



**SCOTT-MONCRIEFF**

EDINBURGH AND GLASGOW



## **NHS Fife**

# **Annual report to Fife Health Board and the Auditor General for Scotland 2006/07**

July 2007



# NHS Fife

## Annual report to Fife Health Board and the Auditor General for Scotland

2006/07

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# 1 Summary

## Governance

- NHS Fife has continued to make progress with its General Hospital and Maternity Services (GH&MS) project and expects to submit its Full Business Case (FBC) to the Scottish Executive Health Department (SEHD) in late summer 2007.
- The Board has also made progress with its St Andrews Community Hospital and Health Centre project. The land for the new site was purchased during the year and the Board's FBC was submitted to the SEHD for the Capital Investment Group (CIG) meeting on 10 July 2007.
- The NHS Fife Code of Corporate Governance ('Code') sets out the Board's overall governance framework. The Board reviewed and revised its Code during the year.
- An NHS Quality Improvement Scotland (NHS QIS) review of the Board's clinical governance and risk management arrangements took place on 28 February 2007 and 1 March 2007. The Board received NHS QIS's final report on 30 July 2007.

## Performance

- The Board achieved the target of inpatients and day cases being treated within 18 weeks by December 2006 and has maintained that position since.
- The Board faces a significant challenge if it is to meet the 95% cancer target of treating patients within 62 days of urgent referral. Three areas of particular concern include upper gastro-intestinal, lung and urological cancer. Each of these cancer types are reporting a performance of 85% or less for the period October to December 2006. Overall, however, the Board performs better than the South East Scotland Cancer Network averages.
- The outpatient target of 18 weeks requires to be met by December 2007. Revised trajectories were submitted to the SEHD in January 2007 and a revised plan has been in place since March 2007. Based on the most recent information available, the Board missed the trajectory by approximately 150 patients as at April 2007, although this represents a 16% improvement on the April 2006 position.
- The Board has to meet a target of 98% by October 2007 and 100% by December 2007 for all patients to have either been admitted, discharged or transferred to a ward within four hours from arriving at A&E. As at April 2007 the Victoria Hospital reported a performance of 92% whilst Queen Margaret Hospital reported 94%. Performance after the year end continued to improve and both sites were reported to have achieved 98% by the end of June 2007.

## **Finance**

- Our audit opinions on the truth and fairness of the financial statements and the regularity of transactions are unqualified.
- NHS Fife returned a saving against its Revenue Resource Limit (RRL) of £5,020,000 and therefore achieved this financial target. The Board also achieved its Capital Resource Limit (CRL) and Cash Requirement.
- The Board's finance reports forecast a break-even position against the RRL until the December 2006 report, which identified an underspend. The main reasons for the underspend were an over-estimation of the impact of national Cross Boundary Tariffs as well as additional allocations which were not utilised.
- Key financial risks going forward include the implementation of pay modernisation, the outcome of national legal deliberations in respect of prospective equal pay claims, as well as risks relating to the Board's estate, including maintenance costs for properties retained and accelerated depreciation for properties closed.

## **Conclusion**

This report concludes the 2006/07 audit of NHS Fife. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing and Ethical Standards.

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 Fife, the Auditor General for Scotland and Audit Scotland.

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

**Scott-Moncrieff**  
**July 2007**

# 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. The Auditor General has appointed Scott-Moncrieff as auditors of NHS Fife for the five year period 2006/07 to 2010/11.

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.

This annual report summarises our 2006/07 audit and highlights the key issues arising from our work.

## 2.2 Independence and ethical standards

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Board is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- a) There are and have been no relationships between Scott-Moncrieff and the Board, its directors and senior management that may reasonably be thought to bear on our objectivity and independence,
- b) Scott-Moncrieff has not provided any consultancy or non-audit services to the Board,

Our external audit fees for 2006/07 were:

Statutory audit fee (including VAT but excluding Audit Scotland charges)	<u>£163,500</u>
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## 2.3 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, the Priorities and Risks Framework (PRF), setting out the following key priorities and risks for NHS Scotland as a whole:

- Governance

- Financial management
- People management
- Information management
- Performance management
- Service sustainability
- Partnership working

We used the PRF as a basis for discussions with various directors and senior managers to obtain an understanding of the Board and inform our audit planning and risk assessment.

## 2.4 Scope of the Audit

Our audit work can be classified under the headings of Governance, Performance and Finance. The main audit objective and the key priorities and risks for each of these areas is summarised below.

### 2.4.1 Audit areas v priorities and risks

Audit area	Audit objective	Key priorities and risks
Governance	To review the Board's governance arrangements in relation to: <ul style="list-style-type: none"> <li>• systems of internal control and risk management,</li> <li>• the prevention and detection of fraud and irregularity,</li> <li>• standards of conduct and prevention and detection of corruption.</li> </ul>	Governance People management
Performance	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 Partnership working Information management
Finance	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

This report sets out the results of our work in 2006/07 on Governance, Performance and Finance at Fife Health Board. The action plan in section 6 details the recommendations we have made during the year.

# 3 Governance

## 3.1 Introduction

It is our responsibility 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.

## 3.2 Corporate Governance Framework

NHS Fife's governance arrangements are set out in its 'Code of Corporate Governance'. The Code is reviewed annually by the Audit Committee and approved by the Board. The current version of the Code was approved by the Board in February 2007.

### 3.2.1 Audit Committee arrangements

The Audit Committee Handbook, prepared by the Scottish Executive Health Department (SEHD), recommends that at least one non-executive member who sits on the Audit Committee should have recent significant and relevant financial experience, for example as an auditor or finance director. The current membership of NHS Fife's Board does not permit compliance with this recommendation.

Whilst we did not identify any evidence to suggest the effectiveness of the Committee was impaired, there is a risk that not having a member with this experience may affect the Audit Committee's ability to hold senior management to account on financial issues and to monitor the activities of auditors.

We raise this point to draw the Board's attention to the requirements of the Audit Committee handbook, but we have not included the issue in the Action Plan as it is outwith the Board's control.

## 3.3 Community Health Partnerships (CHPs)

The most significant recent change to NHS board governance arrangements has come from the National Health Service Reform (Scotland) Act 2004 which required every health board in Scotland to establish Community Health Partnerships (CHPs), responsible for the delivery of health services in the community. CHPs are seen as key building blocks in the modernisation of the NHS and should have a new role in service planning as part of integrated health and social care systems.

NHS Fife's Scheme of Establishment for CHPs was approved by the SEHD in March 2005 creating three CHPs in the Fife area:

- Dunfermline and West Fife,
- Kirkcaldy and Levenmouth, and
- Glenrothes and North-East Fife.

At the same time the Board created a single Operational Division responsible for the delivery of acute services.

### **Governance arrangements**

NHS Fife has created a Standing Committee of the Board for each CHP as well as the Operational Division. The Committees are each chaired by non-executive members. The purpose of the Committees, as stated in the Board's Code of Corporate Governance, is to ensure that the Board's strategic and operational objectives in relation to all services provided by the CHP or Operational Division are implemented in accordance with Board policies and governance arrangements. Each Committee reports to the Board on its work.

Scottish Statutory Instrument 2004 No 386 requires NHS Boards to include various persons, including representatives of local authority and family health services practitioners, as members of the CHP committees. We confirm that NHS Fife has complied with this requirement.

### **Operational arrangements**

The three CHPs function as distinct units with responsibility for healthcare services, including running the community hospitals and mental healthcare services. The CHPs are together responsible for over 40% of NHS Fife's overall revenue expenditure.

Each CHP has its own operational budget, with the General Manager being the overall budget holder. The CHPs budgeting process operates under the management of the Assistant Director of Finance (Management Accounting) and is co-ordinated across each CHP by the Senior Finance Manager supported by local CHP accountants. The budgets are aligned to the strategic priorities of the CHP and are adjusted to reflect additional allocations received by the Board during the year. This allows the activities of the CHPs to continue to act in support of both the Board's Local Delivery Plan and specific national initiatives.

