NHS Forth Valley

Annual Report to Forth Valley Health Board and the Auditor General for Scotland 2010/11

July 2011

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Executive summary

Financial statements

Our audit of the 2010/11 financial statements is complete and our audit opinions are unqualified. The Board achieved all of its financial targets, delivering a saving against the Revenue Resource Limit (RRL) of £0.053m (0.01%).

The Board initially adopted a new accounting treatment for the Bellsdyke land disposal, accounting for a £0.129m gain in the draft financial statements. We reviewed the basis for and application of this change in accounting and did not agree with it. After discussion with Board management, the accounts were adjusted to revert back to the treatment adopted in previous periods. The Board has an established governance and monitoring framework to oversee the Bellsdyke development agreement. However, we believe that a more joined up approach could be taken to link this with more formal identification and reporting of possible impacts on the year end financial position. Otherwise, we have found that the Board has generally strong internal financial controls in place.

Forth Valley Royal Hospital (FVRH) is a key part of the Board's Integrated Healthcare Strategy. We have reviewed the accounting and disclosure of the PFI transactions within the 2010/11 financial statements and are satisfied that these have been accounted for appropriately. FVRH was brought on balance sheet at a total cost of £270.787m in 2010/11, for the first two of three phases of the development.

Use of resources

2010/11 has been financially challenging across NHS Scotland. Whilst NHS Forth Valley's 2010/11 RRL surplus of £0.053m is consistent with financial forecasts and five year financial plans, it was achieved on a non-recurring basis. The Board brought forward £1m of funding previously banked with the Scottish Government. This funding was initially planned to be used in 2012/13. Brokerage of £2.1m was also agreed with SGHD. This will exacerbate the future financial pressures facing the Board.

In arriving at the 2010/11 out-turn position the Board achieved cash savings of £3.558m against a target of £10.512m. The approved LDP Financial Plan for 2011/12 identifies a cash savings requirement of £ 30.550m in order to achieve financial break-even, of which £2.973m currently remains unidentified. Delivering the scale of savings required in the timescales available will be extremely challenging and this has clearly been highlighted as part of the Boards risk management process.

Plans to complete the redesign of Stirling and Falkirk acute hospitals as community hospitals have just recently concluded as the Board considered the limits imposed by the tightening financial environment.

Performance

The Board has made significant improvements in its performance management arrangements over the last five years. The Board can demonstrate a number of strengths in its delivery of Best Value, though opportunities exist for profiling good practice and for embedding continuous improvement.

The Board continues to review and improve its Community Healthcare Partnerships (CHPs), and it should look to demonstrate how its revised arrangements address the recommendations in Audit Scotland's national review of CHPs.

NHS Forth Valley has made significant reductions in the level of delayed discharges and is working with all three councils to reduce these further. Multi-agency reviews are being used to identify opportunities for improvement and to help ensure buy-in from all partners.

The Board's readmission rates are the second highest of all mainland boards in Scotland. The Board is reviewing this area to identify the reasons for this and to develop potential solutions for reducing readmission rates, which is key to the Integrated Health Strategy.

The Board continues to report absence levels above the national target of four per cent. The Board should seek to ensure that good practice and innovative solutions in place within certain services are shared across the whole of NHS Forth Valley.

The reduced number of staff within the Board's performance team may hinder the Board's ability to co-ordinate and monitor the Board's response to performance reports and reviews. NHS Forth Valley must ensure that it develops clear action plans with timescales and identifies lead officers following all self-assessments, external reviews and national reports.

Governance

Our work on corporate governance focussed on reviewing the Board's arrangements to ensure effective systems are in place for internal control, prevention and detection of fraud and irregularity and standards of conduct. We are pleased to report that governance arrangements at NHS Forth Valley remain effective.

