in-year financial management. One of the aims of the review is to identify the factors that contributed to the deterioration in the reported financial position towards the end of 2013/14, and inform the board's approach to financial management and reporting. This report was presented to the Board's Audit Committee in late September 2014, and the board is developing an action plan. While the report recognises that NHS Orkney was operating under a number of significant financial pressures in 2013/14, it identified a number of areas for improvement in budget setting, monitoring and reporting.
16. The auditor has noted that the board plans to increase capacity in the finance team during 2014/15 by recruiting a new head of finance and revising arrangements in order to increase financial accounting support. A new head of finance was appointed in September 2014.

Conclusion

17. As public sector budgets continue to tighten and public bodies face continuing financial pressures, effective financial management is especially important. It is also a crucial factor in helping those charged with governance to make informed decisions. NHS Orkney is facing financial pressures from increased spending on locum doctors. It was not able to make sufficient savings to offset this additional spending in 2013/14 and had to approach the Scottish Government for brokerage. During 2013/14, the board reported overspends against its revenue budget and its reports did not include detailed plans for how it would move from that position to break even by the end of the financial year.
18. The board is taking appropriate action to improve its financial position and its financial management. However, it still faces significant challenges making the savings it requires to meet its financial targets. The board has set out its plans to break even in 2014/15, but it continues to place a high reliance on non-recurring savings which may not be sustainable in the longer term.