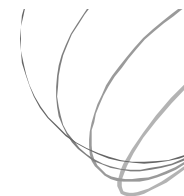


The State Hospitals Board for Scotland

Report on the 2005/6 Audit

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Summary

Introduction

In 2005/6 we looked at the key organisational risks facing The State Hospital. These include delivering sustainable services, ensuring continuing financial balance, managing the workforce and arrangements towards the achievement of Best Value and the Scottish Executive's Efficient Government initiative. We audited the financial statements and we looked at aspects of performance management and governance. This report sets out our key findings.

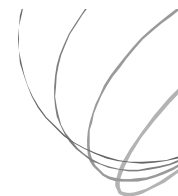
Delivering Sustainable Services

The Mental Health (Care and Treatment) (Scotland) Act 2003 came into effect in October 2005. This has had a significant impact on the Hospital's care regimes, policies and practice. From May 2006 patients have been able to appeal against excessive levels of security. The Hospital has responded to this with an extensive change agenda, central to which are arrangements for working with partners to ensure that patients receive care which is appropriate to their needs, delivered in the most appropriate location. This involves the gradual reduction of the capacity of the Hospital from 240 to 140 beds, and the relocation of suitable patients to other units throughout Scotland and Northern Ireland which have the necessary care and security provision.

Key to the delivery of this new model of care is the renewal of the Hospital site. The Hospital has been planning the re-development of its site and buildings to bring about a changed layout with greater opportunity for multi-disciplinary working within clinical teams. It had originally been intended that the re-development would be financed through the PPP route, however, in agreement with the SEHD, it has now been decided that the work will be financed as a publicly funded procurement. An outline business case was originally approved in 2004 and an updated business case taking account of the procurement route and updated financial analysis was approved in June 2006. It is anticipated that the full business case will be approved during 2007/8. Construction should commence on a staged basis in 2007 and should be completed by 2010. Overall, the Hospital has responded in a focussed and considered way to the requirement for new care strategies.

Ensuring Continuing Financial Balance

The Hospital's financial statements for 2005/6 disclose a cumulative saving against its Revenue Resource Limit (RRL) of £2.86m. This overall favourable revenue position needs to be viewed in the light of underlying funding patterns and future calls upon the Hospital's resources. The Hospital has made use of the facility to make capital to revenue transfers in recent years, but this facility is no longer available and the Hospital requires to ensure that funding is available in future to replace this source. The Hospital also



has an underlying shortfall between recurring funding and expenditure of £343k which will require to be addressed by appropriate savings plans.

The re-development plans outlined above also have financial implications for the Hospital. The Mental Health Act itself will bring additional pressures in respect of staff and related costs, as will the additional costs associated with Agenda for Change. The re-development of the Hospital site will be preceded by the accelerated depreciation of the existing facility, which could amount to charges of some £20m over the next two years. The Board are aware of the financial challenges ahead and current financial plans have been formed to address these and to deliver recurring financial balance by 2007/8, although savings plans will require to be finalised. However, there remain a number of risks for the Hospital moving forward which the Board will require to manage and monitor closely, these are identified in the financial plan paper which the Board approved in June 2006.

Financial Position

We have given an unqualified opinion on the financial statements of The State Hospitals Board for Scotland for 2005/6.

The Board's financial performance in 2005/6 was as follows:

Table 1 - 2005/6 Financial Targets Performance £000s

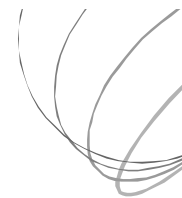
| Financial Target | Limit as set by SEHD | Actual Out-turn | Variance (Over)/Under |
|-------------------------|-----------------------------|------------------------|------------------------------|
| Revenue Resource Limit | 33,959 | 31,099 | 2,860 |
| Capital Resource Limit | 2,102 | 2,102 | - |
| Cash Requirement | 29,916 | 29,916 | - |

Source – Annual Accounts 2005/6

At the beginning of the financial year 2005/6, The State Hospital had a cumulative surplus of £1.99m. This has increased by £866k during the year to give a carry forward balance of £2.86m. This reflects planned expenditure on a variety of discrete projects. These projects include provision for project costs relating to the proposed Hospital site redevelopment, funding to support implementation of the Mental Health (Care & Treatment) (Scotland) Act 2003 and Forensic Care Network, and the finalisation of some small minor capital projects which are non value added schemes.