Looking forward

The Integrated Healthcare Strategy is at a critical phase, with Forth Valley Royal Hospital fully operational from July 2011 and plans now finalised for the provision of community hospital services. This will allow the Board to progress further service redesign and help deliver operating efficiencies. However, there is still significant uncertainty over the longer term level of funding that will be provided to boards across Scotland. This area has been identified as a significant risk by NHS Forth Valley and could potentially result in the need to identify further real cash savings. Maintaining services at current levels may not be sustainable. Risks in this regard are increasing and difficult decisions are undoubtedly being faced by the Board.

Conclusion

This report concludes our audit of NHS Forth Valley for 2010/11. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards. This report has been discussed and agreed with the Chief Executive and Director of Finance and we would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

July 2011

Introduction

1. This report summarises the findings from our 2010/11 audit of Forth Valley Health Board, commonly known as NHS Forth Valley. The scope of our audit was set out in our External Audit Strategy and Plan, which was presented to the Audit Committee at the outset of our audit.

2. The main elements of our audit work in 2010/11 have been:

   - Audit of the financial statements, including a review of the Statement on Internal Control
   - Review of governance arrangements, internal controls and financial systems
   - Targeted follow up of Audit Scotland's Improving Public Sector Purchasing national report
   - Best Value review of Efficiencies
   - Review of the Board's response to Audit Scotland National Study reports
   - Review of the Board's involvement in the National Fraud Initiative (NFI)

3. In addition to this annual report, we have delivered the following outputs during 2010/11:

   - Interim management report
   - Best Value overview report, including the outputs of the 2010/11 efficiencies work
   - Report on the audit of the financial statements
   - Targeted follow up of Audit Scotland's Improving Public Sector Purchasing national report
   - Letter on application of pay policies – staff earning over £100,000 per annum

   The key issues from these outputs are summarised in this annual report.

4. As part of our audit, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland's Public Reporting Group.

5. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the issues arising from our audit of the 2010/11 financial statements.

Our responsibilities

7. 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 were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- whether the information in the operating and financial review is consistent with the financial statements
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

8. We also review the Board's 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
- assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

An unqualified audit opinion

9. The Board approved its annual accounts on 14 June 2011. Our independent auditors' report expresses an unqualified opinion on the financial statements of the Board for the year ended 31 March 2011 and on the regularity of transactions reflected in those financial statements.

10. The annual accounts were submitted to the Scottish Government Health Directorates (SGHD) and the Auditor General for Scotland prior to the 30 June 2011 deadline.

11. We received draft annual accounts and supporting papers of a high standard, 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.

Issues arising from the audit

12. We are required by auditing standards to report to the Board the main issues arising from our audit of the financial statements. We presented our Report on the Audit of the Financial Statements to the Audit Committee on 9 June 2011. Five issues were identified within that report, including:

    - No indexation had been applied to assets expected to continue being used at the main Falkirk and Stirling sites;
    - Indexation of PFI assets was overstated;
    - Provisions made in the year for severance costs included two individuals where no legal or constructive obligation existed at the year end;
    - An element of the goods received but not invoiced (GRNI) accruals adjustment for supplies and services ordered in 2010 should remain within the accruals balance;
    - The Board had not split amounts receivable in relation to Bellsdyke between short and long term receivables.

13. Neither we nor the Board considered these unadjusted differences to be material, and so no adjustments were made to the financial statements to reflect these differences. A small number of adjustments were made to the draft accounts presented for audit, but there was no impact on the outturn position.

Equal pay

Further work remains to establish the status of existing claims

14. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and NHS Forth Valley has 396 claims with the NHS Scotland Equal Pay Unit, which is working with the Central Legal Office (CLO) in coordinating a national response to this issue.

15. Developments over the past year have slowed the progress of claims and led to a reduction in the number of claims going forward. The 396 claims the Board currently has with the Equal Pay Unit is 85 less than the equivalent last year. The CLO has stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.

16. Discussions have been held between Audit Scotland, partner audit firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in previous years. Given CLO advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2010/11 financial statements of affected NHS Boards.