The Board works closely in partnership with Fife Council to deliver healthcare. Any services which are carried out by the local authority on the Board's behalf are funded through resource transfer and other service agreements.

### **CHP – Clinical Governance**

The Chief Executive is accountable for the delivery of clinical governance. Each of the three CHPs has an overall designated Clinical Director who is responsible for developing and implementing local clinical governance arrangements. In addition, each of the CHPs has its own Clinical Governance Committee which reports to the Board's Clinical Governance Committee.



## **Future developments**

A CHP report was presented to the Board meeting on 31 October 2006 entitled 'Taking Forward the Development Agenda' which outlined the work that had been carried out during the first year following the establishment of CHPs as well as plans for the future, including a further shift in activity from hospital to a community setting and the development of a wider Primary Care Strategy.

We will follow any further development of the Board's CHP governance arrangements during 2007/08.

## **3.4 Service redesign projects**

NHS Fife conducted a consultation exercise, 'Right for Fife', between 2000 and 2002 which resulted in a set of strategies. Two service redesign projects approved as a result of this exercise were:

- General Hospitals and Maternity Services (GH&MS); and
- St Andrews Health Centre and Community Hospital Services.

### **3.4.1 GH&MS project**

NHS Fife plans to realign the delivery of General Hospitals and Maternity Services currently provided across Victoria Hospital in Kirkcaldy, Queen Margaret Hospital in Dunfermline and Forth Park Hospital in Kirkcaldy. The project consists of plans to develop a Diagnostic and Treatment Centre within Queen Margaret Hospital as well as a new build and reconfiguration of Victoria Hospital. The services currently provided from Forth Park will be re-provided at Queen Margaret Hospital and Victoria Hospital.

The first stage of the project will involve the construction of a new wing and reconfiguration of Victoria Hospital. The Board is currently considering funding the new wing at the Victoria Hospital as a Public Private Partnership (PPP) and the refurbishment work being financed through SEHD funding. The SEHD has already approved NHS Fife's Outline Business Case (OBC) and the Board plans to submit its Full Business Case (FBC) in late summer 2007.

NHS Fife has appointed Interserve (Scotland) Ltd as its 'Supply Chain Partner'. Interserve will help plan the advance works required before the construction of the new wing at Victoria Hospital and will also design and plan the reconfiguration of the existing hospitals.

The Board announced its preferred bidder for the anticipated PPP element of the project in January 2007. Consort, a consortium involving Balfour Beatty Construction were selected after the Board advertised in the Official Journal of the European Union (OJEU) and went through an Invitation to Negotiate (ITN) process.

The new wing at Victoria Hospital is expected to be completed in 2010.

### **3.4.2 St Andrews Community Hospital and Health Centre project**

NHS Fife plans to replace both the St Andrews Memorial Hospital and St Andrews Health Centre with a new Community Hospital and Health Centre. The Board is currently considering whether the new facility should be financed through the PPP route. The Board announced at its meeting on 27 February 2007 that Morrison Construction had been selected as the preferred bidder for this project.

The Board submitted its FBC to the SEHD in advance of the Board approval. The SEHD has reviewed the FBC and is awaiting confirmation of the Board approval before giving its response. The Board is due to consider the FBC at a meeting, in private session, on 31 July 2007.

### **3.4.3 Auditors' opinion on proposed accounting treatment**

As part of the FBC process, the Board is required to obtain an external audit opinion on the proposed accounting treatment of any PFI/PPP contracts. We have reviewed the Board's provisional judgement on the accounting treatment for the St Andrews Community Hospital and Health Centre Project and have confirmed that, in our view, it is reasonable. We will review the accounting treatment of the GH&MS project once the FBC has been completed.

### **3.4.4 Other developments**

In addition to the above projects, the Board approved an Outline Business Case for the refurbishment and extension of Cupar Health Centre and Adamson Hospital as well as a £4.5 million refurbishment of Randolph Wemyss Memorial Hospital.

### **3.4.5 Financial implications of service redesign projects**

Whilst the service redesign projects are at an early stage of implementation, they have had some financial implications during the year. These are discussed in section 5.13.

## **3.5 Statement on Internal Control**

The framework of internal controls operating at NHS Fife is reported within the Statement on Internal Control (SIC) included with the annual accounts. The Board reported that there were no material internal control issues to be included in the SIC for 2006/07.

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

## **3.6 Internal Audit**

### **3.6.1 Review of internal audit service**

Internal audit is a key component of the Board's corporate governance arrangements. The Board's internal audit service is provided by FTF Audit and Management Services. We were appointed to perform a detailed review of the internal audit function during 2006/07.

The conclusion from our review was that FTF Audit and Management Services provides an effective internal audit service that complies with the NHS Internal Audit Standards and demonstrates examples of best practice. However, at the time of undertaking the review, there was a risk that the 2006/07 internal audit programmes would not be completed in full.

The FTF Audit and Management Services' Fife team completed its 2006/07 programme with finalised or draft reports issued with the exception of the following reports:

- Control Environment
- Information Governance
- Contingency and Disaster Recovery
- Joint Working
- Patients Property
- Professional Advice and Services
- Ward and Theatre Stocks
- Endowment Funds

While we were unable to place reliance on these reports, this did not create a significant problem for our audit as we were able to obtain assurance from alternative sources.

### **3.6.2 Co-ordination with internal audit**

We discussed our audit approach with FTF Audit and Management Services' Fife team at the start of our audit and have continued to liaise regularly throughout the audit. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work in the following areas:

- Board governance arrangements
- Committee governance arrangements
- Pay modernisation arrangements
- Risk management strategy and development
- Regional planning
- Family Health Services – GMS Contract
- Family Health Services – Pharmaceutical

- IM&T Strategy
- Contingency / disaster recovery
- Financial ledger, control and reporting
- Asset register
- Capital contract
- Property transactions
- Payroll system – departmental processing
- Financial process compliance

We are grateful to the FTF Fife team for their 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.

We reviewed the Board's arrangements for evaluating and managing risk as part of our interim audit. In performing our review, we considered and placed some reliance on Internal Audit's work and their risk management report. Internal Audit found that the Board had made considerable progress in establishing and implementing a risk management process and system. In addition to the overall Fife wide risk register, risk registers have now been set up for Corporate Directorates, Operational Division and the three CHPs.

We conclude that NHS Fife appears to have reasonably robust risk management systems in place.

#### **3.7.1 NHS QIS Review**

NHS Quality Improvement Scotland (NHS QIS) manages risk management standard setting and accreditation. NHS Fife Clinical Governance and Risk Management arrangements were reviewed by NHS QIS during their visit to the Health Board on 28 February and 1 March 2007. At the time of writing this report, the Board had received a draft report and was considering its response. We understand that the Board received the final report on 30 July 2007. We will consider the findings from this report as part of our 2007/08 audit.

### **3.8 Staff Governance**

The Staff Governance Action Plan for 2006/07 contained key priorities including actions specifically derived from the Staff Survey results. The progress update against the 2006/07 action plan was developed by a Short Life Working Group which included representatives from the Operational Division, CHPs and the HR and Employee Directors. The action plan

was signed off by both the Area Partnership Forum and Staff Governance Committee in March 2007, prior to it being submitted to the Scottish Executive.

In many cases the action dates provided in the 2006/07 action plan had not been met. The 2007/08 Staff Governance Action Plan contains a number of action points which have been brought forward from the 2006/07 Action Plan. The sections below highlight the Board's progress to ensure that staff are:

- Well informed
- Appropriately trained
- Involved in decisions which affect them
- Treated fairly and consistently
- Provided with an improved and safe working environment

### **3.8.1 Keeping staff well informed**

There are two areas where the Board expects to make significant progress in 2007/08. These are in the development of the NHS Fife Intranet and expanding the use of NHS Mail to meet the new targets which have been set by SEHD. The date for completing the development of an NHS Fife Intranet was June 2006. Whilst progress had been made further work was still required in 2006/07. It was therefore unclear as to what area of development the action date referred to.