Managing the Workforce

Although it is a national service, the State Hospital is linked to the West Region for workforce planning. It is also represented on the West of Scotland Forensic Mental Health Workforce Planning Group. In addition through the Forensic Network the Hospital is part of national workforce planning. The Hospital has developed a workforce plan which has been framed to consider current staffing pressures and the



implications of the Hospital's development agenda. It recognises that securing the future workforce will require a proactive approach to staff recruitment and retention and more innovative working practices. The Board will wish to monitor developments in this key area of resource management.

Performance Management

There is no statutory duty of Best Value outwith local government in the public sector. Instead, the SEHD issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. As part our 2005/6 work we carried out a baseline review of Best Value arrangements at the State Hospital. Overall, the Hospital can demonstrate commitment to Best Value and continuous improvement.

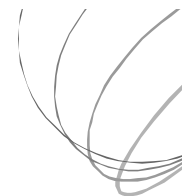
The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector'¹. The State Hospital anticipates deriving its main savings in this area from developing new working practices and asset management. The Hospital is committed to meeting its 1% year on year efficiency saving targets, and indeed these should contribute towards the Board's aim of eliminating its £343k recurring funding shortfall. The Hospital is participating in the national efficiency programmes including National Shared Services, and the Procurement and Logistics programmes. The Hospital has high sickness absence rates but has an action plan in place to reduce levels.

Governance

The State Hospital has a risk management strategy and a corporate risk register is also in place. We note however that the risk management strategy is currently being revised and will be brought to the Board for approval shortly.

The Hospital has recently revised its clinical governance strategy to cover the period 2005 to 2008 and to recognise the requirements of the NHS QIS standards for clinical governance and risk management. The strategy is supported by a detailed action plan which will be monitored by the Clinical Governance Committee. The Committee's report for 2005/6 concludes that "significant progress has been made in establishing clinical governance systems that work, effectively enabling demonstrable improvements in patient care and treatment to be identified."

¹ Building a Better Scotland, Scottish Executive, November 2004



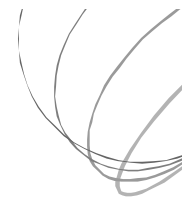
We also reviewed the progress made by The State Hospital in delivering on the actions agreed in the Staff Governance Action Plan. We concluded that the Board has made good progress with 48% of the agreed actions completed and 29% partly implemented or with dates in the future.

**Audit Scotland
June 2006**



Introduction

1. This report summarises the findings from our 2005/6 audit of The State Hospital. The scope of the audit was set out in our Audit Planning Framework, which was submitted to the Audit Committee on 23 February 2006. This plan set out our views on the key business risks facing the Board and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on some of the issues we raised in this report. Each report set out our findings and recommendations and the Board's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the final year of our five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Board during the course of our audit work.



Organisational Risks

Introduction

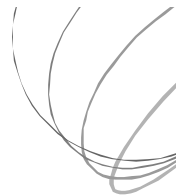
4. In our audit plan, we identified five main areas of risk for The State Hospital. We also described longer term planning issues which will impact on the Hospital. In this section, we describe the risks and our views on their current status.

