SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

NHS Lanarkshire

Annual report to Lanarkshire Health Board and the Auditor General for Scotland 2005/06

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1 Summary

Governance

- NHS Lanarkshire completed the consultation process on service reconfiguration set out in 'A Picture of Health' on 28 April 2006. A detailed report on 'A Picture of Health' was presented to the NHS Lanarkshire Board in May 2006 and a recommendation, based on the outcome of the consultation, will be put to the June 2006 Board meeting.
- During 2005/06 NHS Lanarkshire continued to take action to imbed single system working throughout the organisation. In our view, a culture of segregation between the divisions still exists and further work is required to fully establish single system working at an operational level. In particular, single system risk management arrangements are not yet embedded.
- It is anticipated that the service redesign and modernisation agenda will address many of these issues as a result of the move to a CHP structure for primary care services and towards a service rather than location based management structure within acute services. In line with service re-design, a new HR plan has been developed to reflect the new management structure and eradicate silo working.
- The Board continues to have difficulty appointing a non-executive member with recent and relevant financial experience, as required by the SEHD's Audit Committee Handbook.

Performance

- Further work is required to ensure that the Board achieves the national waiting time targets for both lung and colorectal cancers. The targets for the percentage of patients who had been urgently referred for cancer treatment that were seen within two months were 91.5% for lung cancer and 60% for colorectal cancer. Actual performance at April 2006 was 70% and 50% respectively.
- NHS Lanarkshire continues to have a high level of consultant vacancies. At April 2006 the Board had 43 vacant consultant posts, 41 of which had been vacant for over six months. In addition, 39% of the Board's consultant staff, including locum staff, are aged 50 or over. To enable the Board to meet its performance targets these vacancies will have to be filled. To achieve this, the Board is currently involved in a programme to source consultants from Eastern European countries.

Finance

- NHS Lanarkshire exceeded its Revenue Resource Limit (RRL) by £8,393,000 and therefore failed to achieve this financial target. However the excess against RRL was caused by the deficit of £20,042,000 brought forward from previous years. The Board made an in-year saving of £11,649,000.
- Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.
- As in 2004/05, the Board delivered a substantial programme of cost savings and other measures to achieve the in-year RRL saving and further reduce the cumulative excess against the RRL. The Board expects to clear the RRL excess in 2006/07 through the sale of the former Law Hospital site.
- The Board remains reliant on non-recurring savings and sources of funding, including capital to revenue transfers. The Board's overall funding gap (difference between ongoing costs and core funding) was estimated at £26.6 million at the start of 2005/06.

The Board is continuing to implement its recovery programme and remains on target to reduce the funding gap to £14.1 million by the end of 2006/07 and to achieve recurrent break-even by 2008/09.

- Key financial risks going forward include the implementation of pay modernisation, particularly Agenda for Change, as well as risks relating to the Board's estate, including maintenance costs for properties retained, accelerated depreciation for properties closed and restrictions on the use of land sale proceeds for revenue purposes.

Conclusion

This report concludes the 2005/06 audit of NHS Lanarkshire. We have performed our audit in accordance with the Code of Audit Practice and Statement of Responsibilities published by Audit Scotland. Subject to the weaknesses identified in this report, we are satisfied that NHS Lanarkshire has properly discharged its duties in accordance with the Statement of Responsibilities.

This report has been discussed and agreed with the Chief Executive and Director of Finance and has been prepared for the sole use of NHS Lanarkshire, the Auditor General for Scotland and Audit Scotland.

We would like to thank all members of NHS Lanarkshire's management and staff who have been involved in our work for their co-operation and assistance during our audit visits.

Scott-Moncrieff
July 2006

2 Introduction

2.1 Auditor General and Audit Scotland

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints NHS auditors and sets the terms of their appointment.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions, including preparing a Code of Audit Practice setting out the role and responsibilities of the external auditor.

The Auditor General has appointed Scott-Moncrieff as auditors of NHS Lanarkshire for the five year period 2001/02 to 2005/06. This annual report summarises our 2005/06 audit and highlights the key issues arising from our work.

2.2 Key Priorities and Risks

Our audits are risk based. This means that we focus our resources on the areas of highest priority or risk to the Board. To help us identify these areas, Audit Scotland has developed a National Planning Tool setting out the following key priorities and risks for NHS Scotland as a whole.

- Governance – clinical, staff and financial
- Financial management
- People management
- Information management
- Performance management
- Service sustainability
- Partnership working
- Regional planning
- Efficient government

In order to define the scope of our work, we agreed with the Chief Executive the extent to which each of the above areas are key priorities and risks for NHS Lanarkshire.

2.3 Scope of the Audit

Our work can be classified under the following three headings: governance, performance audit, and financial audit. The main audit objective for each of these areas is summarised below, along with the key priorities and risks for each area.

2.3.1 Audit areas v priorities and risks

Audit area	Audit objective	Key priorities and risks
Governance Audit	To review the Board's governance arrangements in relation to: • systems of internal control and risk management, • the prevention and detection of fraud and irregularity, • standards of conduct and prevention and detection of corruption.	Governance People management
Performance Audit	To review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.	Service sustainability Performance management Regional planning Partnership working Information management
Financial Audit	To provide an opinion on the truth and fairness of the Board's financial statements and on the regularity of transactions. To review the Board's financial standing, and financial management arrangements.	Financial management Efficient government

The remainder of this report sets out the results of our work in 2005/06 under the headings of Governance, Performance and Finance. The action plan in section 6 details the high priority recommendations we have made during the year.

3 Governance

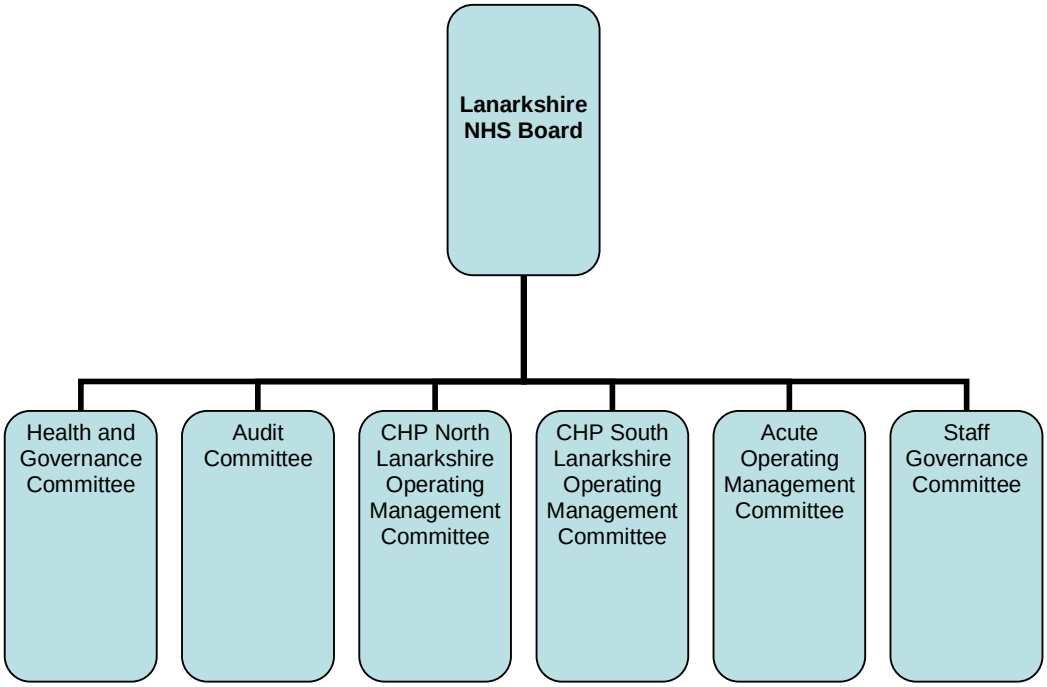
3.1 Corporate Governance Framework

Work continues within NHS Lanarkshire to form a unified governance structure. NHS Lanarkshire received approval in September 2005 to establish two Community Health Partnerships (CHPs) which mirror the boundaries of both North and South Lanarkshire councils. The two CHPs came into effect on 1 April 2006. To ensure links with NHS Greater Glasgow and Clyde a Non-Executive Director from NHS Greater Glasgow and Clyde sits on the CHP Operating Management Committees for both North and South CHPs.

In determining the committee structure of the Board a cross population of committee membership has been ensured, including CHP committee membership, to ensure that knowledge and information is shared across the Board and that issues are taken forward on a consistent basis.

In light of the establishment of Community Health Partnerships for North and South Lanarkshire the Board's committee structure was revised during the year as follows:

3.1.1 NHS Lanarkshire Governance Structure



3.1.2 Principal changes to committee arrangements during 2005/06:

NHS Board: The NHS Board is now meeting on a monthly basis. It previously met bi-monthly. In addition the NHS Board receives a one hour briefing prior to each meeting.

Operating Management Committees (OMC): The Board has established three OMCs to replace the previous single OMC. The OMCs will meet bi-monthly.

Performance Review Committee: The committee was disbanded during the year. High level performance issues are dealt with by the NHS Board and considered in detail by the three Operating Management Committees.

Strategic Development and Redesign Committee: The committee disbanded during the year. The Board is required to have a Service Redesign Committee, which will be achieved through a strengthened role for the Area Clinical Forum.

3.1.3 Community Health Partnerships (CHPs)

It is the intention of the Board to ensure that minutes of both the Acute OMC and the CHP OMCs are shared as this will contribute materially to whole system performance, including managing demand and supply issues. Preliminary discussions on shared objectives have been held between Acute Services and the North and South CHPs. From this, a number of areas of shared objectives have been identified, with further consideration being given to the management and reporting arrangements across Acute Services and the CHPs.

As at April 2006 the Board still had one post to fill; namely the Lead General Practitioner post for the Clydesdale locality. The North and South Community Health Partnership Operating Management Committees had held their inaugural meetings, and financial budgets had been drafted.

3.2 Service Reconfiguration – *A Picture of Health*

NHS Lanarkshire completed its consultation process on *A Picture of Health* on 28 April 2006. A detailed report, including full details of the issues raised by respondents, was presented to the Board of NHS Lanarkshire at its May 2006 meeting. In receiving the report, the Board acknowledged the range of comments submitted in support of *A Picture of Health*, along with the many comments and observations of concern.

A Picture of Health is designed to deliver a "modern integrated health system based on stronger and more visible primary care services, more health services provided in the community, and specialist hospital inpatient services organised to provide more rapid access and the best clinical outcomes." One of the key proposals is to separate emergency from planned inpatient care from 2009, with provision for emergency inpatient services being reduced from three to two general hospitals. This will involve developing Wishaw General Hospital and Hairmyres Hospital as emergency inpatient hospitals, with Monklands Hospital being used for planned (elective) care.

The main concern was recognised as being the potential impact of the proposals on access for people living in areas of deprivation or for older people travelling to hospital. In recognition of these concerns, the Board asked for additional evidence to be gathered and analysed prior to the Board meeting on 28 June 2006.

On 28 June, the Board agreed to take forward the proposals set out in *A Picture of Health.* In the Board's view, the evidence confirmed that the proposals would not lead to journey times in an emergency that were likely to be clinically significant and the majority of people would

continue to receive NHS services within their current locale. A recommendation will now go to the Deputy Minister of Health and Community Care for approval later this year.

3.3 Single System Working

In our 2004/05 Annual Audit Report we noted that NHS Lanarkshire had successfully implemented single system working at a strategic level but further work was required at an operational level.

During 2005/06 NHS Lanarkshire has continued to take action to imbed single system working throughout the organisation and has achieved the following:

- Created an integrated strategic risk register;
- Centralised the Financial Services department;
- Consolidated the three financial ledgers into a single ledger.