In relation to the action to expand the use of NHS mail, NHS Fife currently has over 1000 active users of NHS mail. A brief internal audit, undertaken during 2006/07, identified that NHS Fife currently has over 3000 registered users of email across all departments and directorates. An options appraisal is currently being undertaken to determine how the migration from existing e-mail systems to NHS mail is achieved.

The remainder of the actions in this Staff Governance section related to the development of the Staff Governance Tool which is undertaken by boards annually and also to review and update the Communications Strategy. The Communications Strategy has now been completed and was approved by the Board in December 2006. In 2007/08 the Board aims to ensure that it is being developed locally and to monitor and evaluate the process through the Local Partnership Forums (LPFs).

### **3.8.2 Ensuring staff are appropriately trained**

The Board identified that 'good progress' had been made in each of the areas in this section. A number of steps have been taken forward under each of the actions. Areas where work is continuing include the Efficient Government Initiatives and the Knowledge and Skills Framework (KSF) implementation. Work is also continuing with work based learning and a range of leadership and management development programmes.

### **3.8.3 Ensuring staff are involved in decisions which affect them**

Each of the 2006/07 actions in this Staff Governance section required to be carried over into the 2007/08 Action Plan. In many respects this was due to a number of the points relating to the continued development and involvement of the Local Partnership Forums. The final draft of the Workforce Modernisation and Development Strategy was agreed and signed off by the Board in April 2007. The areas where action is ongoing include the development of local partnership arrangements, the monitoring and reviewing of strategy and policy groups to ensure effective partnership working and also ensuring the continued involvement of staff as key stakeholders in the development of CHPs and directorates across the Board.

### **3.8.4 Ensuring staff are treated fairly and consistently**

Again this was an area where each of the 2006/07 action points were being taken forward into 2007/08. This was either because they required to be updated on an ongoing basis such as reviewing HR policies or they covered areas which could not at this time be completed as a result of issues outwith the Board's control such as the ongoing work with Agenda for Change. Other areas which will continue to be progressed include the development of an HR diversity strategy, training and learning processes to support the implementation of HR policies, updates on benefits realisation for pay modernisation and the development of recruitment and retention policies.

### **3.8.5 Providing staff with an improved and safe working environment**

In this area the Board will again continue to monitor the same actions throughout 2007/08 as were taken forward in the 2006/07 Action Plan. A number of the points have however moved on and audits are underway on the work that has been undertaken. In some areas, strategies have been issued in their final draft form and implementation plans are now being developed. The action plan for Zero Tolerance was drafted and put out to consultation in 2006/07 and monitoring of the effectiveness of it will occur in 2007/08.

Two areas that did not progress sufficiently in 2006/07 were the implementation of the NHS Fife Health at Work minimum data set and the implementation of the NHS Fife Stress Management Policy. Both of these areas had a target date for completion of September 2006. The NHS Fife Stress Management Policy is still being developed and the minimum data set was still being populated as at February 2007.

## **3.9 Fraud, Irregularity and Corruption**

We are required to consider the arrangements made by management for the prevention and detection of fraud, irregularity and corruption.

### **3.9.1 National Fraud Initiative**

In 2006/07, in common with many other public sector bodies, NHS Fife took part in the National Fraud Initiative (NFI) in Scotland. The Health Department and NHS Counter Fraud Services has strongly supported the involvement of health bodies in the exercise, which is

undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, to help identify and prevent a wide range of frauds against the public sector such as housing benefit fraud, occupational pension fraud and payroll fraud. Health bodies provided payroll data for the exercise. While the NFI has generated significant savings for Scottish public bodies (£27 million to 2005), even if fraud or overpayments are not identified, this provides assurance about internal arrangements for preventing and detecting fraud.

The NFI 2006/07 results (data matches) were made available to health bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We have monitored the Board's involvement in NFI 2006/07 during the course of the audit, as described below.

### **Match Breakdown**

The table below shows the matches received by NHS Fife from the 2006/07 NFI exercise. The categorisation of matches is undertaken by the NFI team and represents the areas which they deem to be at highest risk of error that may lead to financial loss.

**Table 3.9.1-1 NFI matches per risk category**

High Risk	Medium Risk	Low Risk	Total
292	80	479	<b>851</b>

The high risk matches included a large number where the NHS Fife employee has been matched as having more than one employment with another public sector body. We are pleased to report that the investigation of these matches is well under way, with an appropriate and structured approach being applied to their investigation. Furthermore, we are also pleased to note that no errors have been found in relation to NHS Fife employees where they are being paid by more than one health body.

The majority of low risk matches were data matches where a potential error had been noted with the National Insurance Number being used by the employee. Given the high level of matches in this area, investigations have been undertaken in this area as well as the high risk areas. We are pleased to note that investigations have found no significant errors and that steps are being taken to ensure that National Insurance Numbers are updated for future reference.

Our review of the NFI process will extend to reviewing a sample of investigations undertaken on data matches to ensure that an effective and comprehensive review was undertaken. This review has not yet taken place given the small number of investigations that have been completed on the web application. We will continue to monitor the results on the web application and will report on our review of the investigations in 2007/08. At this point, we commend NHS Fife for their continued efforts on the NFI data matches and for the structured approach that they have developed for the completion of investigations.

### **3.10 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, Standing Financial Instructions and Schemes of Delegation and complying with national and local Codes of Conduct. We also considered controls over ordering and procurement, registers of interest and the 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.

### **3.11 Shared Support Services**

The Shared Support Services project proposes bringing together transaction processing functions with a view to releasing savings for front line services and meeting the efficient government agenda in NHS Scotland. The project is led by NHS National Services Scotland.

NHS National Services Scotland issued the draft Full Business Case (FBC) in November 2006 for comment. NHS Fife considered the Shared Services FBC in detail and concluded that it did not endorse it. The FBC was not well received across the Health Boards in Scotland.

#### **Latest position**

As a result of responses received to the FBC, NHS National Services Scotland has revised the approach to meet the objectives of the shared support services project. Over the next few months, a revised project plan will be developed, in conjunction with health boards.

NHS National Services Scotland has performed "State of Readiness Assessments" of each health board in Scotland. To enable the move to shared services, each health board is expected to meet a common baseline in terms of operations and performance. Each health board was given a report of the assessment which highlighted any areas where they needed to improve.

In addition, NHS National Services Scotland is running a number of "Pathfinder Projects" to pilot new systems. This will involve considering, testing and implementing new ways of working within finance and payroll operations. Subject to satisfactory results it is intended that these new systems will be rolled out across Scotland. The deadline for NHS Boards to express an interest in being involved in a Pathfinder Project was 31 May 2007. NHS Fife will participate in this exercise as a member of the financial system consortium based in NHS Tayside.



NHS National Services Scotland expects that, by the end of June 2007, all Boards should have an Action Plan, covering activities such as:

- Delivering against State of Readiness Assessment Action Plans,
- Implementing a common chart of accounts,
- Full adoption of Cedar Finance System,
- Tracking the economic and qualitative benefits

We will continue to review the Board's progress with the Shared Support Services project during 2007/08.

# 4 Performance

## 4.1 Introduction

We have a responsibility to review the Board's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.

This section of the report looks at key performance areas for NHS Fife. It provides an update on the key points arising from the Ministerial Annual Review and also further key indicators which the Board has a duty to deliver on.

The performance information in this section has been taken from the Board's own reports. While we have reviewed this information, we have not performed any detailed audit work on the figures.

## 4.2 Service Sustainability

The service redesign projects are at an early stage of implementation and they have not had any significant impact on service delivery during the year. The GH&MS project is planned in a number of phases to ensure that the delivery of services is not adversely affected.