Delivering Sustainable Services

5. In our audit plan, we identified that a significant risk factor for The State Hospitals Board for Scotland was the ability of the Board to provide appropriate, safe sustainable services in an environment of changing clinical demands. In this context the Hospital faces two main related challenges; ensuring that the organisation responds appropriately to the care requirements of the new Mental Health Act and the development of a renewed Hospital facility in which that care can best be provided.
6. The Mental Health (Care and Treatment) (Scotland) Act 2003 came into effect in October 2005. Since all of the Hospital's patients are secured under the terms of the Mental Health Act and related legislation, this has had a significant impact on the Hospital's care regimes, policies and practice. From May 2006 patients have been able to appeal against excessive levels of security. The Hospital's Mental Health Act Implementation Group has been active in managing this difficult change agenda. The Hospital has responded to this with an extensive change agenda, central to which are arrangements for working with partners to ensure that patients receive care which is appropriate to their needs, delivered in the most appropriate location. This involves the gradual reduction of the capacity of the Hospital from 240 to 140 beds, and the transfer and discharge of suitable patients to other units throughout Scotland and Northern Ireland which have the necessary care and security provision. This reduction in patient numbers will be offset by the need for the Hospital to bring to bear a more complex and demanding care environment for its core patient group.

Risk Area 1

7. Key to the delivery of this new model of care is the renewal of the Hospital site. The present Hospital facility does not give full scope for the multi-disciplinary working which is required by developing care strategies. With this in view, the Hospital has been planning the re-development of its site and buildings to bring about a changed a layout with greater opportunity for multi-disciplinary working within clinical teams. It had originally been intended that the re-development would be financed through the PPP route, however, in agreement with the SEHD, it has now been decided that the work will be financed as a publicly funded procurement. The original outline business case was approved in May 2004, subsequently updated in the light of clarity on the funding sources and approved in June 2006 and it is anticipated that the full business case will be approved in 2007.

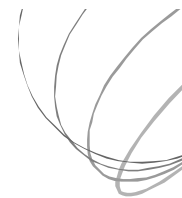


Construction should commence on a staged basis in 2007 and should be completed by 2010.

Overall, the Hospital is responding in a focussed and considered way to the requirement for new care strategies.

Ensuring Continuing Financial Balance

8. The Hospital's financial statements for 2005/6 disclose a cumulative saving against its Revenue Resource Limit (RRL) of £2.86m, as against £1.99m in 2004/5. This overall favourable revenue position needs to be viewed in the light of underlying funding patterns and future calls upon the Hospital's resources.
9. For the years up to and including 2005/6, the Hospital has had the facility of capital to revenue transfers to support its revenue activities (£2.5m in 2005/6). This facility is no longer available and the Hospital requires to ensure that funding is available in future to replace this source. The Hospital also has an underlying shortfall between recurring funding and expenditure of £343k which will require to be addressed by savings plans, including the restructuring of ward working, and a review of baseline activity. Also the implications for Hospital support staff of the national shared services project are not wholly clear, and this may have an impact on the local finance function.
10. The re-development plans outlined above also have financial implications for the Hospital. The Mental Health Act itself will bring additional pressures in respect of staff and related costs, as will the additional costs associated with Agenda for Change. The re-development of the Hospital site will be preceded by the accelerated depreciation of the existing facility, which could amount to charges of some £20m over the next two years. In relation to this latter point, we understand that SEHD have indicated that this should be met by matching funding.
11. The Board are aware of the financial challenges ahead and current financial plans have been formed to address these and to deliver recurring financial balance by 2007/8, although savings plans will require to be finalised. However, there remain a number of risks for the Hospital moving forward which the Board will require to manage and monitor closely, these were identified in the financial plan paper which the Board approved in June 2006.



Managing the Workforce

12. Successful delivery of key NHS targets depends on staff capacity, capability and competency. The State Hospital needs to have access to accurate, reliable and timely workforce information to assist in planning for services. The new SWISS system is designed to provide this information and the Hospital is currently undertaking procurement for an HR system. However, at present, managers do not have access to up to date workforce information. During 2005/6, there have been a number of delays in the full implementation of SWISS. These have related to national issues, outwith the immediate control of The State Hospital.

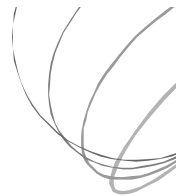
Risk Area 2

13. In line with national requirements, the Hospital has produced a workforce development plan and now employs a workforce development planner. The workforce planner is working with the Redevelopment Team to identify the workforce requirement during and after the planned redevelopment of the Hospital. The Local Delivery Plan has also considered workforce areas and in particular the requirement to address absence management requirements through improved reporting and training.
14. Although it is a national service, the State Hospital is linked to the West Region for workforce planning. It is also represented on the West of Scotland Forensic Mental Health Workforce Planning Group. The workforce plan has been framed to consider current staffing pressures and the implications of the Hospital's development agenda. It recognises that securing the future workforce will require a proactive approach to staff recruitment and retention and more innovative working practices. The Board will wish to monitor developments in this key area of resource management.