Further work is still required in this area. For example:

- The acute and primary care operating divisions still recognise their budgets as income from the Corporate Division, as they did when they were separate NHS Trusts.
- Single system risk management arrangements are not yet embedded.

It is anticipated that the service redesign and modernisation agenda will address many of the outstanding issues as a result of the move to a CHP structure for primary care services and towards a service rather than location based management structure within acute services. In line with service re-design, a new HR plan has been developed to reflect the new management structure and eradicate silo working.

3.4 Non-Executive Member with Financial Experience

The Board continues to have difficulty appointing a non-executive member with recent and relevant financial experience, as required by the SEHD's Audit Committee Handbook. There is currently a non-executive member vacancy at the Board and we understand that the Board hopes to be able to use this opportunity to appoint a non-executive with a recognised professional accountancy or audit qualification. Assuming a successful outcome for this position, it is proposed that the new non executive director is appointed to serve as a member of the Audit Committee.

To date, personalised training programmes have not been developed for non-executive directors.

3.5 Statement of Internal Controls

The framework of internal controls operating at NHS Lanarkshire is reported within the Statement of Internal Control (SIC) included with the annual accounts. NHS Lanarkshire has identified two key areas as requiring further development:

- Lack of a single risk management computer system
- Various risks around a number of computer systems. These risks include:
    - Data security
    - Systems administration
    - Interfaces

- Passwords
- Formal documentation of procedures.

These areas have been disclosed within the SIC and the Board intends to address them fully during 2006/07.

We are satisfied that the contents of the SIC are not inconsistent with information gathered during the course of our normal audit work.

3.6 Internal Audit

Internal audit is a key component of the Board's corporate governance arrangements. To avoid duplication of effort and ensure an efficient audit process we have placed reliance wherever possible on the work of internal audit. This followed a review of the internal audit service provided by the Internal Audit Consortium of Lanarkshire (in partnership with PriceWaterhouseCoopers). The review concluded that the internal audit service provided to NHS Lanarkshire was in compliance with the NHS in Scotland Internal Audit Standards.

We have made use of internal audit work in the following areas:

- Capital charges
- Property transactions
- PFI
- Banking
- Datix risk management system
- Compliance with Laws and Regulations
- Car leasing
- Income collection
- Creditors payment stream (2004/05)
- Procurement (2004/05)

We are grateful to the management and staff of the Internal Audit Consortium of Lanarkshire for their continued assistance during the course of our audit work.

3.7 Clinical Governance and Risk Management

The Turnbull report *Internal Control: Guidance for Directors on the Combined Code* states that a sound system of internal control depends on a thorough and regular evaluation of the risks faced by the body.

3.7.1 NHS QIS Standards

Both risk management standard setting, previously managed by CNORIS, and clinical standard setting, previously managed by the Clinical Standards Board for Scotland, are now managed by NHS Quality Improvement Scotland (NHS QIS). The NHS QIS standards on Clinical Governance and Risk Management have now been issued and NHS Lanarkshire is due to be visited by NHS QIS in September 2006 and assessed against these standards. An action plan has already been developed to ready NHS Lanarkshire for the visit. In addition, the Risk Management Department has recently performed a self-assessment exercise, which will inform the work to be completed between now and September.

The results of the NHS QIS review will impact on the future development of the clinical governance and risk management systems in place at NHS Lanarkshire.

3.7.2 Single System Risk Management Arrangements

Work continued on risk management during the year with the completion of a strategic risk register. However, as previously reported, further work is required to develop an integrated, effective single-system for the management of risk. The Risk Management Department did not fully meet all of its objectives during 2005/06. This has been partly attributed to the loss of one whole time equivalent risk manager from 1 January 2006. The department is now operating with only one whole time equivalent manager.

NHS Lanarkshire intends to take the following key actions during 2006/07 to imbed single system risk management arrangements:

- Define and implement the roles, responsibilities, accountability and reporting mechanisms of the new Clinical Governance & Risk Management Structure.
- Review and update the Risk Management Strategy in light of the recent changes to the organisation structure. This strategy will be incorporated in a Clinical Governance & Risk Management Strategy.
- Complete the NHS QIS self-assessment exercise prior to the NHS QIS visit.
- Complete the full implementation of the web-based Risk Management System, DATIX.
- Complete the Risk Management Manual.

Whilst the Board continues to progress with risk management, the implementation has been slow. We recommend that the Board completes the development and implementation of an integrated, effective single-system for the management of risk during 2006/07.

3.8 Fraud, irregularity and corruption

We are required to consider the arrangements made by management. We do this in a number of ways:

- Our systems based audit is planned to provide a reasonable expectation of detecting misstatements in the annual accounts caused by fraud or irregularity.
- We focus on specific areas of high risk for potential fraud and irregularity and review the controls in place in these areas.
- We review Audit Scotland's Health Technical Bulletins with regard to fraud reports and ensure that the Board has adequate arrangements in place to prevent similar frauds occurring.
- We ensure that the internal audit service complies with the NHS Scotland Internal Audit Manual - Statutory Audit Standards.
- We examine the financial instructions issued by the Board to ensure that they deal adequately with fraud and corruption and provide a framework for strong internal control.

We are pleased to report that our audit identified no issues of concern in relation to arrangements for the prevention and detection of fraud, irregularity and corruption.

3.9 Standards of conduct, integrity and openness

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance. Guidance on standards of conduct, accountability and openness has been issued by the SEHD.

Our work in this area included a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and complying with national and local Codes of Conduct. We also considered controls over tendering and awarding contracts, registers of interest and disposal of assets.

We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

3.10 National Shared Support Services

In 2003 work was started on a national level to look into the possibility of bringing together transaction processing functions (financial services and payroll) with a view to releasing savings for front line services. A number of delays have occurred nationally with this work. NHS Lanarkshire submitted bids for both the Finance and Payroll Hubs to be located in North Lanarkshire. As the timetable has slipped, the Board is still waiting to determine whether these bids have been successful.

If NHS Lanarkshire is not nominated as a Hub it has identified that it will have a number of surplus staff. Discussions are to be held with neighbouring councils, to mitigate the potential impact of this scenario.

4 Performance

4.1 Ministerial Annual Review

As a result of single system working, performance management is no longer a discreet unit within the Board but has been rolled out to each of the individual departments that are ultimately responsible for meeting performance targets. The Ministerial Annual Review process reassesses overall performance of the Board over the financial year and action points are also identified from this process. Below we have highlighted the recommendations arising from the 2004/05 Ministerial Annual Review and outlined the Board's progress during 2005/06 against each point.

4.1.1 Summary

The Board has made progress in taking forward a number of the recommendations arising from the 2004/05 Annual Review. However one key area where sufficient progress has not been made relates to waiting times for cancer services, in particular colorectal and lung cancers. While the Board has taken action during the year to address this, it is clear from the table at 4.5.1 that this has not been sufficient to allow the Board to meet the waiting times targets at April 2006.

In addition, there will be a need for work to continue in areas such as transport, where the outcomes from 'A Picture of Health' may result in a further need for change in the transport network.

4.1.2 Performance against 2004/05 Annual Review

Action Point 1: Innovation

Continue to implement innovative initiatives to improve the health of the people of Lanarkshire, sustain current progress and seek and apply evidence based solutions from elsewhere.

- Health Promoting Schools - 80% of all 327 primary and secondary schools in Lanarkshire had achieved the Bronze Award by March 2006. The target for March 2007 is for all schools to have achieved Bronze Award status.

- Work is also being undertaken on promoting health in the workplace through Scotland's Health at Work (SHAW) Programme and recently through the Healthy Working Lives approach. 130 organisations, with over 81,000 employees, have been registered with SHAW and more than half of these have achieved awards (6 Gold, 8 Silver and 54 Bronze).

- Another developing area is the South Lanarkshire Pubs and Clubs Taskforce, which is piloting the Health Promoting setting in pubs and clubs. This commenced in 2005 with training for licensee staff, information on safe alcohol consumption within licensed premises for customers and staff, and eventually an award scheme for premises that take part and support the work.

Action Point 2: Colorectal Services

Undertake a specific programme of work with the Director of National Waiting Times Unit (NWTU) to reduce the number of people waiting for a first appointment for colorectal services.

A substantial amount of work has been undertaken on this action point, including the following:

- The Board has been working closely with the Director of the NWTU and West of Scotland Boards to achieve a co-ordinated approach.

- Three trackers have been appointed to posts to improve the patient pathway and to identify bottlenecks in the system along with areas where there requires to be investment in infrastructure, whether staff or equipment.

- Referral protocols have been agreed with GPs and they are encouraged to submit referrals electronically to reduce waiting times further.

- Performance has improved during the year and the Board expects to meet the guarantee during 2006/07.

Action Point 3: Availability Status Codes (ASCs)

Cease in the use of ASCs by December 2007.

- A Capacity Plan has been drawn up to ensure the elimination of ASCs by December 2007.

- All sites have stopped using ASC codes 3 and 4.

Action Point 4: Cancer Waiting National Delivery Plan

Ensure there are robust proposals to implement the plan.

- The Board has not met the April 2006 national targets for lung and colorectal cancer waiting times. Further detail is included in section 4.5.2.

- Work is being undertaking on a Regional basis and with the NWTU.

- Trackers and referral protocols have been agreed with GP's as indicated above for colorectal services.

- New management arrangements were also introduced within the Acute Division in April 2006. A General Manager has now been identified for Cancer Services with responsibility for ensuring the implementation of the cancer strategy for NHS Lanarkshire and to provide a focus for reducing waiting times for cancer services.

Action Point 5: Transport

Continue to work with other West of Scotland Boards, the Scottish Ambulance Service (SAS) and Strathclyde Partnership for Transport (SPT) on transport linkages.

During 2005/06, NHS Lanarkshire has been:

- Considering the use of shuttle buses between hospital sites, initially for a trial period to ascertain demand.

- Reviewing the use of taxis and the transport of goods between sites with a view to transferring to a bus service to make it viable.

- In partnership, looking at finding a solution for specific bus routes and times that prove to be difficult for patients and visitors.

Action Point 6: Alcohol Hand Gels

Submit an analysis of the audit on the use of Alcohol Hand Gels.

- NHS Lanarkshire has complied with the Scottish Executive proposal by placing alcohol gel at, or near, every patient's bedside.

- To ascertain whether the visitors were aware of these measures, and had indeed used the hand gel, the Infection Control Nurses devised an audit tool. An evaluation was carried out four months after implementation of the initiative and identified that 56% of visitors used the hand gel in Lanarkshire Acute Division. It was therefore clear that whilst visitors had been encouraged to use the gels through poster campaigns and by nursing staff a large proportion of visitors did not do so. The audit did not provide an analysis of why visitors had failed to use the gel although it did encourage communication between staff and visitors and therefore raised awareness of the importance of clean hands in preventing the transmission of infection.

Action Point 7: Employment Contracts

Submit a report detailing the benefits as a consequence of the introduction of the new contracts.

- A progress report on the realisation of benefits from the implementation of pay modernisation was submitted to the Scottish Executive in March 2006.

Action Point 8: Modernising Medical Careers

Keep the department informed of progress on addressing MMC.

- Work has been undertaken on the service impact of implementing the second year of MMC (FY2) with associate medical directors working in conjunction with appropriate general managers and this has been reported to NHS Education for Scotland.

- Work continues on planning measures to support the implementation across the individual specialties from a multi-disciplinary perspective. This work is being co-ordinated by the Medical Workforce Planning Group which reports to the NHS Lanarkshire Workforce Steering Group.