## 4.3 Information Management

We performed a detailed review of NHS Fife's IT infrastructure and eFinancials in June 2007 and made a number of recommendations for improvements in a separate report. We have summarised below the key findings from this review.

### Technical Strategy and Prioritisation Framework

IT Services require to formally develop a technical strategy outlining the technical direction which will enable IT Services to deliver an infrastructure capable of supporting the eHealth strategy. This should also serve to deliver a consistent technical architecture rather than one which is fragmented and difficult to support and maintain.

There is also a need to develop a formal prioritisation framework which allows an assessment to be made of how resources should be allocated to projects in relation to other competing projects. The formal prioritisation framework should include consideration of strategic, operational and investment value as well as the risk associated with the project.

### ICT Infrastructure

IT Services management are developing plans to formalise strategic and operational activities such that they comply with accepted industry standards for the planning, delivery, management and monitoring of IT Services activities. We were pleased to note that IT

Services management have adopted the COBIT (Control Objectives for IT) framework as their means of defining the processes within IT Services that should be followed.

There are a number of areas where improvement is required within the IT infrastructure. A large number of the issues, however, should be addressed by the successful implementation of the COBIT framework.

The most significant issues for the Board are:

- A requirement to promote IT security policies which, at a minimum, includes drawing the attention of staff to the fact that the policy has been added to the suite of general policies applicable to all staff. The effectiveness of this approach should be reinforced by developing a mechanism which ensures that security actions are communicated to the appropriate staff and management obtain confirmation that staff have understood and will implement the actions required.
- Improved management of user accounts for leavers to provide assurance that only valid users have access to the Board's network;
- Production of detailed IT Disaster Recovery Plans which will allow the Board to react positively in the event of a disaster;
- Commencement of the process of developing business continuity plans for the Board;
- Review of the risks associated with storing back-up tapes in the same location as the network infrastructure that has been backed up. If the location is inaccessible due to a disaster, then the Board would not be able to restore the network; and
- Patch management of PCs to reduce security risks.

## **4.4 Performance Management**

### **4.4.1 Performance reporting**

Performance reports are produced in line with the Board's requirement to report back to the SEHD on the Local Delivery Plan and the local actions set out in 'Delivering for Health'. The Board also produces in-house performance reports including a Balanced Scorecard and reports to the Board on Activity and Finance.

The Board has developed the Balanced Scorecard (BS) tool over the last two years and it contains all of the targets from the Local Delivery Plan, Delivering for Health and also a small number of local targets. Relevant Executive Directors are aligned against each of these targets in the scorecard. Neither the BS nor the Activity and Finance reports follow the layout of the LDP in terms of the HEAT targets of health improvement, efficiency, access and treatment. The Board should therefore consider if this is the best way to present updates on performance information to Board members. Looking at these documents cold we found it difficult to identify progress made when the targets are reported in different ways.

Updates on the BS are currently presented to the Board three times per year with the Activity and Finance reports being presented at every Board meeting. Board meetings are currently

held every second month. The performance information which is reported to the Board in relation to LDP targets tends to be narrative based and we found it difficult to readily identify where the Board is performing well and not so well.

In our opinion, trajectories at a glance can more easily highlight any areas of concern to Board members. Trajectories are generally not provided in either the Balanced Scorecard or the Activity and Finance reports apart from 'New patients waiting over 18 weeks' and 'Availability Status Codes' in some Activity and Finance reports. We understand that the Board is actively checking its systems to identify those which can be reported month/bi-monthly. Whilst we accept that trajectories are not useful in all cases, e.g. health improvement targets which are very difficult to measure, we recommend that the Board considers including more trajectories as part of its performance reporting.

We understand that the Board has been reviewing its reporting procedures and a new reporting format was finalised in July 2007. Over the past year, the Board has developed a dedicated Performance Team to collate and report on all key measures which the Board is responsible for delivering. Having a dedicated team to undertake this work is a positive step for the Board. Individual BS targets have been aligned with appropriate Board committees and the Chairs of each of these committees will formally feedback to the Board on the detailed discussions held with regard to the individual targets.

The Board has also recently adopted a process similar to the CitiStat model, known locally as FifeStat. Peer reviews with the SMT have taken place since February 2007 with two different targets from the BS being chosen for discussion and challenge at each meeting. The sessions are held on a monthly basis and a programme of reviews has been identified to December 2007. A review of this process is due to take place in October 2007 and we will consider the results of this review as part of our 2007/08 audit.

## **4.5 Ministerial Annual Review**

The Ministerial Annual Review process reassesses overall performance of the Board over the financial year and identifies action points to take forward.

Below we have outlined some of the key areas raised at the 2005/06 annual review and the Board's progress against these recommendations during 2006/07.

### **4.5.1 Summary**

The key area where the Board has the greatest challenge is in meeting the required performance levels in cancer waiting times. As highlighted in the first action point below, only three out of ten cancer types recorded a 95% or higher compliance with the required performance levels at December 2006. This is a key priority for the Health and Wellbeing Cabinet Secretary and in a recent pledge by the new Scottish government it was stated that cancer waiting time targets would be met by the end of this year. The main areas where the Board fell significantly short of its targets were Upper GI (oesophageal gastric) (76%), lung (83%) and urological cancer (85%).

## **4.5.2 Performance against 2005/06 Annual Review**

### ***Action Point: Waiting times***

*Meet all waiting times targets, including those for diagnostic procedures and cancer services.*

- Weekly meetings were introduced in March 2007 to monitor all patients on a cancer pathway enabling any potential problems or areas for improvement to be addressed. This procedure provides a mechanism for any delays to be reported to the most appropriate person. This person is then responsible, where possible, for resolving the issue identified.
- At the beginning of 2006, NHS Fife was reporting a performance level of 78.6% of patients treated within the 62 day target for cancer waiting times. Overall performance improved to 91.2% in quarter three but then fell back to 87.4% in quarter four.
- Only three out of ten cancer diagnoses recorded compliance of 95% or higher in quarter four.
- Two areas which dropped from 100% compliance in quarter three to 93% and 88% respectively were breast and colorectal cancers. This is still a significant improvement on previous performance.
- Other areas with lower than 95% performance rates and in some cases significantly lower include Upper GI (specifically oesophageal gastric), lung, urology and lymphoma. Upper GI was showing the poorest performance at 76%.
- The Board has a target of 9 weeks waiting time for a range of key diagnostic procedures to meet by August 2007. By June 2007 the Board had met this target, although due to increased demand the waiting time for MRI scanning went back up to 10 weeks.

NHS Fife therefore has a significant amount of work to do before it reaches the December 2007 target set by the Scottish Executive of 95-100% performance from urgent referral to treatment for all cancers (excluding breast) in 62 days.

The Board reported in the LDP to the SEHD in February 2007 against the breast cancer waiting time that there was 'a risk that NHS Fife will not be able to meet the target of treating 98% of patients diagnosed within 31 days of diagnosis.' NHS Fife's performance was very low in the fourth quarter in 2005 at 67% but the latest reported figures to quarter four in 2006 have shown an increase to 93%. The Board does however appear to have difficulty in meeting waiting times in this area if there is a surge in referral numbers.

As highlighted in section 5.7.1 of this report the Board had an underspend of £1 million against a specific SEHD allocation for waiting times. This was planned to allow initiatives to span more than one financial year where availability of recurring funds cannot be guaranteed.

### ***Action Point: Delayed discharges***

*Continue good work on reducing delayed discharges and meet targets for further reductions*

- As at April 2007, the Board met its target for delays over 6 weeks. 17 delays were recorded against a target of 20.
- No patients were delayed in short stay wards, against a target of 1.
- A Delayed Discharge Action Plan was agreed by the Fife Partnership and submitted to the SEHD. The Plan sets out a wide range of actions across the service to support the delivery of delayed discharge targets. The Board has also adopted the Electronic Delayed Discharge system which was developed by NHS Tayside to manage this process.
- A system has also been put in place in several acute wards to identify barriers to appropriate discharge.