Best Value and Efficient Government

15. In our audit plan, we identified that Accountable Officers have a duty to ensure that arrangements are in place to secure Best Value. There is no statutory duty of Best Value in the wider public sector outwith local government. Instead, the Scottish Executive issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. The key finding from our review is that The State Hospital can demonstrate a commitment to Best Value and continuous improvement. Further details of the work carried out on Best Value arrangements are contained in the performance management section of this report.
16. We carried out an overview of The State Hospital's management arrangements in relation to the requirements of the Scottish Executive's Efficient Government initiative. This initiative aims to reduce 'waste, bureaucracy and duplication in Scotland's public sector'. Our initial findings, as summarised at paragraphs 37 to 38, have yet to be formally reported although a significant finding will be the need to address the Hospital's relatively high absence statistics.

Risk Area 3 and 4



Governance

17. We highlighted in our audit plan that NHS Boards need to demonstrate that they have established and maintain effective continuous procedures for identifying, evaluating and managing business risks. A strong governance framework is even more important in a culture of continuous improvement and in an environment of rapid and major change.

18. The State Hospital has a risk management strategy which sets out the importance of risk management to the delivery of key objectives. It sets out the responsibilities of staff, the supporting organisational arrangements for the identification, assessment and reporting of risks and the steps to be taken to develop and implement mitigating action. A corporate risk register is also in place and is reviewed annually using a workshop approach. The Hospital Management Team acts as a Risk Management Committee overseeing risk issues at monthly meetings, and the Governance Committees of the Board receive detailed reports on specific corporate risks. We note however that the risk management strategy is currently being revised and will be brought to the Board for approval shortly.



Financial Statements

Our Responsibilities

19. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question;
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - the regularity of the expenditure and receipts.
20. We also review the Statement on Internal Control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall Conclusion

21. We have given an unqualified opinion on the financial statements of The State Hospitals Board for Scotland for 2005/6.

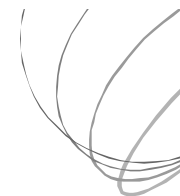
The Board's Financial Position

22. The Board is required to work within the resource limits and cash requirement set by the Scottish Executive Health Department. The State Hospital's performance against these targets is shown below.

Table 2 - 2005/6 Financial Targets Performance £ 000s

| Financial Target | Limit as set by SEHD | Actual Out-turn | Variance (Over)/Under |
|-------------------------|-----------------------------|------------------------|------------------------------|
| Revenue Resource Limit | 33,959 | 31,099 | 2,860 |
| Capital Resource Limit | 2,102 | 2,102 | - |
| Cash Requirement | 29,916 | 29,916 | - |

Source – Annual Accounts 2005/6



23. At the beginning of the financial year 2005/6, The State Hospital had a cumulative surplus of £1.994m. This was increased to a surplus of £2.860m by 31 March 2006 :

Table 3- Movement in cumulative debt 2005/6

| | |
|---|----------------|
| Cumulative Surplus brought forward into 2005/6 | £1.994m |
| In-year surplus | £0.866m |
| Surplus for year | £2.860m |

Source – Annual Accounts 2005/6

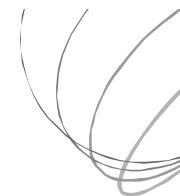
24. This position was achieved in part through applying non-recurring income from the carry forward to recurring expenditure in year. The Hospital has identified a £343,000 recurring deficit for 2005/6 and included this in their future financial plans.
25. Financial plans forecast that for 2006/7 the Hospital will be in surplus but there will still be an underlying recurring deficit of approximately £96,000 in 2006/7 with an overall surplus of £659,000. The State Hospital's financial plan anticipates that recurring balance will be achieved in 2007/8. As shown in table 3 the Hospital has a significant carry forward. This reflects planned expenditure on a variety of discrete projects. This funding will be fully utilised throughout 2006/7 and 2007/8. The forecast position is set out below. The in-year deficit represents utilisation of the carry forward.