- There is also ongoing work through a group involving the Lanarkshire hospitals, Glasgow Royal Infirmary and Stobhill Hospital under the chairmanship of NHS Lanarkshire's Medical Director.

Action Point 9: Revised schemes of establishment for CHPs

Revised plans were to be submitted by 30 September 2005.

- The Scheme was approved by SEHD in December 2005 and since then the Board has made good progress in implementing the new organisational arrangements. A Project Board has been established to lead on the implementation process with three functional sub groups leading on Human Resources, Organisational Development and Financial Framework.

4.2 Local Delivery Plan

The Local Delivery Plan (LDP) replaces the Performance Assessment Framework and the Local Health Plan. The Plan sets out the levels of performance that the Board plans to achieve against each of its key performance measures over the three years, 2006/07 to

2008/09. The Plan constitutes the delivery agreement between the Board and the SEHD and will become the principal focus of discussion at future Ministerial Annual Reviews.

The LDP includes a number of targets and measures that have been reported on for some time and as a result the systems for routine monitoring are well established for these targets e.g. waiting times. Other newer targets will however require systems to be developed for data capture, monitoring and reporting purposes.

NHS Lanarkshire's first Local Delivery Plan 2006/07 to 2008/09 was presented in draft to the February Board meeting prior to its submission to the SEHD by the deadline of 28 February 2006. Comments were received from the SEHD during March and April and the plan was agreed and signed off on 24 April. The Board's first update on progress against the plan was reported to the Board meeting in May 2006.

4.3 Health Improvement

Improving Scotland's health is a national priority for the Scottish Executive. Actions for taking this forward were set out in both the White Paper 'Towards a Healthier Way of Working' and in 'Improving Health in Scotland – The Challenge.' Specific targets have been set by the SE for smoking, alcohol, drugs and for improving diet and exercise.

As the table below shows, NHS Lanarkshire still has some way to go to meet a number of the targets set by the SEHD. In particular, steps need to be taken to meet the alcohol consumption rates for women and young people as well as the smoking targets. Better performance against these and the other targets and measures should have a positive impact on the overall health and therefore life expectancy of the Lanarkshire population.

Progress in Lanarkshire against each of these specific targets is set out in Table 4.3.1

Table 4.3.1 – Health Improvement

Target	Outcome	Commentary
Life Expectancy		
Scottish average: Males 73.8 years Females 79 years	Males 73.1 yrs Females 78.0 yrs (2002-04 data)	NHS Lanarkshire is below the Scottish average for life expectancy in both men and women.
Smoking targets		
Adults (aged 16+) 23.9% by 2010 Young people - 11% by 2010 Pregnant women – 20% by 2010	31.4% (2004 Scottish Household survey) 14% (2002 SALUS relating to 13 and 15 yr olds) 24.5% (2003/04 SMR02 per booking clinic)	NHS Lanarkshire's target for adults aged 16+ for 2004 was 28.8%. Based on the survey findings this has not been met. Clearly the Board has some way to go if it is to meet its target for 2010 (which is set at a higher rate than the overall national figure of 22%). Steps also need to be taken to meet the target rates for young people and pregnant women smoking.
Alcohol consumption		

Target	Outcome	Commentary
Reduce the incidence of the population exceeding the weekly sensible drinking levels:		
Men – 29% by 2010	30% (2003 Scottish Health survey)	Whilst NHS Lanarkshire is close to the target for men not exceeding the weekly sensible drinking levels, work is still required to close the gap for women and young people.
Women – 11% by 2010	18% (2003 Scottish Health survey)	The trend for women drinking has increased from 13% in 1995, to 15% in 1998 and to 18% in 2003. Clearly this trend has to be reversed if the Board is to be close to meeting its 2010 target.
Young people (aged 12-15 yrs)– 16% by 2010	34% of 13 and 15 yr olds consumed alcohol in the previous week (2003 SALUS)	Latest statistics show that performance is more than double the required target.
Drugs targets		
Related deaths	33 deaths in 2004 (GROS)	The Board has met the target to increase the number of drug misusers in contact with treatment and care services as the number of clients seen in 2000/01 was 519.
Contact drug treatment services (target to increase by at least 10% every year)	1,589 new clients reported 2004/05 (Drug Misuse Statistics Scotland 2005)	
Proportion who inject…	Based on new clients resident in Lanarkshire: 27% - 2004/05 44% - 2000/01 reported injecting	The latest national statistics indicated that 37% of users were injecting and 34% were sharing needles, although it was evident that these figures had varied over the past four years. Whilst Lanarkshire is lower statistically in the number of drug users reported to be injecting, the number of users sharing needles across Lanarkshire remains higher than reported nationally.
and share needles	47% - 2004/05 48% - 2000/01 reported sharing needles (Drug Misuse Statistics Scotland 2005)	
Dietary targets		
Fruit & veg intake – more than five portions per day.	14.7% (2003 Scottish Health survey)	The Health Education Population survey 2004 found that nationally 33% of survey respondents consumed at least five portions of fruit and vegetables daily compared to 18% in 1996. The position reported in Lanarkshire in 2003 is therefore almost half of the position reported nationally.

Target	Outcome	Commentary
Breastfeeding after 6 weeks – more than 50% of women.	26.6% (mothers of children born in Lanarkshire in 2005 - ISD Scotland)	The most recent national data from 2004 highlighted that 36% of mothers were still breastfeeding at their 6-8 week review which is higher than the average for Lanarkshire in 2005.

4.4 Clinical Outcomes

As set out in the LDP, NHS Lanarkshire has a number of clinical outcome targets to meet, including reducing death rates from coronary heart disease and stroke.

4.4.1 Coronary heart disease (CHD)

The SEHD's target is to reduce the death rate for CHD in the under 75s by 60% between 1995 and 2010. The Board has a tool in place to monitor trends on an annual basis against the 2010 target. The LDP highlights a reducing trend for CHD mortality in the most deprived areas from 189.9 in 1995-97 to 124.4 in 2002-04. The target for 2008/09 is 90.7 and the Board feels that it is on target to meet the 2010 position. Additional impetus has been given to this agenda as a result of NHS Lanarkshire being a pilot site for the Prevention 2010 Initiative. This Initiative, along with the Lanarkshire CHD Managed Clinical Network, aims to engage with deprived communities in order to identify more people with CHD, or with a high risk of developing it, and to adopt a more structured approach to their management.

4.4.2 Stroke

The SEHD has set a target to halve the number of deaths from stroke in people aged under 75 by 2010. Although the Board has not set an annual target to meet this requirement, a tool is in place to monitor trends, which indicates that the Board is on course to meet the 2010 target. To improve stroke services over the last four to five years the Board has set up a dedicated acute stroke unit in each hospital in Lanarkshire, where organised multi-disciplinary care is provided. In addition, stroke patients are assessed in the community for up to one year after discharge. These steps are expected to contribute to an ongoing reduction in death rates in people under 75 years.

4.5 Waiting Times

In line with all health boards, NHS Lanarkshire met the requirement at 31 December 2005 to meet the six month national waiting times guarantee for inpatients, day cases and outpatients as no patients in Lanarkshire were waiting over twenty-six weeks for an appointment. The Board now has to ensure that no patient waits longer than eighteen weeks for inpatient or day case treatment by 31 December 2007.

The Board has updated its capacity plan to meet this guarantee and the 2006/07 Local Delivery Plan shows a commitment to meet the target by December 2006.

The commitment to accelerate the delivery of the guarantee however makes three key assumptions. These include:

- The ability to recruit and retain clinical and non-clinical staff to create extra capacity
- Progress being made around the service redesign agenda
- Additional capacity being made available at the National Golden Jubilee Hospital and the independent sector.

To meet its LDP targets the Board therefore needs to ensure that these three assumptions are realised.

Table 4.5.1 sets out NHS Lanarkshire's performance against the other national targets.

4.5.1 Waiting Times

Target	Outcome	
Cancer treatment – percentage of patients urgently referred for cancer treatment who were seen within 2 months.	Figures as at April 2006:-	
Lung cancer	Target 91.5%	Actual 70%
Breast cancer	Target 95%	Actual 90%
Colorectal cancer	Target 60%	Actual 50%
Unscheduled Care – percentage of patients spending less than 4 hours in A&E.	Target 88%	Actual 85%
Access to Primary Care Services within 48 hours.	Target 99%	Actual 99%
Delayed discharges	Target 66	Actual 65

4.5.2 Lung and Colorectal Cancer Waiting Times

As highlighted in Table 4.5.1 NHS Lanarkshire continues to have particular difficulty around compliance with the waiting time guarantees for lung and colorectal cancer. To address this we understand that in recent months action has been taken to introduce a process of information capture, recording and reporting that enables real time patient information to be available for use by clinicians and managers. In addition, a General Manager and Clinical lead for cancer services are now in post and discussions have been held with clinical staff to agree action both short term and long term to improve the patient pathway and deliver the guarantee. Improvements in the patient pathway will also be informed by the work of the Diagnostic Collaborative.

The Board will require to continue to monitor this position closely if it is to achieve the required level of performance.

4.5.3 Unscheduled Care

The target for patients spending less than 4 hours in A&E is to be achieved by December 2007. The April 2006 position at 4.5.1 highlights that the Board is currently slightly below its projected trajectory of 88%, although fluctuations from forecast trajectories are to be expected.

We understand that the Board has recently adopted a 'see and treat' approach which has resulted in an improvement in performance. Work is also continuing through the Unscheduled Care Collaborative to reduce waits in Accident & Emergency Departments to less than four hours by December 2007.

4.5.4 Delayed Discharges

NHS Lanarkshire reported 65 delayed discharges at 15 April 2006 against a target of 66. The Board reported that delivery of the target was achieved as a result of effective partnership working. Whilst 65 is the number of delayed discharge patients in the hospital system, it excludes Adults with Incapacity (AWI) that, at 15 April 2006, numbered 24. This means there is a significant number of beds that are not available for routine use. At present, there is little that the Board's partners can do to resolve the patients' future placement until the legal process has run its course. The Board recognises that this is unsatisfactory both for the patient and the hospital and this has been raised as a significant issue with the SEHD.

The SEHD published details of delayed discharge targets to be achieved by 15 April 2007 and 15 April 2008. The targets are:

- For 2006/07 to reduce all delays over six weeks by 50%
- For 2006/07 to free up 50% of all beds occupied by delayed discharge patients in short term beds
- For 2007/08 to reduce to zero patients delayed over six weeks
- For 2007/08 to reduce to zero those delayed in short stay beds.

The number over six weeks has reduced year on year in Lanarkshire from 35 at 15 April 2005 to around 20 at 15 April 2006. The proposal to reduce this by 50% with a target of 10 in 2006/07 will however be a challenging target for the Board to meet given the very low numbers involved.

4.5.5 Pay Modernisation

NHS Lanarkshire submitted its Pay Modernisation Benefits Delivery Plans to the SEHD in September 2005 and a progress report on 31 March 2006. The plan pulls together the main strands of pay modernisation and identifies those areas where there is evidence of improved productivity and improved performance against national targets. The new Consultants Contract and the nGMS contract have been fully implemented and the Board considers that it is beginning to see the benefits of the contract as a framework which is supporting service development and optimising activity.

The Board has now matched all posts in relation to Agenda for Change (AfC) and has commenced the assimilation process. The timescales for each of the stages in completing the process have continually slipped although this has not been unique to NHS Lanarkshire. It is anticipated that the full process will be completed by October 2006.

The Knowledge and Skills Framework (KSF) will be another resource intensive task for the Board. The staff who were previously involved in completing job descriptions as part of the AfC process will again be required to produce competency profiles. As more job descriptions were produced than was originally predicted this will again be a time consuming task and a further drain on manpower resources.