**Action Point: Community Health Index (CHI)**

*Meet targets for utilisation of CHI numbers.*

The CHI number is the unique patient identifier for NHS Scotland. Using CHI throughout NHS Scotland is a vital building block for several important national initiatives, including the Picture Archiving and Communications System (PACS), Scottish Care Information (SCI) Store, the Emergency Care Summary and the Electronic Health Record.

NHS Fife's position in 2006/07 in moving towards the use of CHI numbers is as follows:

- Funding was allocated to NHS Fife by the SEHD to support the appointment of a CHI Programme Worker who was to have dedicated time and authority to support CHI utilisation fully across Fife. This post however proved difficult to appoint to and as a result a secondee has moved into this post for two days per week to promote the use of CHI across Fife.
- CHI performance at January 2007 was 92%. The Board has met a number of the key CHI areas which include ensuring that CHI numbers are recorded on patient referral letters, final discharge letters and clinic letters.
- The Board still has work to do in ensuring that the CHI number is included on GP referral letters and also radiology requests, which are currently at 82% compliance against a target of 97%.
- An action plan to meet the target level has been developed and agreed with the Scottish Executive.

## **4.6 Local Delivery Plan**

NHS Fife's Local Delivery Plan (LDP) for 2007/08 was developed in line with SEHD guidance. It focuses on the four Ministerial Key Objectives; Health Improvement (H), Efficiency (E), Access to Services (A) and Appropriate Treatment (T). Key Targets have been set under each of the four objectives with key performance measures related to each.

The LDP was presented to the Board in a draft format in February 2007 after its submission to the SEHD by the due date of mid February. The SEHD went back to the Board in March with some queries which the Board responded to and the plan was approved in April. The final LDP was therefore presented again to the Board in April.

The subsequent financial framework for 2007/08 was developed in light of the LDP and the overall draft BS for 2007/08. The Board has stated that the framework will support the delivery of the BS targets and this has been accepted by the SEHD.

Other areas which the Board needs to review to ensure compliance in line with LDP include:

#### **4.6.1 Outpatient Consultations**

As at April 2007, NHS Fife remained above the planned trajectory for waits in this category. 851 patients were waiting against a plan of closer to 700. A revised plan was submitted to the SEHD however the actual number of outpatients waiting continued to be above the level planned in March and April 2007. The Board is required to meet a target of zero patients waiting longer than 18 weeks by December 2007.

#### **4.6.2 Inpatient or daycase treatment**

The Board has continued to meet the national inpatient / day case admission guarantee of 18 weeks that came into place at December 2006.

#### **4.6.3 Availability Status Codes (ASCs)**

Patients with ASCs are not subject to national waiting time guarantees. ASCs may be applied when a patient fails to attend for admission, is unavailable, unfit, or when the treatment is considered to be a low clinical priority or highly specialised. It may also occur due to exceptional circumstances beyond the control of the NHS.

NHS Fife has a plan to reduce ASCs to approximately 750 by December 2007. At March 2007 there were 1,730 patients with an ASC against a planned figure of 1,522. This is a reduction of only 181 since December 2006 and a 9% fall on the last quarter. The Balanced Scorecard update reported to the Board in March 2007 indicated that the Board was still on target to implement plans to phase ASCs out by December 2007 and that a robust plan for reducing them had been agreed with the SEHD. NHS Fife recognises a need to cease using ASCs by December 2007 and patients who remain on this list will move over to the 'New Ways of Defining and Measuring' as suspended patients and the clock for their new referral will start as at the date they are transferred to New Ways. Patients will then be guaranteed to be treated within the target timescale.

#### **4.6.4 Unscheduled care**

The target the Board has to reach by October 2007 is 98% of all patients being admitted, discharged or transferred to a ward within four hours of presenting at A&E. As at April 2007 Victoria Hospital reported a performance of 92% whilst Queen Margaret Hospital reported

94%. Performance has since improved and both sites were reported to have achieved 98% by the end of June 2007.

#### **4.6.5 Sickness Absence**

From our review of performance reports, it was noted that sickness absence rates were not reported frequently to the Board. The Activity and Finance report does not state this figure and the BS report to March 2007 does not state the current rate but merely that an 'ill health policy has been developed and approved and that all managers are to receive more detailed training on this throughout 2007.' It does however state that further targets are to be identified through FifeStat and there are consequently a number of actions in the FifeStat Action List which senior management will be monitoring.

The most up to date figures we could identify when preparing this report were presented to the Board through the LDP in February and were as at December 2006. This indicated that the figures since September had been on the increase to December 2006 to 5.93%. The Board is required to meet the national target of 4% by March 2008.



# 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 Fife'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

We are pleased to report that the accounts were approved by the Board of NHS Fife on 26 June 2007 and were submitted to the SEHD and the Auditor General for Scotland prior to the 30 June 2007 deadline.

NHS Scotland Health Boards are required to comply with SEHD financial reporting guidelines when preparing their financial statements. These guidelines are laid out in the Government Financial Reporting Manual (FRoM). The Board's 2006/07 accounts comply with the requirements of the FRoM in all material respects.

We received draft accounts and supporting papers of a high standard on 9 May 2007 in line with our agreed audit timetable. We are pleased to report that the audit process ran smoothly, and our thanks go to the Finance team for their assistance with our work.

## 5.3 Unqualified Audit Opinions

Our audit opinions on the financial statements and the regularity of transactions are unqualified.

## 5.4 Financial Targets

Health Boards are set the following targets 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 the cash limit.

As shown below, we are pleased to report that NHS Fife achieved all of its targets.

**Table 5.4-1 Performance against target levels 2006/07**

<b>Financial Target</b>	<b>Target £</b>	<b>Actual £</b>	<b>(Excess) / Saving £</b>	<b>Target achieved</b>
Revenue Resource Limit	493,625,000	488,605,000	5,020,000	Yes
Capital Resource Limit	15,479,000	15,477,000	2,000	Yes
Cash Requirement	479,000,000	478,906,000	94,000	Yes

(Source: Fife Health Board Annual Accounts 2006/07)

#### **5.4.1 Outturn against RRL**

**Table 5.4-2 In-year revenue position**

<b>Surplus/ (deficit)</b>	<b>£</b>
Surplus against RRL in 2006/07, including surplus brought forward	5,020,000
Surplus brought forward from 2005/06	4,582,000
<b>Surplus against RRL – in year</b>	<b>438,000</b>

(Source: Fife Health Board Annual Accounts 2006/07)

NHS Fife's initial plan submitted to the SEHD had forecast a break-even against its RRL in 2006/07. Section 5.7 provides further analysis of how the actual surplus against the RRL was achieved.

#### **5.4.2 Outturn against CRL**

The Board's CRL was originally £25.5 million and later increased to £28 million. The Board planned to spend £17.8 million of this allocation and carry the rest forward, with the agreement of SEHD, as an ongoing process to support the costs of the non-PPP elements of the GH&MS project. The in-year capital work at Victoria Hospital and the Dunfermline Eastern Expansion Health Centre project did not begin on time and as a result the Board's capital spend for 2006/07 was £15.5 million. The Board has applied for and received approval to reallocate £12.5 million of its CRL from 2006/07 to 2007/08.

### **5.5 Audit Adjustments**

We identified one material audit adjustment in relation to advances to Chemists and Dispensing Doctors.

#### **5.5.1 Payments to Chemists and Dispensing Doctors**

Payments to chemists are administered by the Patient Services Division of NHS National Services Scotland. There is a two month processing time between the chemists submitting

claims and receiving payment. The Board makes an advance of approximately one month's payment each month to compensate for the processing delay.

We identified that NHS Fife had not been correctly accounting for this advance. This error has been on-going for a number of years and it is not clear how the error first occurred.