Table 4 – Forecast Financial Position (£000)

| Year | Recurring | Non-Recurring | Total | In-year Surplus (Deficit) |
|-------------|------------------|----------------------|--------------|----------------------------------|
| 2006/7 | (95) | 754 | 659 | (2201) |
| 2007/8 | 79 | (75) | 4 | (655) |

Source – Revenue Budget 2006/7

26. This forecast position is reliance on making savings of £363,000 in 2006/7 and £330,000 in 2007/8. These savings are to be achieved by:
- Restructuring ward staffing;
 - Reduction in drugs costs due to new contract prices;
 - Not recruiting to vacant posts;
 - Reducing duplication of effort within night working; and
 - Reducing sickness absence.
27. The Hospital has highlighted in its financial plans that the biggest risks in delivering a balanced budget for 2006/7 are: higher than planned Agenda for Change costs, increased rises in energy costs, inability to deal with schemes previously charged to capital to revenue, full level of carry



forward not available; and adverse impact of shared services project on capacity, motivation, retention and recruitment of finance staff.

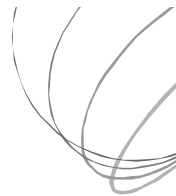
Risk Area 5

28. The Hospital has already received written confirmation of their predicted £2.5m carry forward and are now seeking the full £2.86m, for which verbal confirmation has been received. The Hospital has carried out a detailed review of costs through the capital to revenue funding stream and areas that require non-recurring and recurring investment have been included in the financial plan.

The Issues Arising from the Audit

29. We reported the following main issues to the audit committee on 22 June 2006:

- **Accelerated depreciation:** Redevelopment of the Hospital is due to commence in 2007/8. This will involve the progressive replacement of the Hospital premises. We have considered whether the Board's decision to progress with this development would require impairment of the relevant assets in 2005/6. We have noted however that, for the project to progress, formal approval of the Full Business Case (FBC) by the Scottish Executive Health Department would be required. Although the Outline Business case has now been approved, the FBC will not be approved until 2007/8. Once approval has been received, the existing assets will be written down over the appropriate remaining period.
Resolution: Impairment of the assets will take place after approval of the FBC. The arrangements for the redevelopment of the Hospital are disclosed in the Annual Report. The Hospital's letter of representation also contains the above explanation of the decision to impair the assets at the later stage.
- **Negative revaluation reserves:** The asset revaluation exercise carried out in 2003/4 identified a number of assets whose revaluation reserve balance was insufficient to offset the reduction in asset values thereby resulting in some negative revaluation reserve values. Relevant guidance indicates that this is reasonable in the short-term where fluctuations can be attributed to temporary price changes. Were reductions in value to be confirmed as permanent, an appropriate charge would require to be made to the Operating Cost Statement.
Resolution: Management have reviewed the affected assets and confirm in the letter of representation that the initial price changes are still considered temporary in nature.
- **Agenda for change accrual:** We drew specific attention to the accrual of costs for the Agenda for Change programme for the period October 2004 to March 2006. Such an accrual is necessary to reflect the costs properly falling in 2005/6 but as yet not fully determined by the Board. A national methodology was developed to provide a basis for calculating this accrual and this has been applied in 2005/6 by all Boards yielding a figure of some £800,000



for the State Hospital. We asked the Board for formal assurances, in a letter of representation, that this methodology, in their judgement, best reflects anticipated costs.

Resolution: The Board has confirmed that, based on current information, that the methodology used best reflects anticipated costs.

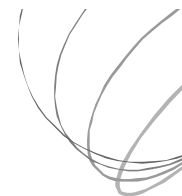
- **Equal Pay claims** —Following recent successful equal pay claims from staff at local authorities there is a possibility that similar claims will be raised by Health sector staff which could represent a contingent liability to the State Hospital. We were informed by Finance staff that the likelihood of the State Hospital facing significant challenge was low and unquantifiable at this stage and that a contingent liability did not require to be included in the accounts for 2005/6. We asked the Board to confirm this view in the letter of representation.