In addition to the above, new contracts will soon be in place for specialist doctors, community pharmacists, dentists and optometrists.

The Board must therefore ensure that it continues to address the risk that the overall costs of pay modernisation, and the human resource required to implement it, may be significantly higher than expected. This is discussed in more detail in section 5.7.

4.5.6 Consultants

Consultant Vacancies

The Board can sit with 40-50 vacancies at any one time and as at April 2006 there were 42 vacant consultant posts, as shown in the table below.

Consultants	Age 57 to 59	Age 60 or over
General Medicine	6	9
Surgery	4	1
Anaesthetics	6	1
Obstetrics	4	2
Radiology	0	6
Pathology	1	2
Total	**21**	**21**

41 of these posts had been vacant for over 6 months. The Board recognises this as an issue and therefore took this into account when preparing the consultation document *A Picture of Health*. To address this issue the Board has taken forward two specific initiatives, namely the SEHD Consultant Expansion Programme along with sourcing consultants from Eastern European countries.

In relation to the Consultant Expansion Programme (Consultant 600), which was initiated by the SEHD, NHS Lanarkshire identified thirteen new consultant posts.

Central funding has been made available to support measures aimed at accelerating the rate of recruitment and therefore improving the delivery of services to patients. The Board was successful in bidding for a share of this funding to assist primarily in recruiting to specialities which have several vacancies and have historically been hard to recruit to.

One of the measures as part of this proposal was to employ the services of a medical recruitment agency that specialises in recruiting staff from overseas. The Board has worked with this agency to ensure a high calibre of candidates were available for consideration. NHS Lanarkshire has been successful in recruiting a number of consultants and other medical staff through this route.

These new recruits are initially to commence on a fixed term locum contract. They are to be subject to a rigorous induction process that will include performance assessments at regular intervals. If a candidate is assessed as suitable, a definitive post will be advertised and recruited to in the normal way. The Board also intends to meet with another agency to ascertain if they can help to address the Board's vacancy requirements on a long term or permanent basis.

Consultant Retirals

Out of 334 consultants (including locum staff) 130 consultants in NHS Lanarkshire are aged 50 or over. There is nothing within the new consultant contract to encourage staff to remain beyond age 60. There is also a risk for NHS Lanarkshire that those in the age range 57 to 59 may retire even earlier once they have reached the maximum of the new consultant scale.

Given the Board's current vacancy levels, steps must be taken to address this position to ensure that NHS Lanarkshire has the required manpower resource to meet LDP targets.

4.6 Impact of Financial Position on Performance

One of NHS Lanarkshire's difficulties in 2005/06, as with all NHS Scotland Boards, was to meet challenging financial targets whilst also achieving agreed performance targets. Efficiency savings had to be met imaginatively to ensure that they did not have a detrimental impact on performance. Two key areas which the Board targeted to deliver efficiency savings included vacancy management and prescribing.

4.6.1 Vacancy management

As part of the Board's overall savings programme, the Primary Care Division achieved recurring savings of £2m and non-recurring savings of £1m through vacancy management schemes in 2005/06. These schemes were developed to enable managers to use vacancy levels flexibly on the understanding that this did not impact on the net establishment position. Regular vacancy reports were reported to the Primary Care Chief Executive to ensure that the vacancy position did not impact adversely on overall performance.

The Board also drew up capacity plans to enable predictions to be made with regards to the supply and demand for services. By keeping some posts vacant during the predicted quieter spells and then re-employing staff to meet demand at busier times the Board has been able to manipulate vacancies to ensure savings were made whilst not impacting on overall performance. This has also enabled them to monitor individual staff productivity and to determine why productivity rates vary between individual staff members within the same services.

4.6.2 Prescribing

A prescribing action plan was drawn up and GP practices were internally benchmarked to identify particular prescribing areas to target for savings. Thirteen areas were specifically targeted for reductions and the savings identified were achieved. A new methodology has also been devised for setting the prescribing budget which takes into account new drugs approved by the SMC and also drugs where the patent has expired. The prescribing initiatives were devised in line with the 'Better Government' initiative and the 'Supporting Prescribing in General Practice' report issued by Audit Scotland.

Whilst each of these initiatives has resulted in significant savings for the Board, the position cannot be sustained indefinitely. Other avenues will require to be explored if further efficiency savings are to be achieved in the future.

5 Finance

5.1 Introduction

It is the responsibility of the Board to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider NHS Lanarkshire's financial standing, including:

- performance against financial targets,
- financial projections, including cost pressures in future years,
- internal financial control systems,
- financial planning, budgetary control and financial reporting systems.

It is important that such arrangements are adequate to enable the organisation to properly control its operations and use of resources.

5.2 Annual accounts and audit timetable

The SEHD brought forward the deadline for the submission of audited NHS Board accounts from 31 July to 30 June this year. This has resulted in an extremely tight timetable for completing the accounts and audit. We are pleased to report that the accounts were approved by the Board of NHS Lanarkshire on 29 June and were submitted to the SEHD and the Auditor General for Scotland prior to the 30 June deadline.

We received draft accounts and supporting papers on 1 May 2006 in line with the Board's audit timetable. The audit process ran smoothly and we encountered fewer problems than in previous years. In our opinion, this can be attributed to the unification of the finance department in one location, the unification of the financial ledger as well as assistance and strong cooperation from the finance team.

NHS Scotland Health Boards are required to comply with SEHD financial reporting guidelines when preparing their financial statements. These guidelines were previously laid out in the Resource Accounting Manual (RAM). The RAM was replaced by the Financial Reporting Manual (FReM) during the year. The main differences arising from the change to FReM are the addition of the new Operating and Financial Review and the Remuneration Report within the annual report section of the annual accounts. The Board's 2005/06 accounts comply with the requirements of the FReM in all material respects.

5.3 Unqualified audit opinion

We are pleased to report that our audit opinion on the financial statements and the regularity of transactions is unqualified.

5.4 Financial targets

Health Boards are set the following budget levels by the SEHD:

- To remain within the Revenue Resource Limit (RRL), i.e. revenue expenditure should not exceed the RRL;
- To remain within the Capital Resource Limit (CRL), i.e. capital expenditure should not exceed the CRL; and

- To remain within a cash limit.

Table 5.4-1 Performance against budget levels 2005/06

Budget heading	Target £	Actual £	(Excess) / Saving £	Target achieved
Revenue Resource Limit	723,298,000	731,691,000	(8,393,000)	No
Capital Resource Limit	14,212,000	10,739,000	3,473,000	Yes
Cash Requirement	737,511,000	737,511,000	-	Yes

5.4.1 Revenue Resource Limit (RRL)

NHS Lanarkshire incurred a deficit of £8.4 million against its RRL and has therefore failed to achieve its RRL target. This is a cumulative deficit and includes the deficit brought forward from 2004/05 of £20 million. NHS Lanarkshire's in-year position therefore shows a surplus of £11.6 million as shown below.

Table 5.4-2 In-year revenue position

Surplus/ (deficit)	£
Deficit against RRL in 2005/06, including deficit brought forward	(8,393,000)
Add back deficit brought forward from 2004/05	20,042,000
Surplus against in-year RRL	**11,649,000**

See section 5.5 for analysis of how the in-year position was achieved.

5.4.2 Capital Resource Limit (CRL)

The Board planned to spend £13.2 million against its CRL in 2005/06. A number of capital projects, most notably the Medium Secure Unit at Argyll & Clyde and Adolescent Mental Health Beds, did not commence on time. As a result the Board was unable to use its full allocation in 2005/06. The Board has applied for and received permission from the SEHD to carry forward the balance of £3,473,000 to 2006/07.

5.5 Achievement of in-year surplus

At the start of the year, the Board identified an underlying recurring deficit of £26.6 million to be managed in 2005/06 in order to break-even in-year. This amount represented the Board's estimate of the gap between the cost of on-going activities and the core funding received. The Board reported an in-year surplus of £11.6 million, which is a significant achievement considering the potential deficit.

The table below shows how the in-year surplus was achieved:

Table 5.5-1 Achievement of 2005/06 in-year surplus

	Recurring £M	Non-recurring £M	Total £M
Recurring income	680.6		680.6
Recurring expenditure (prior to savings plan)	(707.2)		(707.2)
Underlying recurring deficit	**(26.6)**		**(26.6)**
Non-recurring income		136.7	136.7
Non-recurring expenditure		(129.1)	(129.1)
Balance of non-recurring		**7.6**	**7.6**
Funding Gap	**(26.6)**	**7.6**	**(19)**
Savings plan	4.7	4.2	8.9
Other SEHD support			
• Capital to revenue transfers		17.8	17.8
• Accelerated depreciation		3.9	3.9
2005/06 IN-YEAR POSITION	**(21.9)**	**33.5**	**11.6**

5.5.1 Planned v actual financial performance in-year

The 2005/06 financial plan approved by the Board on 7 July 2005 forecast to achieve an in-year surplus of £83,000. The following table shows the significant movements between the Board's original plan and the actual in-year surplus:

Table 5.5.1-1 Reconciliation of forecast in-year surplus to actual

	Surplus / (Deficit) £000
Original forecast in-year surplus	83
Material movements:	
Prescribing under spend	6,954
Program slippage above budget	3,266
Additional SEHD support	2,790
Over-estimation of 2004/05 Agenda for Change costs	1,700
Over-estimation of charges with other Health Boards	1,400
Consultants contract under accrual	(1,450)
Contribution to local authority	(1,200)
Additional energy costs	(1,095)
Shortfall on savings plan	(793)
Aggregate of remaining items	(6)
Actual in-year surplus	**11,649**

The Board conducted a mid-year review of the original forecast in November 2005 and correctly predicted that the year-end surplus would be in the range £7.5 million to £13 million.

5.5.2 Arrangements for managing financial position

The Board established the Performance Review Committee (PRC) in 2004/05. Its role was to monitor the Board's performance and financial position on a pan-Lanarkshire basis. This had previously been difficult with the delays in moving to single-system working across NHS Lanarkshire. The PRC held the Divisional Chief Executives and the Corporate Management Team to account for delivering the savings targets and other actions identified.

NHS Lanarkshire's committee arrangements were reviewed during 2005/06 and the decision was taken to disband the PRC. The principal performance issues are now dealt with in the main business of the NHS Board and considered at a detailed level by the three Operating Management Committees.

During 2005/06, reports setting out the overall financial position and progress against the Corporate Financial Recovery Programme were presented and discussed in detail at the OMC meetings on a monthly basis. Consolidated reports were then submitted to the monthly Board meetings. The reports were prepared by the Finance Department based on monthly meetings with General Managers during which variances from target were identified and investigated.

5.5.3 Corporate Financial Recovery Programme 2005/06

The Corporate Management Team (CMT) recognised that in order to achieve financial break-even for 2005/06 considerable savings would have to be made. To this end, the Corporate Management Team (CMT) developed the Corporate Financial Recovery Programme (CFRP).

After taking account of non-recurring funding, the Board's financial plan identified that savings of £9.666 million were required to achieve a financial break-even in 2005/06. The following table shows actual savings achieved:

Table 5.5.4-1 Savings achieved 2005/06

Element of programme	Recurring Savings £M	Non-recurring Savings £M	Total £M
Vacancy management (see 4.6.1)	2.019	0.673	2.692
Cash releasing efficiency savings	1.046	1.470	2.516
Prescribing management (see 4.6.2)	0.000	1.000	1.000
Non-clinical support services	0.391	0.153	0.544
Procurement	0.290	0.000	0.290
Cross-boundary flow	0.570	0.000	0.570
Corporate management	0.400	0.861	1.261
Total savings achieved	**4.716**	**4.157**	**8.873**
Target savings	6.377	3.289	9.666
Variance against target	**(1.661)**	**0.868**	**(0.793)**

As shown above, the Board managed to generate £8.873 million of savings in 2005/06. Although slightly below target this is a substantial accomplishment and demonstrates the Board's ability to delivery on savings plans. As described in section 4, the savings were delivered mostly in non-clinical areas and did not impact on patient care.