Non-executive remuneration

17. The Board has disclosed in its remuneration report a payment to Her Majesty's Revenue and Customs (HMRC) of £51,634 in respect of pay as you earn (PAYE) tax and national insurance contributions (NIC) relating to a non-executive director covering the period April 2005 to March 2010. This figure is comprised of PAYE and employee's NIC of £36,643 and employer's NIC of £14,991. The Board had been paying the non-executive director's remuneration gross, as the individual concerned was being treated as a self-employed contractor. However NHS non-executive remuneration should be paid via the payroll with PAYE tax and NIC deducted at source. The Board has settled the liability with HMRC in order to minimise any further interest charges. HMRC has estimated sums due in interest and penalties of £6,985.

18. We have been informed that the non-executive director has paid tax and NIC on this NHS income as a self-employed individual, in which case there has now been an overall overpayment of tax and NIC to HMRC. The non-executive director was transferred to the Board's payroll in December 2010 from which date PAYE and NIC has been deducted correctly.

19. The Board should recover, from the non-executive director, the amounts due relating to the period before the non-executive director was transferred to the Board's payroll, in accordance with the Scottish Public Finance Manual. In determining the amount to recover, the Board should explore fully with HMRC whether there is an opportunity to reclaim any of the payment noted above by off-setting it against any tax and NIC already paid by the non-executive director.

Action plan point 1

20. We originally raised this issue formally with the Board in our 2008/09 Annual Report which was issued in July 2009. We noted in our report that the Board would be held liable by HMRC for any non-compliance with statutory obligations, any underpayment of tax or NIC and any penalty and interest arising. The Board agreed to prepare, by December 2009, options for addressing the situation. The Board commenced discussion with HMRC in November 2009 prior to an HMRC review visit in January 2010 and has remained in discussion with HMRC since then to resolve the issue. Following the HMRC review the Board has been designated as 'low risk' status from HMRC which gives a level of assurance on ongoing compliance with taxation regulations. The Board has also raised the issue with the Scottish Government, as other public sector bodies may be treating non-executive remuneration in a similar way.

21. We have reviewed and commented on this situation solely in our role as the Board's external auditors. This is based on our review of correspondence between the Board and HMRC, discussions with management and board members and consideration of the Board's arrangements for making the necessary deductions and payments.

Private Finance Initiative

22. Forth Valley Royal Hospital (FVRH) is a key part of the Integrated Healthcare Strategy. We have reviewed the accounting and disclosure of the PFI transactions within the 2010/11 financial statements and are satisfied that these have been accounted for appropriately. The hospital

was brought on balance sheet at a total cost of £270.787m in 2010/11. In line with the NHS Capital Accounting Manual (CAM), the asset was revalued, leading to an impairment of £5.740m. This has been funded by the Scottish Government as part of the Board's annually managed expenditure (AME).

Bellsdyke disposal

23. In its draft financial statements presented for audit, the Board adopted a new accounting treatment for the Bellsdyke disposal (to be applied prospectively), initially accounting for a £0.129m gain in 2010/11. We reviewed the basis for and application of this change in accounting and did not agree with it. After discussion with Board management, the accounts were adjusted to revert back to the treatment adopted in previous periods.

24. The Board has an established governance and monitoring framework to oversee the Bellsdyke development agreement. However, we believe that a more joined up approach could be taken to link this with more formal tracking and reporting of Bellsdyke transactions on the year end financial position.

Action plan point 2

Statement on internal control

25. We are satisfied that the Statement complies with the Scottish Ministers' guidance and that the contents are not inconsistent with information gathered during the course of our normal audit work. The Board has a good overall framework in place to support an effective internal control environment.

Regularity and other audit opinions

26. We have issued an unqualified opinion on the regularity of transactions. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, and that information which comprises the Annual Report included in the Annual Accounts is consistent with the financial statements.

Use of resources

27. This section of the report sets out the main findings from our review of how the Board manages its key resources in terms of financial performance and management of assets.