Resolution: Disclosure in letter of representation.

Statement on Internal Control

30. The Statement on Internal Control (SIC) provided by the Accountable Officer reflected the main findings from both external and internal audit work. The Statement refers to a number of actions planned for 2006/7 to further enhance internal control, including:

- A range of supporting policies and guidance on risk management will be updated taking account of the updated Risk Management strategy.
- Business Continuity and Contingency Plans will be updated and consolidated.
- Processes will be developed for gaining assurance over the quality of clinical services provided jointly with other agencies.
- An external communications strategy will be finalised.
- A revised Fraud Policy will be developed and implemented.
- The provision of performance information at a local level to underpin Board objectives will be taken forward during 2006/07 in the context of the Local Delivery Plan.



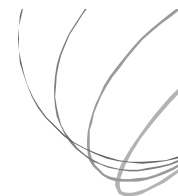
Performance Management

Introduction

31. This section covers our assessment of the way in which The State Hospital secures value for money in the use of its resources. This year we focussed on two main areas:
- Best Value; and
 - Efficient Government.

Best Value

32. There is no statutory duty of Best Value in the wider public sector outwith local government. Instead, the SEHD issued draft secondary guidance in August 2003, on the duty of accountable officers to ensure arrangements are in place to secure Best Value. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, and the Best Value and Performance Team within the Scottish Executive were tasked with taking this forward. Revised guidance was issued in April 2006 and included in the Scottish Public Finance Manual.
33. As part our 2005/6 work we carried out a baseline review of Best Value arrangements within The State Hospital. The primary aim of the baseline review was to establish the arrangements put in place by management for taking forward the Best Value agenda and demonstrating continuous improvement. In carrying out our review we made use of a number of sources of evidence, primarily:
- the Best Value self-assessment prepared by management (with support from internal audit);
 - information collated for our Priorities and Risks Framework document; and
 - information gathered from our review of Committee and Board minutes.
34. Overall, The State Hospital can demonstrate commitment to Best Value and continuous improvement. We found the Board's Best Value arrangements to be either under development or well developed as summarised below.



| Best Value Characteristics | Under Development | Well Developed |
|--|-------------------|----------------|
| Commitment and Leadership | √ | |
| Sound Governance at a Strategic & Operational Level | √ | |
| Accountability | √ | |
| Sound Management of Resources & Contractual Arrangements | √ | |
| Responsiveness and Consultation | √ | |
| Use of Review and Options Appraisal | | √ |
| Contribution to Sustainable Development | √ | |
| Equal Opportunities Arrangements | | √ |
| Joint Working | √ | |

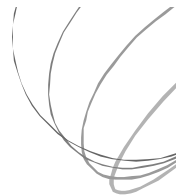
35. We also identified a number of good practices, including:

- The Chief Executive has been instrumental in setting up the National Forensic Network. They have introduced integrated care pathways which map out the delivery of patient care. The Hospital's care programme approach involves patients, carers and professional staff in planning patients' transfer arrangements.
- The Hospital has set up a policy management database to record all the policies in place and keep track of timescales and ownership. It is also intended to develop a policy on policies to give guidance on how to develop these key areas;
- The State Hospital has a commitment to Fair and Consistent Treatment within its staff charter.

36. We will issue a separate local Best Value report in early course. This will contain an action plan which recognises the need to raise awareness of Best Value principles and embed the culture of continuous performance improvement throughout The State Hospital.

Efficient Government Initiative

37. The Efficient Government initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector'. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings, and £300 million (rising to £600 million) of time-releasing savings, by 2007-08. The NHS in Scotland is expected to contribute £166 million of cash releasing savings and £173 million of time releasing savings per year.