The Board did not achieve the level of recurring savings it planned for and remains reliant on non-recurring savings. The Board recognises the need to take further action to achieve recurring savings that will reduce its underlying deficit going forward.

5.5.4 Reliance on non-recurring funding and capital to revenue transfers

We have previously reported that the Board has relied on capital to revenue transfers together with non-recurring funding and savings to support its financial position. Table 5.5-1, on page 23, shows that the Board has again been reliant on such funding to achieve its surplus in 2005/06.

The Board transferred £17.8 million of capital funding to revenue during 2005/06, including £5 million of capital brokerage received. This means that the Board received a £5 million advance of capital funding in 2005/06 which will be paid back from the Board's 2006/07 capital allocation.

Capital to revenue transfers will no longer be permitted from 2006/07 onwards. Despite this, the Board still anticipates achieving a small surplus against its RRL in 2006/07, due to the disposal of the Law Hospital site.

As described at 5.6 below, the Board is also taking steps to remove its reliance on non-recurring funding and savings by tackling the underlying recurring deficit and moving to a recurring break-even position.

5.5.5 Prescribing under spend

The Board's original 2005/06 financial plan budgeted for a 7.5% increase on the Board's 2004/05 prescribing spend. This increased budget was to take account of inflation, the impact of the new GMS contract, the cost of new drugs, a contingency budget as well as expected savings on drugs coming off patent. The actual increase in prescribing spend was only £66,000 (0.06%) between 2004/05 and 2005/06.

Prescribing costs fell significantly in 2004/05 due to the implementation of the Prescribing Action Plan as well as the benefits of some widely prescribed drugs coming off patent. The Board continued with its Prescribing Action Plan in 2005/06 and successfully managed to contain its prescribing expenditure. However, the Board cannot accurately identify what savings were achieved through its actions and what savings were actually a result of overestimation in the original budget.

5.6 NHS Lanarkshire's Financial Recovery

5.6.1 Underlying recurring deficit

NHS Lanarkshire's RRL deficit has been caused by an excess of recurring expenditure over recurring income. The Board has been operating with a large underlying deficit for a number of years as the Board's annual operating expenditure has exceeded its core funding from the SEHD. This means that the Board starts each year having to achieve significant savings in order to break even in-year. On top of this, the Board must recover the cumulative RRL deficit that has built up in previous years.

The following table shows the estimated underlying deficit and actual in-year position for the previous 4 years and the forecast for the following 3 years:

Table 5.6.1-1 Underlying recurring deficit against RRL outturn

	Underlying recurring deficit at year end £M	In-year surplus / (deficit) against RRL £M
2002/03	(23.8)	(10.1)
2003/04	(34.4)	(13.9)
2004/05	(26.6)	0.4
2005/06	(21.9)	11.6
2006/07 (forecast)	(9.1)	10.5
2007/08 (forecast)	0.7	0.9
2008/09 (forecast)	0.6	0.0

Summary of financial recovery 2002/03 to 2005/06

The Board's financial position between 2002/03 and 2005/06 can be summarised as follows:

- As recommended in our 2001/02 annual report, the Board set up a Performance Review Committee (PRC) in June 2002 with responsibility for monitoring the performance of NHS Lanarkshire together with any actions required to correct variances and sustain the achievement of financial targets.

- During 2002/03, the PRC identified an underlying recurring deficit within NHS Lanarkshire of £23.8 million and developed a 5 year plan to address the deficit and achieve long term financial and clinical sustainability.

- The Board's underlying recurring deficit reached a peak of £34.4m in 2003/04, contributing to an actual in-year deficit against the RRL of £13.9m in that year. During 2003/04 a range of stabilisation actions were put in place to prevent the deficit increasing further.

- During 2004/05, the Board achieved recurring savings of approximately £10m, which helped reduce the underlying deficit to £26.6m at the year end, and achieve an in-year surplus of £0.4m.

- In 2005/06, the Board has achieved an in-year surplus of £11.6m. The savings programme delivered further recurring savings of £4.7m, reducing the recurring deficit to £21.9m going into 2006/07.

Going forward, the Board expects to receive a recurring increase in funding (net of expenditure increases) of £7.8m in 2006/07, primarily through a gain from the Arbuthnott formula. Added to this, the Board plans to achieve further recurring savings of £5m in 2006/07. The Board forecasts that this combination of increased core funding and recurring savings will allow it to reduce its underlying recurring deficit from £21.9m at the end of 2005/06 to £9.1m at the end of 2006/07.

Tables 5.6.1-2 and 5.6.2-1 below describe how this will be achieved.

Table 5.6.1-2 Forecast reduction in underlying deficit between 2005/06 and 2006/07

	£M	£M
Underlying recurring deficit b/f from 2005/06		(21.9)
Additional resources expected in 2006/07		
• Annual uplift	43.0	
• Arbuthnott	6.8	
• Other	1.0	50.8
Additional expenditure		
• Pay uplifts	(15.4)	
• Non-pay uplifts	(6.0)	
• Drugs	(4.0)	
• National / Regional Priorities	(5.2)	
• Waiting times	(5.0)	
• Local priorities	(4.7)	
• Other additional expenditure	(2.7)	(43.0)
Forecast underlying recurring deficit 2006/07 before savings plan		**(14.1)**

5.6.2 Financial Recovery Plan 2006/07 to 2008/09

As shown above, even after taking the increased core funding into account, the Board still expects to have a significant underlying deficit to address in 2006/07 and 2007/08.

The key financial issues for 2006/07 are:

- A cumulative deficit against the RRL of £8.4 million, carried forward from 2005/06;
- An estimated underlying recurring deficit of approximately £14.1million;
- Capital to revenue transfers no longer being permitted.

The Board has approved a financial recovery plan to eliminate the underlying recurring deficit and achieve recurrent financial break-even by the end of 2007/08. At the same time the Board expects to clear its cumulative RRL deficit in 2006/07 through a capital receipt from the sale of land at the former Law Hospital.

The projected financial position for 2006/07 is set out below.

Table 5.6.2-1 Projected financial position 2006/07

	Recurring £M	Non-recurring £M	Total £M
Recurring income	728.2		728.2
Recurring expenditure	(742.3)		(742.3)
Underlying recurring deficit	**(14.1)**		**(14.1)**
Non-recurring income		133.2	133.2
Non-recurring expenditure		(131.6)	(131.6)
Balance of non-recurring		**1.6**	**1.6**
Funding GAP	**(14.1)**	**1.6**	**(12.5)**
Capital receipt expected 2006/07	0.0	15.0	15.0
Savings plan 2006/07	5.0	3.0	8.0
Forecast in-yr performance	**(9.1)**	**19.6**	**10.5**
Deficit brought forward from 2005/06	0.0	(8.4)	(8.4)
Projected cumulative surplus/ (deficit) against RRL	**(9.1)**	**11.2**	**2.1**

5.6.3 Anticipated capital receipt – Law Hospital

For a number of years, NHS Lanarkshire has been anticipating clearing its brought forward deficit through gains from the sale of surplus land. Land with potentially high market value which is currently up for sale includes the sites at the former Law Hospital and Hairmyres Hospital.

Law Hospital was closed and declared surplus to requirements in March 2001. South Lanarkshire Council identified the Law area for development in its 2004/05 Local Plan stimulating interest in the old Law Hospital site. The Board invited tender bids and approved acceptance of the successful tender in December 2004. Subsequent negotiations with the prospective developer were completed and missives were signed on 31 March 2005.

Completion of the sale was subject to a number of clauses within the missives, most notably receipt of planning permission. The gain on sale can only be recognised in the accounts once the conditions of the sale are virtually certain to be satisfied. As the developers have not yet received full planning permission, uncertainty remains as to whether the principal condition of the sale will be met. Consequently the Board has not recognised the gain on sale in its financial accounts to date.

The Law Hospital site is currently carried in the Board's financial statements at £4.95 million. The Board expects to receive in excess of £20 million on completion of the sale. If the sale is completed in 2006/07, the estimated £15.05 million gain on disposal will be recognised as a revenue receipt, clearing the brought forward deficit. The developers have received outline planning permission and it is expected that they will receive full planning permission in

2006/07. The disposal of Law Hospital has been incorporated into the Board's revenue and capital plans. The potential gain on sale has been disclosed as a contingent asset in Note 22 to the 2005/06 financial statements.

5.6.4 Corporate financial recovery programme (including CRES)

The Board has set itself a savings target of £8 million in 2006/07.

Table 5.6.4-1 Corporate financial recovery programme 2006/07

Element of programme	Recurring savings £M	Non-recurring savings £M	Total £M
CRES	0.346	3.399	3.745
Impact of revaluation exercise	1.000	0.000	1.000
Non-clinical support services	0.713	0.000	0.713
Ward rationalisation	0.200	0.000	0.200
Headquarter functions	0.250	0.250	0.500
Workforce Cost Reductions	0.632	0.000	0.632
Balance requiring further action	1.859	(0.649)	1.210
Total	**5.000**	**3.000**	**8.000**

The Board has demonstrated in 2004/05 and 2005/06 its ability to deliver on savings plans and considers the target for 2006/07 to be achievable.

NHS Lanarkshire is required to deliver significant efficiency savings on an annual basis as part of the Scottish Executive's Efficient Government program. The efficient government savings target as set out in section 5.12 includes the savings plan detailed above.

5.7 Cost pressures

Inaccurate estimation of new cost pressures could result in expenditure overspends and prevent the Board from achieving its financial targets.

Pay modernisation is currently one of the largest cost pressures faced by the NHS, resulting in substantial additional recurring costs. The vast majority of the Board's cost pressures in future years will arise from recent pay modernisation initiatives. The table below sets out the Board's estimate of the 2006/07 cost of selected pay modernisation initiatives.

Table 5.7-1 Pay modernisation costs

Initiative	Expected 2006/07 costs £m
Agenda for Change	17.0
Consultants contract	1.5

Modernising Medical Careers	0.5

The Board expects that the eventual cost of Modernising Medical Careers will be substantial, but it is not yet possible to estimate the full cost until the proposals for "specialist" training are clear.

5.7.1 Agenda for Change costs

The Agenda for Change pay arrangements replaced the Whitley pay arrangements on 1 October 2004. The Agenda for Change pay arrangements do not apply to medical and dental staff, as these staff are on separate arrangements.

Staff moved onto the Agenda for Change conditions on 1 December 2004. Staff will transfer onto the Agenda for Change pay arrangements once job descriptions have been agreed to job profiles nationally. The process of transferring the staff from the Whitley to Agenda for Change pay arrangements is known as 'assimilation'. NHS Lanarkshire has begun assimilating staff on a group by group basis. The process was completed for ancillary staff in April 2006. Assimilation for nursing and midwifery staff was started in April 2006 and is due to be completed in July 2006. The SEHD has set a deadline of October 2006 for all staff to be assimilated. Payment of the backdated pay element will not commence until all staff are assimilated.

2005/06 Agenda for Change Accrual

The change to Agenda for Change pay arrangements has resulted in an increase in many staff's pay. Employees are entitled to receive this pay backdated to the 1 October 2004, the date of implementation. None of the staff have received backdated pay to date. The accounts as at 31 March 2006 include an accrual for £19.1 million to cover the backdated pay. This accrual has been based on the SEHD model, using local employee data.

