

# The 2014/15 audit of NHS Tayside

## 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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## Introduction

1. I have received audited accounts and the auditor's report for NHS Tayside for the year ended 31 March 2015. The purpose of this report is to draw Parliament's attention to the financial challenges NHS Tayside faces in meeting its financial targets.
2. I submit these accounts and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

## Background

3. The Scottish Government can agree to provide an NHS board with additional funding to help it manage unexpected changes to planned expenditure. This is a form of loan funding known as brokerage. This is arranged on the basis that the board provides assurance that it can repay the brokerage over an agreed period.
4. During 2014/15, NHS Tayside received a total of £14.2 million in brokerage in two instalments. NHS Tayside received an initial payment of £8 million, to cover retrospective holiday pay enhancements (known as 'Enhancements During Leave') and overspends in workforce costs and primary care prescribing. The board later required an additional £6.2 million, following an accounting adjustment identified by the auditors in recognition of the sale of land (formerly Ashludie Hospital) in the draft 2014/15 accounts (Exhibit 1).
5. This is the third year in succession that the board has required brokerage. In 2013/14, it received £2.85 million for planning delays on four surplus sites; and in 2012/13, it received £2.25 million for deferred income from sales made in the year (Exhibit 2).
6. The board's reliance on brokerage stems from overspends, and an on going difficulty in selling a number of surplus properties meaning it has been unable to generate income from the planned sales. Last year's NHS overview report highlighted that NHS Tayside had received brokerage and was relying on selling properties to repay this and to break even in 2014/15.<sup>1</sup> We noted that if these property sales did not take place or the proceeds were less than expected then the board might need brokerage again, which would reduce the board's budget in future years.

## Auditor's opinion

7. The auditor issued an unqualified audit opinion on the 2014/15 financial statements. In their accompanying report, they highlighted that 2014/15 is the third consecutive year in which the Scottish Government provided brokerage to NHS Tayside and the amount received in 2014/15 represents the largest sum received to date.

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<sup>1</sup> NHS in Scotland 2013/14, Audit Scotland, October 2014

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## Findings

### Financial position and brokerage

8. In 2014/15, prior to receipt of brokerage, NHS Tayside anticipated an overspend of £14.142 million. Key areas of expenditure which led to this overspend included:
  - Surgery and Theatres Group - unscheduled care and Treatment Time Guarantee costs
  - Medical Group - Prescribing and workforce pressures
  - Perth and Kinross Community Health Partnership - increased prescribing and general medical costs
  - Additional unsocial hours payments to staff (see paragraph 18).
9. On 20 November 2014, NHS Tayside's Director of Finance reported to the Finance and Resources Committee of the Board that discussions would take place with Scottish Government about the potential need for brokerage, based on the financial results to October. On 8 December 2014, the Director of Finance and Chief Executive met with the Scottish Government Health and Social Care Directorate's Director of Finance. On 16 December 2014, the Director of Finance updated the Board of his discussion with the Scottish Government.
10. On 22 January 2015, the Finance and Resources Committee considered the financial position of NHS Tayside to 31 December 2014 with a further update on the year-end forecast being provided at the Board meeting on 26 February 2015. As a result, on 23 March 2015, NHS Tayside submitted a formal request for £8 million brokerage to the Scottish Government. The Board received confirmation of brokerage of £8 million on 27 March 2015.
11. In June 2015, NHS Tayside requested a further £6.2 million in brokerage from the Scottish Government following an accounting adjustment in the draft 2014/15 accounts. This adjustment, identified by the auditor, required the removal of income from the sale of Ashludie Hospital from the accounts, in line with accounting standards, as the sale remained dependent on successful planning permission.
12. NHS Tayside received a total of £14.2 million of brokerage from the Scottish Government to break even in 2014/15. The retrospective unsocial hours payments and Ashludie site disposal elements are of a non-recurring nature. This equates to £10.6 million of the £14.2 million. NHS Tayside is due to repay all its brokerage by 2015/16 (Exhibit 1).

## Exhibit 1 NHS Tayside brokerage receipts and repayment plans

Year	Brokerage received	Details of brokerage received	Repayment details
2014/15	£14.2 million	Scottish Government allocated brokerage of £8 million to help the board meet Enhancements During Leave (EDL) payments, increased costs resulting from Treatment Time Guarantee, prescribing and workforce pressures. Additional brokerage of £6.2 million was required, as the board did not realise proceeds from planned property disposals.	Full amount is due for repayment in 2015/16 through proceeds from sale of surplus properties.
2013/14	£2.85 million	Scottish Government allocated brokerage to cover planning delays associated with four former healthcare sites declared as surplus.	NHS Tayside repaid £2.05 million in 2014/15. It plans to repay the remaining £0.8 million in 2015/16.
2012/13	£2.25 million	Scottish Government allocated brokerage to cover deferred income for sales made in the year and to cover the impairment which was charged in the year.	NHS Tayside repaid £0.25 million in 2013/14 and the balance of £2 million in 2014/15.
Total over 3 years	£19.3 million		

13. In addition to brokerage repayments, the board is required to find £27 million efficiency savings (4.1 per cent of its general allocation) during 2015/16 in order to break even. As at 31 July 2015, NHS Tayside had yet to identify £11.2 million of efficiency savings (41 per cent).

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14. NHS Tayside agreed with the Scottish Government that it would repay the brokerage for each year from proceeds from the sale of surplus assets. The timing of asset disposals remains uncertain. The Scottish Government has indicated that it would discuss repayment options with NHS Tayside should disposal not be realised as planned. Options would include repayment from the board's revenue budget. If this option is selected it would require further efficiency savings to ensure a balanced budget in 2015/16.