38. The State Hospital anticipates deriving its main savings over the next three years from changes in working practices (£600k) and asset management (£81k). The Hospital is committed to meeting its 1% year on year efficiency saving targets, and indeed these should contribute towards the Board's aim of eliminating its £343k recurring funding shortfall. The Hospital is participating in the national efficiency programmes including National Shared Services, and the Procurement and Logistics programmes. As stated above, however, managing absence is a key challenge area for the Hospital. Detailed action plans and monitoring arrangements are being taken forward for absence management. A detailed position statement of all public sector organisations in Scotland is being produced by Audit Scotland and will be issued shortly.

Performance Management Arrangements

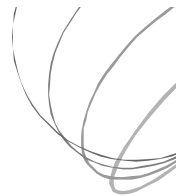
39. Whilst we have not undertaken a formal review of performance management in the current year, we note that the Hospital is reviewing its arrangements in this area. The Hospital recognises that more needs to be done to link financial and performance reporting systems and to integrate performance monitoring into operational processes so that performance monitoring information can be used more effectively within the organisation.
40. As part of the formulation of its Local Delivery Plan, the Hospital is developing a revised monitoring framework centring on corporate plans and objectives but capable of producing information at the local team level. It is planned that this will continue to develop over time, focussing on quantitative performance targets, reviews of key action plans, qualitative performance improvements and reductions in risk profiles. This will be an important, risk-focussed development for the Hospital and the Board will wish to take a close interest in its progress.

National Studies

41. In 2005/6, Audit Scotland carried out three national studies:
- Review of previous year's Staff Governance action plan. Our findings are reported in paragraphs 51 to 54 in the governance section of the report;
 - Tackling Waiting Times in the NHS in Scotland (reported to the Scottish Parliament in February 2006); and
 - Implementing the NHS Consultant Contract in Scotland (reported to the Scottish Parliament in March 2006).

Tackling Waiting Times in the NHS in Scotland

42. This national study reviewed the performance of the NHS in Scotland against current waiting times targets for elective healthcare. It evaluated whether the current approach produces value for money and assessed whether current strategies are likely to achieve sustained reductions in waiting times.



43. The report concluded that significant progress had been made towards meeting waiting times targets, but that the total number of people waiting for inpatient and day case treatment has changed little in the last two years. It recommended that more efficient use be made of the Golden Jubilee National Hospital.

Implementing the NHS Consultant Contract in Scotland

44. This report concluded that there were no clear benefits from the £235 million cost arising from the implementation of the consultant contract. It also highlighted that the new contract offers an opportunity to focus the work of consultants on priority areas, and improve patient care. However, it is not yet being used to its full potential and there is limited evidence of benefits to date. The report also noted that the consultant contract had contributed to cost pressures for boards as the national costing model used by the SEHD contained inaccuracies and it underestimated the financial cost by £171 million, on a national basis, for the first three years.



Governance

Introduction

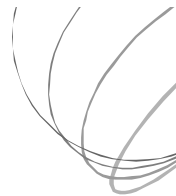
45. This section sets out our main findings arising from our review of the Board's corporate governance as it relates to:
- clinical governance;
 - corporate governance ; and
 - staff governance.

Clinical Governance

46. The State Hospital has a well established Clinical Governance Committee. Its role is to ensure that clinical governance mechanisms are in place and are effective throughout the organisation, and to ensure that the principles and standards of clinical governance are applied to the health improvement activities of the Board.
47. The Hospital has had a clinical governance strategy since 2002. This has now been revised to cover the period 2005 to 2008 and to recognise the requirements of the NHS QIS standards for clinical governance and risk management. The strategy is supported by a detailed action plan which will be monitored by the Clinical Governance Committee. The Committee produces an annual report to the Board which identifies the governance arrangements in place, considers whether they are working effectively and examines the trend in outcomes. The report for 2005/6 concludes that "significant progress has been made in establishing clinical governance systems that work, effectively enabling demonstrable improvements in patient care and treatment to be identified."