The Board has tested the accuracy of this model by comparing the pay of the ancillary staff who have now been assimilated onto the new agenda for change pay scale with the pay predicted by the model. Variances between forecast and actual were insignificant.

We consider the accrual to be a reasonable estimate of the future payments in respect of backdated Agenda for Change pay from 1 October 2004.

2006/07 forecast costs

There is a risk that any underestimation of the costs could have a serious detrimental impact on the Board's financial position. The full cost of implementing Agenda for Change will not be known until all staff have been assimilated. The estimation of the Agenda for Change costs has been difficult because the following factors:

- Cost of covering additional annual leave
- Outcome of grading appeals
- Pay enhancements payable on sick leave
- Maternity leave

The Board estimates that the cost of Agenda for Change will amount to approximately £17 million in 2006/07. This estimate is based on the SEHD costing model. However, the Board believes that there may be a further cost for Agenda for Change in future years relating to incremental drift. There are a large number of staff who were previously at the top of their pay scales but who, under Agenda for Change, will now have scope for further incremental salary increases. The full impact of this will not be clear until all staff have been assimilated onto the new Agenda for Change pay scales.

The Board should closely monitor the outcome from the assimilation process and update financial forecasts accordingly.

5.7.2 *A Picture of Health* – Financial Implications

A key element of *A Picture of Health* is to look at ways of creating modern, sustainable services that are appropriate for the needs of the people of Lanarkshire. As part of the service redesign process, NHS Lanarkshire is carrying out a review of its current estate, which includes 15 hospital sites. The aim will be to streamline services to better deliver modern healthcare from fewer sites, freeing up capital from old hospitals to reinvest in new hospitals and primary care premises.

5.7.3 Accelerated depreciation

Prior to implementing *A Picture of Health*, the Board has declared that the following properties will become surplus to requirements.

Property	Non-operational Date
Bellshill Clinic	31/03/06
Carluke Health Centre	31/03/06
Beckford Street	31/03/06
Hartwoodhill Hospital	31/03/07
Kirklands Hospital	31/03/07

Where the Board has approved a decision to close a property, the Financial Reporting Manual (FReM) requires the Board to write the value of the property down to its net realisable value over the asset's remaining life. This is known as accelerated depreciation. NHS Lanarkshire incurred accelerated depreciation charges of £3.875 million in 2005/06 in relation to the above hospitals. The SEHD provided additional funding to match this expenditure.

The Board is likely to declare further properties surplus to requirements, subject to the Ministerial approval of *A Picture of Health*. The Board has applied to the SEHD for a further £7 million to cover accelerated depreciation in 2006/07. The SEHD has indicated that limited funding is available for these additional costs and is unlikely to confirm any allocation until the end of 2006/07. If insufficient funding is available from the SEHD, this could have significant implications for planned service developments in NHS Lanarkshire and could impact on the Board's financial position.

The Board has not incorporated this accelerated depreciation in its 2006/07 financial plan as it is awaiting the outcome of *A Picture of Health*. The SEHD has previously funded the accelerated depreciation and the Board is confident that this will continue.

5.8 Excess capital funding

The Board expects to have significant surplus capital funding in 2006/07 because:

- Transfers between capital and revenue allocations are no longer permitted,

- Two of the Board's three main hospitals are operated under the Private Finance Initiative. This means they are not owned by the Board and so scope for capitalising improvements to the hospitals is limited. Most improvements will be treated as life-cycle maintenance costs and funded through revenue.
- The Board has a carry forward from its 2005/06 capital allocation of £3,473,000, and
- Disposal of properties will result in further capital receipts.

Although the Board's Capital Investment Plan identifies potential surplus capital funding of approximately £21 million over the next five years, when the plan is extended for a further 5 years, the Board forecasts that it will be short of capital funding. This is because *A Picture of Health* anticipates significant capital spend across both the acute and primary care divisions over the next decade. The Board therefore intends to agree a programme of brokerage with the SEHD that will allow it to defer some capital funding from the earlier years of the Plan to be used in later years. The agreement of such an arrangement will be key to the delivery of the capital investment required under *A Picture of Health.*

5.9 Cross boundary tariffs

A national exercise was performed to review the cross boundary tariffs charged between health boards for services delivered. This exercise did not impact on the Board's expenditure and income with other NHS Health Boards in 2005/06. Lanarkshire Health Board is expecting a gain of £1 million as a result of the tariff exercise in 2006/07, due to £500,000 additional income from other Health Boards and a £500,000 saving on expenditure with other Health Boards.

5.10 Private Finance Initiative (PFI)

The Board operates the following hospitals under the PFI:

Table 5.10-1 PFI contracts

Hospital	Start Date	End Date	2005/06 Charge £M
Hairmyres	26 March 2001	30 June 2031	16.509
Wishaw	28 May 2001	30 November 2028	23.243
Stonehouse	1 May 2004	30 April 2034	0.430

5.10.1 Hairmyres

The Hairmyres PFI agreement was refinanced in 2004/05 realising a revenue gain to the Board of £0.5 million. There have been no further changes to the arrangements in 2005/06.

The Hairmyres PFI contract contains a clause that requires the contract be subject to market testing should the PFI provider's costs increase by 10%. The Board has recognised that the costs have increased by 10% and is currently in negotiations with the provider.

5.10.2 Wishaw and Stonehouse

There have been no significant changes in the operation or management of the Wishaw or Stonehouse PFI arrangements during the year.

5.11 Financial management

NHS Lanarkshire has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider NHS Lanarkshire's arrangements for financial planning, budgetary control and financial reporting.

5.11.1 Background

We have previously reported on weaknesses within NHS Lanarkshire's financial planning, budgetary control and financial reporting arrangements. These have included the acceptance of overspending, lack of ownership of budgets and a reliance on non-recurring funding and have undoubtedly contributed to the Board's brought forward deficit.

In our 2004/05 report we noted that the Board had made significant improvements. This was attributed to the unification of the Board, combined with improved financial awareness at an operational level due to the implementation of robust divisional reporting through the Operating Management Committee.

5.11.2 Budgetary control and reporting during the year

As in 2004/05, NHS Lanarkshire delivered a sizeable programme of cost savings and other actions in 2005/06, in order to achieve an in-year surplus and further reduce the carried forward deficit against the RRL. To achieve this, the Board required to closely monitor and manage its budgets and saving plans.

The Board conducted a comprehensive mid-year review of its budget and forecast surplus in November 2005. Significant divisional under spends were reallocated from the divisional budget to the central corporate budget. The Board accurately forecast its surplus in the range £7 million to £13 million, depending on the outcome of a few key variables.

The achievement of the in-year position and the accuracy of the forecasts demonstrate strong budgetary control and reporting during the year.

5.11.3 Financial planning

The Board has prepared a 5 year financial plan, which forecasts the organisation clearing its brought forward deficit in 2006/07 and achieving recurrent balance by 2008/09. We have reviewed these forecasts and we do not consider the assumptions on which they are based to be unreasonable. The plan clearly identifies the risks which may prevent the Board from achieving its forecasts.

At a divisional budget setting level, there still remain differences between operating divisions for historical reasons. However, meetings have been held between the 2 divisional heads of management accounts to agree common principles to develop a consistent approach.

CHP budget setting

As noted in section 3, from 2006/07 the Board will operate two CHPs. This will have minimal impact on budget setting as budgets will continue to be set at a cost centre level. Cost centres will then be allocated to the relevant CHP and reported as such.

5.12 Efficient Government

The Scottish Executive launched the Efficient Government initiative in June 2004, aimed at contributing to its vision of public services of the highest quality, offering the greatest possible choice. The initiative is a five year programme that is intended to attack waste, bureaucracy

and duplication in the public sector, differentiating between cash releasing savings (that release additional funds to be reinvested in front line services) and time releasing savings (that increase the level of service provided from existing resources).

The NHS in Scotland is now expected to deliver cash releasing savings of £342 million, including £50 million achieved through more efficient procurement. A further £173 million of time releasing savings are planned by 2007/08, including £55 million achieved through reducing sickness absence to 4%.

Efficient Government savings should be recurring, against a 1 April 2005 cost baseline. This will be a challenge given the difficulties experienced in delivering recurring savings across the NHS in Scotland. A number of the savings identified are national initiatives, such as the national shared support services project which is expected to contribute £10 million savings from 2007/08. These national projects are being managed by the SEHD but boards may also have these identified as local savings – leading to a risk of double counting.

5.12.1 Management Arrangements

NHS Lanarkshire is required to deliver significant efficiency savings as part of the Efficient Government Initiative. These savings will be delivered as part of the Board's Corporate Financial Recovery Plan.

Due to recent financial pressures the Board has focussed attention on the identification and achievement of cash releasing savings. During 2005/06 the Board had not yet achieved any time releasing savings. As time releasing savings form a key part of the efficient government targets against which the Board will be assessed it is essential that work is completed in this area.

The total recurring savings NHS Lanarkshire aims to deliver in the three years to 31 March 2008 are highlighted below. These exceed the Board's efficient government targets. However these savings are part of the programme already put in place by the Board to manage its revenue position and are therefore subject to the same risks and cost pressures as discussed in section 5.7.

Table 5.12-1 - Efficiency savings to be delivered

Year	£M
2005/6	10.698
2006/7	15.698
2007/8	20.698

The achievement of the target in 2005/06 and local priorities have been discussed in detail in sections 5.4 and 5.5 above. National priority areas are discussed below.

5.12.2 Asset Management

Proper asset management, including arrangements to ensure there are strategies to reduce maintenance costs, active disposal policies, long term planning and robust management information, is a vital part of being an efficient organisation. The management of public assets is typically the second highest cost on the revenue budgets of public sector bodies after employee costs. The right assets in the right place can make the difference between good and poor service delivery.

As outlined earlier in this report, the Board views the redevelopment of its estate as a key contributor to the delivery of modern, sustainable services that are appropriate for the needs of the people in Lanarkshire.

Following a comprehensive review of the Board's current estate and the potential for rationalisation, a number of properties have been declared as non-operational with others being identified as potentially surplus to requirements. Savings achieved through this programme form a key part of the Board's savings targets.

As at 31 March 2006 the Board has disclosed approximately £23 million of land and dwellings as surplus assets held at open market value. In addition the Board's five year capital plan identifies potential recurring revenue savings of £2.4 million through a reduction to capital charges on fourteen properties considered potentially surplus.

5.12.3 Managing Absence

All public sector organisations need to have effective strategies for managing sickness absence. These should include firm measures to tackle abuse, but must also address any work related causes of ill health, and support staff experiencing illness so that they can return to the workplace.

NHS Lanarkshire must demonstrate an increase in Consultant productivity of 1% per annum over the three years to 31 March 2008. They must also achieve a target of 4% sickness absence by this date. Both of these targets are included in the NHS Lanarkshire Local Delivery Plan and related action plans are being developed. The Board reported in 2005/06 that 5.87% of available staff hours were lost as a direct result of sickness or absence.

Work has not yet been completed to quantify the cash and time releasing impact of these initiatives. However a number of other workforce management savings have been identified and will contribute toward a more efficient use of staff. These include vacancy management, the use of agency staff and the redeployment of staff.

5.12.4 Procurement

Using e-procurement generates immediate savings through more efficient processes; improves management information so that buying decisions are better targeted to meet cost and policy objectives; and supports co-ordinated purchasing between different organisations.

NHS Lanarkshire already achieves some efficiency savings through the operation of a centralised procurement function and e-procurement system. The Board also operates collaborative buying with other organisations and partnership arrangements with key suppliers. These are identified as key milestones in the efficient government process however the Board have identified additional cash releasing savings in this area.