## Asset disposal

15. NHS Tayside predicated its request for brokerage in 2014/15 on asset sales predicted for 2015/16 and 2016/17. It predicted the disposal of 17 properties in 2015/16. Most of these properties had been declared surplus to requirements in April 2014, with a further tranche declared surplus to requirements in April 2015.
16. One of the main asset disposals relates to the former Ashludie Hospital site. In December 2014, NHS Tayside accepted an offer to sell the site to Miller Homes Limited subject to successful planning permission. As at 31 March 2015, planning permission for the site had not yet been granted. The auditor identified that the board had incorrectly recognised the disposal and associated income from the sale in its 2014/15 final accounts. This required NHS Tayside to remove that income from its accounts. The board is confident that the sale will be completed during 2015/16, and the income realised will be used to repay part of the brokerage due in 2015/16.
17. NHS Tayside has engaged with the Scottish Futures Trust to develop plans for the main sites for disposal in an attempt to accelerate property sales and reduce the risks associated with planning permission applications. NHS Tayside has set up a property transactions team to report progress against the planned disposals regularly during 2015/16.

## Retrospective holiday pay enhancements

18. As a consequence of changes to the Working Time Regulations, section 2 of the Agenda for Change Handbook was amended to reflect a new UK agreement on the way in which staff working unsocial hours were paid during periods of annual leave.<sup>2</sup> These changes were confirmed through an NHS Circular. NHS terms and conditions state that staff must be paid 'as if at work' during periods of annual leave. This means that staff who work 'enhanced' hours should be paid any enhancements as if at work. These payments are known as Enhancements During Leave (EDL). Prior to October 2008, NHS Tayside paid staff an additional percentage in lieu of paid annual leave.
19. In response to the circular, NHS Tayside issued a range of letters to managers across the organisation seeking assurance that they had implemented the NHS Circular correctly. Prior to 2014/15, NHS Tayside received assurances, though an internal benchmarking exercise, that its unsocial hours payments were of similar value to that of other boards. However, following

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<sup>2</sup> Agenda for Change is the NHS grading and pay system for all NHS staff, with the exception of doctors, dentists and some senior managers.

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concerns raised by staff, NHS Tayside undertook more detailed work during 2014/15 and found that implementation of the guidance had not been uniformly applied. NHS Tayside established a project to rectify the control deficiencies and quantify the amounts owed.

20. As a result of this remedial action taken by NHS Tayside, at the end of February 2015 approximately 1,700 staff had received payments totalling £1.66 million relating to enhancement due for part of 2010/11 and for full years 2011/12, 2012/13 and 2013/14. Payments relating to 2008/09, 2009/10 and the first part of 2010/11 have not been made as data was not readily available. NHS Tayside has therefore, within its 2014/15 financial statements, included an accrual to capture the amounts that are still due to be paid. The total expense recognised in 2014/15 in relation to EDL is £4.35 million, £2.69 million of which relates to the accrual for payments not yet made.
21. In April 2015, NHS Tayside's internal auditors issued a draft report highlighting a number of findings in relation to EDL payments. Findings related to the accuracy of the data used to arrive at the payments due to date and the accrual for further payments due, along with other wider issues relating to effective project governance. The internal auditors found a number of instances in which the annual leave data within Scottish Standard Time System (SSTS) was inaccurate.

## Looking forward

22. Key financial pressures for NHS Tayside relate to the increasing efficiency savings required to meet financial targets, and to ensure that it does not require further brokerage. This is exacerbated by the additional costs that will be incurred due to changes in how public pension schemes are valued, as well as changes in the National Insurance allowances for employees who contract out of the state pension, which accounts for 3.4 per cent of relevant employees' earnings. The cost of the pension scheme changes to NHS Tayside in 2015/16 is £5.5 million and the National Insurance changes, effective from 2016/17, are estimated to cost approximately £7.8 million.
23. The auditor recommends that NHS Tayside reviews its annual budget setting process to ensure it is sufficiently robust and achievable. This review should consider the following factors:
  - departments with continued overspend positions and the need for contingencies
  - changes in demographics and demand
  - significant planned service changes and projects
  - progress achieving required savings
  - engagement with service areas to ensure budgets are realistic
  - the need for additional scrutiny and challenge over the adequacy of the budget.
24. NHS Tayside recognises that traditional approaches to making efficiencies are producing declining savings and that new thinking will be needed in 2015/16 and beyond to ensure services are sustainable. NHS Tayside has set up five work streams to focus on returning to



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recurring financial balance. These work streams include Workforce and Care Assurance, Optimising Demand Management, Optimising Our Care Environments, Cost Effective Procurement, and Repatriating Services.

25. NHS Tayside has acknowledged the need to develop a Strategic Clinical Framework, to provide a high-level reference for decision-making and prioritisation. The Board approved the timetable and development of a Clinical Strategy on 26 February 2015. It considers that the strategy will be instrumental, in conjunction with the Manpower, Property and Financial Strategies, in returning NHS Tayside to a recurring balanced budget going forward.

## Conclusion

26. NHS Tayside has needed brokerage for the last three years to address budget pressures and break even. In 2014/15, it needed brokerage to cover overspends in a number of areas, additional costs as a result of weaknesses in the management of EDL payments to staff, and due to an accounting adjustment in relation to the sale of the former Ashludie hospital site.
27. NHS Tayside is currently reporting an overspend of £4.549 million for the first four months of 2015/16 (to 31 July 2015). This is above the trajectory included in the Strategic Financial Plan, and compares with an overspend of £1.95 million for the same period in 2014/15.
28. Looking ahead, NHS Tayside needs to make efficiency savings of £27 million (4.1 per cent) in 2015/16 in addition to these spending pressures and its commitment to repay brokerage. As the board continues to rely on asset sales to address these issues, there is a risk it will not break even in 2015/16.