Corporate Governance

48. Our work on corporate governance focused on our Code of Audit Practice responsibilities as they relate to systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and the Board's financial position. We have made comment on the financial position at paragraphs 27 to 33 of this report.
49. We concluded that we were able to place reliance on the work of Internal Audit to give us assurance in relation to other governance responsibilities particularly those relating to systems of internal control. In particular:
- Budgetary control and financial reporting;
 - Stores (including stock taking procedures);



- overall financial arrangements - control risk self-assessment;
- corporate governance;
- readiness for statement of internal control; and
- procurement (including tendering).

50. Additionally we considered a range of internal control areas as part of or own audit procedures. A separate report was issued to management highlighting particular areas for inclusion in the Statement of Internal Control, including the need to update arrangements to ensure business continuity, and to update the risk management strategy.

Staff Governance

51. The NHSScotland Staff Governance Standard introduced the third component of governance, combining with financial and clinical governance to complete the governance framework within which the Board is required to operate. The aim of this standard is to improve the way staff are treated in NHSScotland and to improve accountability for making this happen. Every Board is required to use a Self Assessment Audit Tool (SAAT) and information gained from staff surveys, to develop an action plan to achieve the Standard.

52. This year we identified and assessed the risks associated with Staff Governance as part of the audit planning process and we reviewed the evidence that the previous year's action plan is being delivered.

53. We noted that The State Hospital had made good progress in achieving actions agreed last year. We found that :

- 48% of actions are being delivered and the organisation and staff are starting to benefit from the actions taken.
- There are 29% of actions which are still in the process of being completed or have target dates in the future.
- 23% of actions have not progressed as planned due to either a lack of management capacity or available resources.

54. Our overall audit assessment of the delivery of the action plan for 2005/6 was that the actions are being delivered and that these actions are resulting in the planned outcomes.



Looking Forward

55. The State Hospital demonstrates a favourable financial position at present, and is developing a range of good governance practices. But it stands at an important watershed in its development as it responds to new challenges in its field of specialist care:

- The development of new strategies for care needs to be a continuing focus for the Hospital as it responds to the clinical and management requirements of the Mental Health Act.
- The Hospital faces substantial management, financial and project management challenges in the years to 2010 as it transforms its main facility. The programme is costly and complex, and key funding for development and for the linked impairment of existing assets needs to be secured.
- The continued achievement of financial balance relies to some extent on non-recurring sources of funding and challenging savings targets. Also, affecting the Hospital's ability to break-even are the increases in cost pressures due to initiatives such as Agenda for Change, the loss of capital to revenue transfer arrangements and the requirement of the Mental Health Act.
- The Hospital will require to extend and deepen its work with partner bodies as the new patterns of care require it to reduce its patient numbers and concentrate on those requiring its specialist services.
- the Efficient Government initiative has placed upon The State Hospital a challenging set of savings targets to be achieved. In addition, national initiatives, such as shared support services, will also have a significant impact on the Hospital.
- the Best Value agenda will play an increasingly important role throughout public services in Scotland. The State Hospital have made progress thus far, but recognise that more is still to be done to develop the arrangements which will demonstrate commitment to Best Value and continuous improvement.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para. No | Risk Identified | Planned Action | Responsible Officer | Target Date |
|--------------|----------------|--|---|---|----------------|
| 1 | 6 | The State Hospital may not work effectively with partner organisations to ensure that care is provided at an appropriate level for all patients. | Ongoing support of and work through MCN. | Chief Executive | March 2011 |
| 2 | 12 | The State Hospital may not have access to reliable information to inform its workforce planning processes. | HR System to be implemented. | Learning and Development Director | March 2007 |
| 3 | 16 | Best Value principles may not become embedded within The State Hospital. | Best value principles are well established in the Hospital however a one off exercise is to be conducted to ensure principles are embedded. | Finance and Performance Management Director | March 2007 |
| 4 | 16 | The State Hospital may not deliver the savings required under efficient government by its chosen method of reform of working practices. | Joint Negotiating Committee to manage process and identify savings if required. | Joint Negotiating Committee | September 2006 |
| 5 | 27 | The State Hospital may not achieve financial balance in the longer-term particularly given the development of the new hospital facility. | Ongoing financial management and updating of five year plan, with transitional and business case costs. | Finance and Performance Management Director | March 2008 |