5.12.5 Shared Support Services

All public sector bodies have a basic core of support services, including procurement, payroll, HR, IT and finance. Other support services are common across a large number of organisations, including legal and communications services. Sharing these support services has the potential to generate substantial efficiency savings – through realising economies of scale and through greater standardisation and the adoption of best practice. There are also many transactional processes where costs can be reduced by simplifying processes and replacing paper based systems with electronic systems.

In common with the majority of NHS bodies in Scotland, NHS Lanarkshire does not currently operate any shared support services. However the development of the national shared services programme across Scotland is currently being managed by NHS National Shared Services. This aims to rationalise the provision of financial services and payroll services into

a national hub and spoke model removing the need for local staff in these functions and is expected to contribute £10 million of savings from 2007/08. As this is a national initiative no local savings have been identified by any NHS Boards in this area.

5.12.6 Streamlining Bureaucracy

Reducing and streamlining bureaucracy together with the empowerment of frontline staff will increase public sector productivity.

NHS Lanarkshire has identified potential savings in both non-clinical support services and corporate management structures. A working group has been established to review working practices across the Board, including the utilisation of IM&T and the profile of administrative and clerical staff. In addition, plans to relocate corporate functions on a single site have been prepared and a business case outlined. It is anticipated that efficiency savings will be generated through this move both in terms of baseline costs and the enhancement of single-system working.

6 Action Plan

Our annual report action plan details the key, priority one control weaknesses and opportunities for improvement that we have identified during 2005/06. These are the issues that we believe need to be brought to the attention of the Board.

We have followed-up the key points from our previous years' action plans to ensure they have been implemented as agreed. A number of issues from previous years remain outstanding and these have been repeated in this year's action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

6.1 High priority issues from 2005/06 final audit

Title	Issue Identified	Risk and Recommendation	Management Comments
Paragraph 3.7.2 **Risk Management**	The *Turnbull Report* states that a sound system of internal control depends on a thorough and regular evaluation of the risks faced by the body. The Board planned to implement an integrated risk management system to achieve this. The Board did not complete the implementation during 2005/06.	In the absence of an integrated risk management system, the Board may not be identifying and managing risks effectively. The Board should commit sufficient resources to ensure that the integrated risk management system is operational as soon as possible.	Implementation of the agreed integrated risk management system though delayed was completed in July 2006 **Responsible officer:** Risk Manager **Implementation date: July 2006**
Paragraph 4.5.2 **Cancer Waiting Times**	NHS Lanarkshire continues to have difficulty in meeting the requirements of the national waiting times guarantees for lung and colorectal cancers.	There is a risk that the Board will not meet the requirements of its LDP, which will impact on the outcome of the Ministerial Annual Review. Further steps therefore need to be taken to meet these targets.	NHS Lanarkshire has now appointed patient trackers and installed an effective IT system which provides live monitoring information. The Board expects to achieve the national targets for lung and colorectal cancer specialties by the end of September 2006. This date has been given to the National Waiting Times Unit as confirmation of the plans established within the Board. **Responsible officer:** Chief Executive – Acute Division **Implementation date:** Already actioned

Title	Issue Identified	Risk and Recommendation	Management Comments
Paragraph 4.5.6 **Consultants**	The Board has a high level of consultant vacancies as well as a large proportion (39%) of consultants who are above the age of 50.	As there is nothing within the new consultant contract to encourage staff to remain beyond the age of 60 there is a risk that Lanarkshire's already high level of vacancies will further increase resulting in the Board having a vacancy level which will make it increasingly difficult for national targets to be met. Further steps need to be taken to improve consultant numbers within NHS Lanarkshire.	Agreed. In addition to an active local and overseas recruitment programme, the proposals included in *A Picture of Health* are designed to address our consultant vacancy position. **Responsible officer:** Medical Director **Implementation date: Immediate**

Title	Issue Identified	Risk and Recommendation	Management Comments
Paragraph 5.6.1 **Pay modernisation costs**	NHS Lanarkshire has accrued £19 million for the outstanding Agenda for Change costs for the period 1 October 2004 to 31 March 2006. There is a high level of uncertainty over the Agenda for Change costs. Amongst other variables, this is due to: • Cost of covering additional annual leave • Outcome of grading appeals • Pay enhancements payable on sick leave • Maternity leave costs • Future impact of incremental drift. In addition, pay modernisation will soon extend to specialist doctors, community pharmacists, dentists and optometrists. However the future costs of these new contracts are uncertain until the proposals are clearer. The Board has therefore been forced to make a large number of assumptions in calculating its Agenda for Change accrual and in budgeting for future pay modernisation costs.	There is a risk that the actual costs of pay modernisation could be significantly different from the accrual and the projections. Any over or under estimation could have a major impact on the Board's performance against its financial plan. Once staff begin to be assimilated and eventually paid their backdated pay under Agenda for Change, the Board will be in a better position to determine the accuracy of its forecasts. The Board should continually review and update its accrual and forecasts against new information.	Agreed. **Responsible officer:** Deputy Director of Finance (Financial planning and performance) **Implementation date:** Agenda for Change - 31 December 2006 Future pay modernisation streams - once information on new contracts is received.

Title	Issue Identified	Risk and Recommendation	Management Comments
Paragraph 3.3 **Inter divisional transactions**	For accounting purposes, the Acute and Primary Care operating divisions functioned as separate entities during 2005/06. The operating divisions recognised their respective allocations from the Board as income in their ledgers. The Corporate Division recognised the corresponding entry as expenditure in its ledger. An exercise was performed at the year end to agree and eliminate these entries during the preparation of the annual accounts. The Board adopted this accounting method as the three divisional ledgers were not consolidated for most of the year. We noted differences between the expenditure and income recorded in the Board's ledger with the expenditure and income reported in the annual accounts. This was due to inter-division transactions not being eliminated in the ledger. The Board's financial ledger was consolidated during March 2006.	Accounting for the divisional budgets as income results in additional work to reconcile the balances as well as increasing the risk of an errors occurring in the financial statements. We recommend that the divisions cease recording their budgets as income. The only income recorded in the Board's financial records should be the miscellaneous income reported in note 9 of the annual accounts. The cash drawn down from SEHD during the year should be recorded as an entry to the general fund.	Agreed. **Responsible officer:** Deputy Director of Finance (Financial planning and performance) **Implementation date:** Immediate

Title	Issue Identified	Risk and Recommendation	Management Comments
Paragraph 3.3 **Accounting for Family Health Services (FHS)**	FHS expenditure accounts for 26% of the Board's total expenditure. We have noted that the Board's Finance Department no longer has anyone with a full understanding of FHS accounting entries and that there is a lack of communication between the ledger staff and the Primary Care operating division's management accounting staff. As a result of this: • material adjustments were posted between creditors and the general fund two weeks after the audit began, • the final annual accounts include an unsupported FHS debtor of £1.5 million, • we had significant difficulties agreeing correcting entries to FHS errors identified during the audit.	There is a risk that any errors in accounting for FHS income and expenditure will not be detected. FHS procedure notes have been prepared for the dental and ophthalmic expenditure streams. We recommend that procedure notes should also be prepared for the medical and pharmaceutical expenditure streams and consolidated into overall FHS procedure notes. These should be distributed to the relevant ledger staff. In addition, it is essential that the Corporate Division has sufficient expertise in the various types of FHS expenditure and income. This expertise should cover: • types of expenditure and income, • non-discretionary and unified items, • payment methods, • information sources (i.e. PSD reports) and • ledger entries. This will allow the finance staff to review the FHS ledger entries during the year and at the year-end.	Agreed. **Responsible officer:** Deputy Director of Finance (Financial planning and performance) **Implementation date:** Immediate

6.2 Follow-up of high priority issues from previous reports – action outstanding

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Fixed asset register	**2005/06 interim report**	Due to system problems within the fixed asset module of e-financials, NHS Lanarkshire has not implemented the fixed asset module. The Board's fixed assets have been recorded on spreadsheets and the monthly depreciation calculated manually. During our audit testing we identified inconsistencies between the divisions' method for accounting for fixed assets and noted errors in the calculation of the Primary Care Operating Division and the Corporate Division's depreciation. We recommended that: • Password controls are added to the asset spreadsheets. • Depreciation calculations should be reviewed prior to being entered in the accounting records. • Depreciation on additions during the year should be calculated on actual additions during the year and not on forecast additions. • The fixed asset spreadsheets should be reconciled to the nominal ledger. • The fixed asset spreadsheets are replaced by a unified fixed asset register.	• Password controls will be added to the asset spreadsheet; • Depreciation calculations are now standardised across the divisions and are reviewed and authorised before being entered in the accounts; • Depreciation during the year is now calculated on actual additions across all 3 divisions; • Fixed asset spreadsheets are now regularly reconciled to the nominal ledger; and • Cedar E-financials is working on upgrading the fixed asset module and NHS Lanarkshire will move to the new system in 2006/07.	**Partially complete** All recommendations have been addressed except those relating to password controls and the unified fixed asset register. We do not consider the password control issue to be a high priority. The Board is currently awaiting the outcome of the shared services initiative before progressing a unified fixed asset register. **Responsible officer:** Deputy Director of Finance (Financial planning and performance) **Implementation date:** Following notification of shared services review

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Governance	**2005/06 Priority & Risks Review**	The Board should ensure that the terms of reference for all committees along with their membership are reviewed to reflect the establishment of the CHPs.	To be addressed by 30 June 2006. **Responsible officer:** Board Secretary	**Action outstanding** The Board Secretary now has this in hand. Delay was caused due to pressure of work on the Board Secretary relating to "A Picture of Health" **Responsible officer:** Board Secretary **Implementation date: 31 August 2006**

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Board members development programme	**2005/06 Priority & Risks Review**	Non-executive directors have not had specific training on discharging their duties as non-executives. There is a risk that non-executive directors do not have the ability to effectively challenge and hold directors to account and therefore training should be provided on their governance duties as a board member.	Included in Board Development Plan for 2006/07. **Responsible officer:** Director of Organisational Development	Although no formal group training is provided , NHSL provides individual non-executive directors with a range of training support. E.g. induction training for them; access to the training courses run by the NHS Confederation; copious publications/materials on Governance and copies of NHS Confederation Newsletters; Board Briefings as a standing feature of how the Board operates. The need for development of Board members is clearly recognised by NHSL and account has been taken of this in the overarching Board Development Plan 2006/8 which was submitted to SEHD as an appendix to the Local Delivery Plan. The Board Development Plan recognises 2 strands of development:-Development of Non-Execs focused on general and individual role, more in depth knowledge and awareness of the 3 strands of governance. -Development of Exec Directors (the CMT) as individuals and as a team.In addition to this during late Sept / early Oct 2006 the Director of Organisational Development will sit down with each Non-Exec and work through a structured personal development needs assessment. This assessment will be linked clearly to their generic and lead roles as members of the Board.