The Board has corrected this error by recognising an advance of £4.5 million with the contra-entry being to the General Fund. This adjustment therefore had no effect on the Board's achievement of the RRL target.

## 5.6 Financial Management

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

We reviewed the Board's budgeting arrangements during our interim visit and did not identify any significant weaknesses. However, the Board has again underspent against its budget and there is a risk that this may ultimately impact on the Board's performance.

While the total cumulative underspend at the end of 2006/07 represents only 1.02% of total expenditure, we recommend that the Board reviews the causes of the underspends and considers the implication for future budget setting.

The Board has had informal discussions with the SEHD and is confident that the minimal excess over 1% of RRL will be allowed as a carry forward.

### 5.6.1 Achievement of surplus 2006/07

The underspend is due to an accumulation of different variances, as shown below:

**Table 5.6 Significant variances from budget**

Variance from budget	Surplus / (Deficit) £000
Unutilised reserves	3,235
Service Level Agreements underspend	1,757
Operational Division overspend	(1,421)
CHP underspend	1,335
Board Administration underspend	969
Aggregate of other variances	(855)
<b>RRL surplus</b>	<b>5,020</b>

(Source: Assistant Director of Finance – Planning and Control)

## **5.6.2 Reasons for variances**

### **Reserves**

NHS Fife has a reserves budget line within its expenditure budgets. The reserves budget represents funding set aside for future developments. When the developments commence, the budget is transferred from the reserve to the relevant budget line.

The majority of the reserves underspend is made up of additional SEHD allocations received during the year which the Board did not utilise. The main unutilised allocations were:

- Waiting times £1,000,000
- Heart disease £751,000
- Drug & Alcohol Action Team £531,000
- Dental action plan £397,000

### **Service Level Agreements underspend**

The key variance related to the impact of Cross Boundary Tariffs. As noted in section 5.16, the net cost of implementing Cross Boundary Tariffs between Health Boards was approximately £1.5m less than expected.

### **Operational Division overspend**

The £1.4m overspend within the Operational Division was due to a number of individual overspends across the division due to increased patient activity as well as increased energy costs. The Operational Division holds the energy budget for all of NHS Fife.

### **CHP underspend**

The CHP underspend is mainly due to the underspend within Dunfermline & West Fife CHP of £1.285 million. This is due to an underspend in Child Health Services of £549,000 primarily due to difficulties in filling staff vacancies and an underspend in Learning Disabilities of £456,000 due to a timing issue with the Lynebank Hospital Discharge Programme.

### **Board administration underspend**

The most significant reason for the Board administration variance is the underspend in the Cost of Capital charge. The Board has to pay a Cost of Capital charge to the SEHD. The charge is calculated as a percentage of the Board's net assets. The Board's net assets were less than anticipated due to the Board's liabilities for Agenda for Change not being paid as originally planned.

## **5.7 Financial reporting during the year**

We raised a concern in our interim management report that the Board did not identify its underspend until late into the financial year. The Board was reporting a projected break-even

position up until November 2006. The Board prepared a reconciliation between its projected position as at November 2006 and its actual position to March 2007. The significant figures are shown below.

**Table 5.7 Reconciliation of forecast break-even to surplus**

	November 2006 £000	March 2007 £000	Movement £000
Reserves	2,354	3,235	881
Service Level Agreements	(62)	1,757	1,819
Operational Division	(2,668)	(1,421)	1,247
CHPs	347	1,335	988
Board Administration	209	969	760
Aggregate of other items	(180)	(855)	(675)
	<b>0</b>	<b>5,020</b>	<b>5,020</b>

(Source: Assistant Director of Finance – Planning and Control)

### **Reserves**

The increase in the underspend in reserves is due to carry-forward requests from programme slippage and additional allocations received late in the year.

### **Service Level Agreements**

The cost of the Cross Boundary Tariffs and other Service Level Agreements were not known until late in the year. We recognise that the timing of national announcement of Tariffs had a bearing on this. However, we recommend that the Board tries to agree inter-board charges earlier in the year to ensure that the Board's funding can be used most effectively.

### **Operational Division**

The movement is made up of a large number of smaller movements in terms of reduction in expenditure as well as additional funding being received.

### **CHPs**

The late movement was due to the unexpected delay in the Lynebank Discharge Programme and delays in filling vacancies in Childcare services.

### **Board administration**

The cost of capital charge is calculated as 3.5% of net assets. Net assets are calculated as an average of opening and closing assets. As closing assets were lower than expected due to the large Agenda for Change liability, the cost of capital charge was also lower.

## 5.8 Recurring v non-recurring income and expenditure

Performance against financial targets can be affected by non-recurring funding and expenditure. To get a better understanding of the Board's financial position it is helpful to analyse the Board's position into recurring and non-recurring items.

The table below shows the Board's 2006/07 income and expenditure analysed between recurring and non-recurring items.

**Table 5.8 Achievement of 2006/07 surplus**

	£m
Recurring income	500.7
Recurring expenditure	<u>(498.3)</u>
<b>Underlying recurring surplus</b>	<b>2.4</b>
Non-recurring income	17.5
Non-recurring expenditure	<u>(14.9)</u>
<b>Balance of non-recurring</b>	<b>2.6</b>
<b>2006/07 surplus</b>	<b>5.0</b>

(Source: Assistant Director of Finance – Planning and Control)

The underlying recurring surplus or deficit represents the gap between the cost of on-going activities and the core funding received to support core activities.

At the start of the year, the Board estimated an underlying recurring deficit of £0.9 million to be managed in 2006/07 in order to achieve its target of break even. As shown above, the actual recurring position is a surplus of £2.4 million, this represents a movement of £3.3 million in the Board's recurring position during the year. This movement is mainly due to the Board overestimating the cost of Service Level Agreements which were included in the budgeted recurring expenditure.

## 5.9 Financial plans

Operating budgets for 2007/08 are already in place. At the date of this report, NHS Fife is still in the process of finalising its overall financial plan, known locally as its Financial Framework, for 2007/08. The Board has provided us with the following summary of its expected income and expenditure for 2007/08.

**Table 5.9 Forecast 2007/08**

	<b>Total £M</b>
Recurring income	531.5
Recurring expenditure	<u>(532.4)</u>
<b>Underlying recurring surplus/(deficit)</b>	<b>(0.9)</b>
Non-recurring income	8.9
Non-recurring expenditure	<u>(8.0)</u>
<b>Balance of non-recurring</b>	<b>0.9</b>
<b>PROJECTED OUT-TURN</b>	<b>0</b>

(Source: Assistant Director of Finance – Planning and Control)

## **5.10 Savings plans**

Savings plans are identified as being a key means by which to improve efficiency and eliminate waste. Achieving recurring savings helps the Board to reduce its underlying deficit and meet its stated objective of recurring financial balance. These savings are also crucial in light of the cost pressures the Board will face in future years, as noted at section 5.12, below.

The Board has set up a sub-group of the Strategic Management Team (SMT), the Challenge Group to identify potential areas for savings. Its broad purpose is to identify and give in-depth consideration to issues which will help NHS Fife achieve its financial targets each year. The Group seeks to identify savings opportunities in all parts of NHS Fife – the Operational Division, the CHPs and Corporate Directorates.

The table below notes the savings achieved by the Board in 2006/07. Such savings are identified through a mixture of specific efficiencies highlighted at the start of the financial year and “in-year” programmes identified on an ongoing basis.

**Table 5.10 Savings achieved in 2006/07**

<b>Element of programme</b>	<b>Recurring Savings £M</b>	<b>Non-recurring Savings £M</b>	<b>Total £M</b>
Did Not Attend (DNA's)			0.267
Capacity Planning/Theory of Constraint			0.500
<b>Notional Value of Resources released</b>			<b>0.767</b>
CHP wide scheme	0.260		0.260
Glenrothes & NE Fife CHP	0.334		0.334
Kirkcaldy & Levenmouth CHP	0.880		0.880
Dunfermline & West Fife CHP	0.426		0.426
Fife Operational Division	2.286	0.062	2.348
Corporate Directorates	2.294	1.380	3.674
Prescribing	4.000		4.000
<b>Cash released</b>	<b>10.480</b>	<b>1.442</b>	<b>11.922</b>

(Source: Assistant Director of Finance – Management Accounting)

## **5.11 Cost Pressures**

### **National cost pressures**

The 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. Similar to those faced across the NHS in Scotland, other cost pressures are price increases, drug bill cost increases, health improvement initiative costs, legislative changes and expenditure required to reduce patient waiting times.

### **Local cost pressures**

In addition to the national cost pressures above, NHS Fife will face increasing cost pressures from its service redesign projects.



## 5.12 Financial implications of service redesign projects

The financial effect of the service redesign projects summarised in section 3.4 are shown below:

### **General Hospitals and Maternity Services (GHMS);**

#### ***Victoria Hospital – new wing***

In 2005/06 NHS Fife purchased a 10 acre strip of land adjacent to Victoria Hospital to facilitate the construction of a new wing to the Victoria Hospital. Consideration is being given to financing the new wing through the PPP route

#### ***Victoria Hospital – reconfiguration***

The reconfiguration of the existing Victoria Hospital buildings is not planned to start until the new wing has been completed. The Board has incurred approximately £1 million of professional fees to date in relation to this reconfiguration. These fees have been capitalised during the year and are shown within Assets under Construction. The Board will require to determine how much of the refurbishment project will add value and should be capitalised and how much should be expensed. We recommend that the Board commissions regular valuations of this project to ensure that expenditure is properly accounted for.

### **St Andrews Community Hospital and Health Centre**

The Board purchased land for the new St Andrews Community Hospital and Health Centre for £2.2 million during 2006/07. Consideration is being given to financing the building through the PPP route and under current financial reporting requirements it is intended that the new hospital and health centre will be off the Board's balance sheet.

### **Accelerated depreciation**

Where the Board has approved a decision to close a property (or a part thereof), the Government Financial Reporting Manual (FRM) 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. As part of its service redesign projects NHS Fife plans to close and dispose of a number of properties, with the significant properties being shown below.

<b>Property</b>	<b>Non-Operational Date</b>
Forth Park Maternity Hospital	31 March 2010
St Andrews Memorial Hospital	31 March 2009

NHS Fife incurred accelerated depreciation charges of £2.6 million in 2006/07 in relation to the above hospitals. The SEHD has provided additional funding to match this expenditure and the net impact on the Board's out-turn against its Revenue Resource Limit is nil.

The disposal of these properties is dependent on NHS Fife receiving SEHD approval for the Full Business Cases (FBCs) in relation to the GHMS and St Andrews Community Hospital and Health Centre projects. The Board should be aware that this accelerated depreciation may have to be reversed if the projects do not receive approval.

### **5.13 Agenda for Change**

NHS Fife has made significant progress with the implementation of Agenda for Change during 2006/07. In accordance with the national timescale, nearly all staff were assimilated by 31 March 2007 and the majority had also received back pay. NHS Fife has an accrual for £8.4 million as at 31 March 2007 for future back payments.

The Agenda for Change liability has been reclassified from a provision to an accrual to reflect the greater level of certainty of the value of the liability.

### **5.14 Public Private Partnerships**

#### **Current scheme - HOISS**

NHS Fife has one PPP scheme at present. The Board entered into a PPP agreement in 2002 for the provision of a single patient administration system for the Operational Division. The contract expires in 2017 and the Board has a current annual commitment of £846,000. This scheme is disclosed in Note 25 to the financial statements.

#### **New schemes**

As set out in Section 3.4, the Board is considering the PPP funding route for the proposed new build at Victoria Hospital and for the new St Andrews Community Hospital and Health Centre.

### **5.15 Cross Boundary Tariffs**

*Delivering for Health* included a commitment to introduce National Tariffs for hospital procedures. The National Tariff will set prices for activity carried out by one NHS Board for patients who reside in another area. This is intended to simplify the process for service level agreements for cross boundary work. The application of standard tariffs is to be phased in over time. Two specialities, Orthopaedics and Cardiothoracic Surgery, started in 2005/06, with a further six specialities in 2006/07.

NHS Fife has been involved in various ongoing discussions with other NHS Scotland Boards in relation to cross boundary tariffs. NHS Fife budgeted for a £2.6 million increase in expenditure and a £500,000 increase in income from other health boards due to the introduction of cross boundary tariffs as well as activity variances. The actual increase in expenditure was £1.1 million. The increase in income was in line with the budget.

The impact of National Tariffs is set to be more visible in 2007/08, when tariffs will apply to all specialties. The move to National Tariffs is one of the Executive's key health policy measures and has led to the superseding of agreements which had been previously negotiated by the Board. The inflationary uplifts built in to the National Tariff scheme for 2006/07 were set higher than those the Board would have expected to apply to service agreements. The Finance function is well aware of the need to manage and monitor this move to the National Tariffs. NHS Fife has included a further £2 million to cover the expected increases in expenditure with other health boards in 2007/08.

## **5.16 General Medical Services Contracts**

The General Medical Services (GMS) contract, applicable from April 2004, resulted in the Board's payments to GP practices being partly based on the Quality Outcome Framework (QOF) points achieved by GP practices. Initially, GP practices were achieving higher points than anticipated resulting in a cost pressure to health boards across Scotland.

In 2006/07 NHS Fife incurred QOF costs of £7.8 million, a decrease of approximately £0.3 million from 2005/06. The method for measuring quality points was changed during the year, effectively increasing the expected quality levels. This led to GPs receiving fewer quality points in 2006/07 than in 2005/06 and, consequently, a decrease in expenditure for the Board.

## **5.17 Efficient Government**

### **5.17.1 National initiative**

The Scottish Executive launched the Efficient Government Initiative in June 2004. The Initiative is a five year programme that is intended to attack waste, bureaucracy and duplication in the public sector.

The NHS in Scotland is now expected to deliver cash releasing savings (that release additional funds to be reinvested in front line services) of £342 million, including £50 million achieved through more efficient procurement. A further £173 million of time releasing savings (that increase the level of service provided from existing resources) 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.

### 5.17.2 Local impact

NHS Fife is required to deliver significant efficiency savings as part of the Efficient Government Initiative. The total recurring savings NHS Fife aims to deliver in the three years to 31 March 2008 are highlighted below.

**Table 5.17 - Efficiency savings to be delivered**

Year	Cumulative Target (£M)	Actual Cumulative £(M)
2005/6	3.996	5.215
2006/7	8.262	9.462
2007/8	12.784	

### 5.18 Finance system upgrade

NHS Fife is part of the eFinancials consortium provided by NHS Tayside. The consortium is due to upgrade its finance system in 2007/08. We will consider the risks arising from the upgraded system as part of our 2007/08 audit.

### 5.19 International Financial Reporting Standards (IFRS)

The Chancellor announced in his 2007 budget speech the decision to adopt IFRS for public sector accounting by 2008/09. Whilst this does not have an immediate impact on NHS Fife's accounts the Board should be aware of this issue as it could have significant implications in future. For example, the application of IFRS may result in PPP schemes which would currently be accounted for as off-balance sheet being reclassified as on-balance sheet.

# 6 Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2006/07.

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 Audit Recommendations - Follow Up Processes

The Board has an effective process in place for following up internal audit recommendations. The Board coordinates responses from those nominated as responsible officers for each recommendation raised.

For 2007/08, the Board's system for following up recommendations has been extended to include external audit recommendations.

## 6.2 Priority rating

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1 High risk, material observations requiring immediate action.

Priority 2 Medium risk, significant observations requiring reasonably urgent action.

Priority 3 Low risk, minor observations which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of senior management.