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Information Management	**2005/06 Priority & Risks Review**	The Board is not regularly updated on IT developments within NHS Lanarkshire. There is a risk that that Board members are not kept informed of issues/developments and in particular non-executive directors will not be in a position to challenge progress. We recommend that the Board are regularly updated on IT issues.		Plans are in place to provide a formal update to the Board on a quarterly reporting basis. The previous commitment to action was deferred due to difficulty in finding agenda space due to Picture of Health business. **Responsible officer:** R Wright/A Lawrie to discuss on commencement **Implementation date:** **August 2006**
Information Management	**2005/06 Priority & Risks Review**	Business continuity planning and disaster recovery procedures exist only at a basic level. There is a clear risk that if a system or process fails then adequate recovery arrangements will not be in place. We recommend that all business continuity planning and disaster recovery procedures are reviewed and developed to ensure that they are capable of addressing any issues which may arise.	This is recognised by management and threats are mitigated by the use of fault tolerant systems where practical. With regard to disaster recovery services, it is anticipated that these services will be procured through the national re-tender of computer services that will take effect from April 2007. A risk assessment will be undertaken in Quarter 1 2006/7 on this matter. **Responsible officer:** General Manager – eHealth	Risk assessment exercise is ongoing – target completion October 2006 **Responsible officer:** R Wright

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
FHS Income	**2004/05 final report**	FHS dental and pharmaceutical income is not recorded in the Board's financial ledger. The Board record its FHS income on spreadsheets. The Board reports its income in its monthly return to the SEHD and in its annual accounts. The reported income is taken from the spreadsheets. In addition, the FHS income is calculated on a cash basis. There is a timing delay between the practitioners receiving this income and it being passed onto the Board. The delay is approximately 1 month for dental income and 2 months for pharmaceutical income. The corresponding dental and pharmaceutical expenditure is accrued to 31 March. Dental income is non-discretionary and any additional income would not impact on the deficit. However, if pharmaceutical income was accrued to 31 March 2006, this would result in approximately £0.85 million income to be reported during the year. The income would reduce the Board's deficit. We recommended that: • FHS is recorded in the Board's ledger; and • FHS income is accrued up to 31 March in line with expenditure.	Agreed. **Responsible Officer:** Depute Director of Finance (PCOD) **No later than:** 31 August 2005	FHS income is not recorded in the Board's ledger. FHS income has not been accrued to the year end and continues to be reported on a cash basis.

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Non-executive with financial experience	**2004/05 Priority & Risks Review**	The Board should continue its efforts to ensure that the Audit Committee (previously Financial Governance Committee) includes a non-executive member with significant, recent financial expertise and experience.	**Responsible Officer:** Chairman At time of recruitment	**Action outstanding** The audit committee still does not have a non-executive director who has significant, recent financial expertise and experience. We reiterate our original recommendation. In addition we recommend that the Board consider co-opting a Board member to advise on financial issues. ***Management comment*** An appointment of a non-executive director with financial expertise has now been made. **Responsible officer:** Chairman **Implementation date:** Completed
Non-executive training and development	**2004/05 Priority & Risks Review**	All non-executive directors should have a personalised training and development programme.	**Responsible Officer:** Chairman At time of recruitment	Link with previous point. **Responsible officer:** Director of Organisational Development **Implementation date: Ongoing**

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Regional planning	**2004/05 Priority & Risks Review**	The Board should monitor progress towards implementation of regional planning through regular reporting from the Strategic Development and Re-design Committee.	**Responsible Officer:** Chief Executive Immediate	The Corporate Management Team has established a Modernisation Board which will oversee the implementation of regional planning. **Responsible officer:** Modernisation Board **Implementation date: Immediate**
Health improvement	**2004/05 Priority & Risks Review**	The Board should continue to address health improvement issues and encourage the development of lifestyle strategies.	**Responsible Officer:** Director of Public Health Immediate	An implementation plan is currently being developed to support the health improvement strategy. **Responsible officer:** Director of Public Health **Implementation date: Immediate**

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Finance and Procurement Management Arrangements	**Originally raised in our 2002/03 report and all subsequent reports**	We have previously reported on the Creditors section's backlog of invoices as follows: December 2004: 1,300 invoices with a value of £900,000 July 2005: 2, 981 invoices with a value of £2,000,000 December 2005: 2,349 invoices with a value of £1,300,000. The board had set a target maximum level of 500 invoices. The backlog of invoices has been caused by departments failing to use correct procurement procedures or documents while ordering goods and services as well as staffing shortages within the creditors department. We recommended that a review of management arrangements should be undertaken. And that the benefits of unifying the Procurement and Creditors departments should be investigated.	An action plan will be put in place to ensure a reduction in invoice queries to an acceptable level. **Responsible Officer:** Deputy Director of Finance AOD **No later than:** 31 October 2005	**Action outstanding** The following actions have been taken in 2005/06: 1. Procurement was placed under the management of the Director of Finance. 2. Regular meetings are held between Finance and Procurement staff. 3. Reminders were issued to NHSL staff to return delivery notes to Procurement without undue delay. 4. Weekly monitoring reports were prepared on the level of invoice queries, which are circulated to the Head of Procurement and DDoF(Financial Planning and Performance) 5. Concentrated action to clear invoices over 6 months old and under £50 in value. 6. A standard accrual policy for NHSL which ensures that all queries are accrued on a monthly basis ensuring that all expenditure is reported. At 31 March 2006 invoice queries had reduced to under 1000, but these increased again to 1,620 queries totalling £1,695,000 as at 17 May 2006 due to downtime caused by financial system upgrades. The Board is confident that the actions highlighted above will reduce the invoice queries below 1000. **Responsible Officer:** Deputy Director of Finance (Financial Planning and Performance) **Implementation date: Ongoing**

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Permanent injury benefit provisions	**2003/04 final report**	The SEHD Dear Colleague letter 'Guidance for Calculating injury benefit provision' details that life expectancy should now be calculated using new government actuarial tables and discounted at 3.5% rate. NHS Lanarkshire have continued to base their injury benefit provision on an average life expectancy of 75 with no discount factor. We recommend that NHS Lanarkshire should review its permanent injury benefit provision to ensure it is reasonable. If necessary, the Board should pursue the correct information from the SPPA and calculate the provision in accordance with the guidance issued by SEHD.	This issue was originally accepted by management.	**Action outstanding** The Board continues to calculate its pension and injury benefit provisions based on an average life basis. The Board is now using an average life of 80 years. Using a set average life instead of actuarial tables neglects the fact that as an person nears 80, the probability of them living past 80 increases. If the provisions had been calculated in line with SEHD guidance the Board would have incurred additional expenditure of approximately £1.6 million in 2005/06. We reiterate our original recommendation. ***Management comment*** Agreed. **Responsible officer:** Financial Controller **Implementation date:** At time of mid-term review 2006/07

6.3 Follow-up of high priority issues from previous reports – action taken as agreed

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Timing of Ledger Adjustments	**2005/06 interim report**	Our review of the nominal ledger found that adjustments requested by external audit as part of the 2004/05 final accounts process had not been processed through the ledger system. Management should agree a timetable regarding when adjustments should be processed by and adhere to it. These adjustments must be processed before the financial statements for 2005/06 can be finalised.	These adjustments are now being worked on and will be processed by 31 March 2006.	All of the 2004/05 accounts adjustments were processed prior to 31 March 2006. All of 2005/06 audit adjustments were processed prior to closing the ledger to prevent this issue arising in 2006/07. **Action taken as agreed**
FReM	**2005/06 interim report**	The Financial Reporting Manual (FReM) is a framework document for the preparation of public sector bodies' accounts. It replaced the Resource Accounting Manual in 2005/06. The impact of delays to the annual accounts process is greater in 2005/06, given that the deadline for submission of accounts has been moved to 30 June. We recommended that NHS Lanarkshire finalise a timetable for the annual accounts process as soon as possible and agree this with the external auditors.	NHS Lanarkshire has taken account of the extra disclosure requirements and has built this into the annual accounts process. The annual accounts timetable was finalised on 23 February 2006 and agreed with the external auditors.	We confirm that the Board approved an annual accounts timetable with us. The timetable covered the new elements of the FReM, such as the remuneration report and the Operating Financial Review. The Board's 2005/06 accounts complied with the requirement of the FReM. **Action taken as agreed**

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Finance Department Unification	**2004/05 final report**	NHS Lanarkshire must develop an action plan and risk register to manage the finance department unification process. Responsibilities and deadlines should be assigned. We reported in our 2005/06 interim report that remained outstanding because the finance department did not have a unified ledger in place.	NHS Lanarkshire established a partnership group to manage the unification of the finance department. Financial Accounting and Payroll staff will move at the end of August. This will facilitate integration of working practices and procedures.	As planned the finance department co-located in August 2005. The consolidated ledger went live on 1 March 2006. **Action taken as agreed**
Efinancials Rebuild Project	**2003/04 final report**	NHS Lanarkshire initially set a deadline of 31 March 2005 for the complete rebuild and test of the Efinancials application. At the time of our 2004/05 interim audit there was no formal project plan with key project milestones. The first project meeting was held on 14 February 2005 and although suppliers were aware of the project the Board had yet to get firm commitments to dates for their involvement. We recommended that Management ensure a formal project plan is finalised which guarantees delivery of resource to all aspects of the project. Management should also ensure appropriate contingencies are provided for. This recommendation was reported as outstanding during our 2005/06 interim audit as the consolidated ledger had not yet 'gone live'.	The rebuild exercise was completed on 3rd / 4th March 2005. The rebuild included all patches and fixes recommended by CedAr for installation. A timetable for joint testing was agreed locally and has been passed to CedAr for their agreement. Testing of the system identified a number of issues. NHS Lanarkshire appointed Explore IT to review the implementation of eFinancials. Explore IT and IM&T discussed the way forward with the Deputy Director of Finance (PCOD). The eFinancial rebuild and the consolidation of the ledger is fundamental to effective single system working of the finance department. As a matter of priority, management should agree on a formal plan to launch the 'live' system. Testing was due to begin in January 2006 for three full weeks with the consolidated ledger going live on 1 March 2006.	The consolidated ledger went live on 1 March 2006. **Action taken as agreed**

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Revaluation reserve	**2004/05 final report**	We noted during our final audit 2004/05 that NHS Lanarkshire has no clear record of the revaluation reserve history of individual properties. The only way to match elements of the revaluation reserve to individual properties was to analyse accounting entries from previous years. We recommended that an exercise should be performed to determine all elements making up the revaluation surplus which are attributable to assets held by NHS Lanarkshire. This will ensure that future revaluations, impairments or disposals can be correctly accounted for.	Management planned to address this recommendation with the implementation of the fixed asset module.	As noted above, the Board has not implemented the fixed asset module of eFinancials. However, a manual exercise was completed for the annual accounts process. The revaluation reserve was reconciled to the previous revaluation of the Board's land and buildings. **Action taken as agreed**

Title	When raised	Our original recommendation	Management Comments	Update at July 2006
Accounts Preparation and Working Papers	**2003/04 final report**	We experienced delays obtained adequate working papers and accounts during 2003/04 final audit. In addition a number of material adjustments were required to the draft accounts. We experienced further problems during our 2004/05 audit. In particular the following working papers were not provided: • Reconciliation of the trial balances to the accounts. • Our audit templates. • A list of debtors at year-end (PCOD). • Additionally, the accounts and working papers had not been reviewed prior to our audit. These problems resulted in additional work being performed by ourselves to obtain appropriate evidence to form an opinion on the financial statements. We recommended that: • The finance department should ensure that working papers are prepared as agreed; • Accounts and working papers are reviewed before the audit visit to ensure any errors are identified.	With finite resources the department has, over the past 7 months, implemented a new finance system, restructured with changes in key personnel due to national guidance for single system working, assisted in the management of the deficit position and revised the Clinical & Financial Sustainability plan in addition to preparing final accounts. Staff have had to prioritise workloads and the significant effort they have made to complete all these key tasks is noteworthy.	An exit meeting was held with Scott- Moncrieff to discuss issues from 2004/05 audit and set plans to resolve issues for the 2005/06 final audit. A timetable was developed by the financial controller and agreed with Scott-Moncrieff. We received draft accounts and working papers on 1 May 2006 in line with the timetable. The audit ran smoothly and we did not experience the problems we have had recently. **Action taken as agreed**

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