### 6.3 Issues from our 2006/07 final audit

Para.	Title	Issue Identified	Risk and Recommendation	Management Comments
3.8.5	<b>Staff Governance – Providing staff with an improved and safe working environment</b>	<p>NHS Fife's 2006/07 Staff Governance Action Plan included a September deadline for the implementation of the NHS Fife Health at Work minimum data set and the development of the NHS Fife Stress Management Policy.</p> <p>At the date of writing this report, the NHS Fife Stress Management Policy is still being developed and the minimum data set was still being populated as at February 2007.</p>	<p>The Board should complete the implementation of the NHS Fife Health at Work minimum data set and finalise the NHS Fife Stress Management Policy.</p> <p><b>Priority 2</b></p>	<p>All delays in meeting targets are agreed through the Area Partnership Forum as priorities change for both staff risk and the organisation.</p> <p>These recommendations are included as actions to be addressed as part of the Board's staff governance action plan 2007/08.</p> <p><b>Responsible officer:</b> Director of Human Resources</p> <p><b>Date:</b> NHS Fife Health at Work minimum data set – September 2007; NHS Fife Stress Management Policy – March 2008</p>
4.3	<b>Information Management</b>	<p>We identified a number of issues as part of our review of the Board's IT infrastructure and eFinancials, including the absence of an IT Services Disaster Recovery Plan and the absence of a Business Continuity Plan.</p>	<p>Our review of IT infrastructure &amp; eFinancials report included 38 recommendations, including 5 priority 1 recommendations. We recommend that the Board take appropriate action to implement these recommendations.</p> <p><b>Priority 1</b></p>	<p>Management have agreed to our recommendations and detailed responses are set out in the report on our review of IT infrastructure and eFinancials.</p> <p><b>Responsible officer:</b> Head of IT Services</p> <p><b>Date:</b> between June 2007 and June 2008</p>

<b>Para.</b>	<b>Title</b>	<b>Issue Identified</b>	<b>Risk and Recommendation</b>	<b>Management Comments</b>
4.4.1	<b>Performance Reporting</b>	Board members should be able to easily identify progress against all the Board's required targets.	As part of the Board's review of the Balance Scorecard process, the Board should consider the manner in which it reports on Performance issues to the Board.  <b>Priority 2</b>	The Balanced Scorecard process is currently being reviewed to ensure that progress against targets is clear.  <b>Responsible officer:</b> Director of Support and Coordination  <b>Date:</b> 31 December 07
4.6.1	<b>LDP – Outpatient Consultation</b>	The SEHD has set a target of ensuring that no patients will wait longer than 18 weeks for an outpatient consultation. The Board is at risk of not meeting this target by December 2007.	The Board needs to take action to ensure that it will meet the 18 week guarantee for outpatients by December 2007.  <b>Priority 2</b>	Revised trajectories were submitted to the SEHD in January 2007 and a revised plan has been in place since March 2007.  <b>Responsible officer:</b> Chief Executive Operational Division  <b>Date:</b> 31 December 07
4.6.5	<b>LDP – Sickness Absence</b>	Based on the most recent figures available, staff absence rates at NHS Fife have been on the increase from September to December 2006 and were 5.93% at December 2006. There is therefore a risk that the Board will not meet the 4% target set by SEHD by March 2008.	The Board needs to take action to ensure that it will meet the maximum absence rate of 4% for all staff by March 2008.  <b>Priority 2</b>	Agreed. Plans are in place to support the achievement of the 4% by March 2008 target set by SEHD. These include the provision of comprehensive Attendance Management training for 550+ managers and distribution to all staff of a booklet dealing with sickness absence in order to raise awareness of sickness absence issues with staff. Monitoring of absence figures provided from SWISS continues.  <b>Responsible officer:</b> Director of Human Resources  <b>Date:</b> 31 March 2008

Para.	Title	Issue Identified	Risk and Recommendation	Management Comments
5.6	<b>Financial underspend</b>	NHS Fife planned to break-even against its Revenue Resource Limit (RRL) and actually underspent its RRL by £5,020,000. The underspend was not identified until late in the year.	<p>There is a risk that allocations received during the year are not being spent for their designated purpose.</p> <p>We recommend that a robust review of the budget setting and monitoring system is carried out to ensure that maximum and timeous benefit is derived from funding.</p> <p><b>Priority 1</b></p>	<p>Agreed.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Date:</b> 31 August 07</p>
5.8	<b>Service Level Agreements</b>	The Board's income and expenditure with other Health Boards was not agreed until late in the year and the Board's large underspend against budget was not identified.	<p>There is a risk that the delay in agreeing inter-board income and expenditure is preventing NHS Fife from using its resources effectively.</p> <p>We recommend that the Board ensure that inter-Board income and expenditure is agree timeously.</p> <p><b>Priority 2</b></p>	<p>Agreed. The timing of National Tariff announcements will however have a bearing.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Date:</b> 30 November 07</p>
5.13	<b>Capitalisation of Victoria Hospital expenditure</b>	<p>The Board is planning a major reconfiguration of Victoria Hospital. Part of this expenditure will add value to the buildings and should be capitalised. Part of the expenditure will be refurbishment and should not be capitalised.</p> <p>The Board has not estimated the split between capital and revenue for this project.</p>	<p>There is a risk that the Board will capitalise expenditure in future years which should not be capitalised.</p> <p>We recommend that the Board commissions regular valuations of Victoria Hospital once the reconfiguration works begin.</p> <p><b>Priority 2</b></p>	<p>Agreed.</p> <p><b>Responsible officer:</b> Director of Finance</p> <p><b>Date:</b> 30 December 07</p>



## 6.4 Follow-up of previous recommendations

Title	Report	Original recommendation	Management Comments	Update at July 2007
<b>Budget setting</b>	2006/07 interim report	We recommended that the budget is approved and communicated to budget holders before the start of the financial year.  <b>Priority 2</b>	The timing of approval of the Financial Framework and main budgets is dependent on when SEHD issues the Revenue Resource Limit and on the cycle of formal meetings. For 2007/08, it is intended that the Finance and Resources Committee will consider a draft Financial Framework at its May meeting, with approval by the Board to be sought at its June meeting.	Baseline budgets were in place for 2007/08 by April 2007.  <b>We consider this to be satisfactory, no further action required</b>
<b>Bank reconciliations</b>	2006/07 interim report	We recommended that the monthly bank reconciliations are reviewed on a monthly basis.  <b>Priority 2</b>	Agreed.  The Senior Financial Accountant will ensure that all bank reconciliations are reviewed and evidenced.	We reviewed bank reconciliations during our financial statements audit and noted that all were evidenced as reviewed.  <b>Action taken as agreed</b>
<b>GMS and GPS journals</b>	2006/07 interim report	We recommended that GPS and GMS journals are reviewed prior to entry to the E-Financials ledger system.  <b>Priority 3</b>	Agreed.	Now in place.  <b>Action taken as agreed</b>

Title	Report	Original recommendation	Management Comments	Update at July 2007
<b>IM&amp;T Strategy and IT Security Policy</b>	2005/06 final report	The Board must ensure the further development and implementation of its revised IM&T/eHealth Strategy and the early finalisation and implementation of a robust and compliant IT Security Policy taking account of national and local needs.	<p>The e-Health Strategy is based on the national eHealth Strategy guidance with additions made locally to take account of key areas of risk such as business systems, disaster recovery and IT security.</p> <ul style="list-style-type: none"> <li>a) The eHealth Strategy will be refreshed when national guidance is updated.</li> <li>b) The IT Security Policy will be signed off by November 2006.</li> </ul>	<p>We have undertaken a separate review on the arrangements for the management and monitoring of the IT infrastructure within NHS Fife (Review of IT Infrastructure and eFinancials). This included a review of the eHealth Strategy and development of the IT Security Policy.</p> <p><b><i>See report on Review of IT Infrastructure and eFinancials</i></b></p>



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