The Board's financial performance in 2010/11

The Board has met its key targets in the year

28. The Board is required to work within the resource limits and cash requirements set by SGHD. As shown in Table 1 below, NHS Forth Valley has met all of its financial targets.

Table 1 – Performance against financial targets

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit	469,800	469,747	53	Yes
Capital Resource Limit	287,080	287,080	0	Yes
Cash Requirement	497,509	497,509	0	Yes

(Source: Forth Valley Health Board Annual Accounts 2010/11)

29. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £0.053m. This surplus represents an underspend of 0.01% and is consistent with the Board's 2010/11 budgeted outturn.

30. 2010/11 has been financially challenging. Whilst the 2010/11 RRL surplus of £0.053m is consistent with financial forecasts and five year financial plans, it was achieved on a non-recurring basis. To achieve the surplus in the year, the Board brought forward £1m of funding previously banked with the Scottish Government. This funding was initially planned to be used in 2012/13. The Board has agreed brokerage of £2.1m with SGHD (effectively, drawing down resources against future allocation). There was also a significant credit which boosted the in-year outturn position, to write back unutilised provisions which were originally raised in 2009/10.

31. We have analysed the Board's 2010/11 outturn into recurring and non-recurring items, as shown in Table 2. This highlights that there has been a significant reliance on non-recurring funding to deliver the surplus position in 2010/11.

Table 2 – Achievement of 2010/11 surplus

	£000
Recurring income	470,255
Recurring expenditure	(482,259)
Recurring savings	4,034
Underlying recurring surplus/(deficit)	**(8,000)**
Non-recurring income	30,506
Non-recurring expenditure	(22,007)
Non-recurring savings	(446)
Non-recurring surplus/(deficit)	**8,053**
Financial surplus/(deficit)	**53**
Underlying recurring surplus/(deficit) as percentage of recurring income	(1.70%)

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

32. Table 2 shows that there is a gap between the cost of ongoing Board activities and the core funding received. The forecast for 2011/12 shows that a £11.244m non-recurring surplus will be required to deliver a break even position. £10.285m will be met by non-recurring savings. The Board should continue to monitor this position very closely, to ensure return to a recurring breakeven position in 2011/12, as forecast.

Capital Resource Limit

The Board delivered a breakeven position against CRL for 2010/11

33. The Board broke even against CRL in 2010/11 with total capital expenditure of £287.080m. The allocation was made up of £15.205m core capital allocations, £270.787m non-core capital allocations and £1.088m relating to the disposal of land at Bellsdyke.

34. The non-core allocation of £270.787m relates wholly to the new Forth Valley Royal Hospital at Larbert (a PFI project brought on balance sheet in the year). A further £10.997m was incurred to support the new Larbert facility to become operational.

Financial implications of the Integrated Healthcare Strategy

35. The Board formally opened Forth Valley Royal Hospital in August 2010. The hospital is being brought into operation in three phases. Phases one and two have been completed with a range of inpatient, outpatient, mental health and day services available at the hospital. The final phase will see a range of acute services move from Stirling Royal Infirmary in July 2011. The new hospital is being funded through the Private Finance Initiative (PFI) mechanism, similar to the Board's Community Healthcare Centre at Clackmannanshire.

36. The nature of PFI contracts means it is difficult for the Board to identify significant savings in terms of overall unitary charge costs incurred on both these facilities. This is because the costs are largely fixed by the original contract terms and are subject to uplift each year in line with the retail prices index (the latter currently exceeding the uplifts in funding received by the Board). Adjustments to the unitary charge costs tend to reflect variations against contract performance criteria rather than offering the opportunity for substantial savings to be delivered to assist the Board in addressing its funding challenges.

37. The redesign of the Stirling and Falkirk sites remain significant elements of the Board's Integrated Healthcare Strategy, although the Board is having to take account of the constraints imposed by the tightening economic environment in how it plans to use these existing sites.

Financial plans

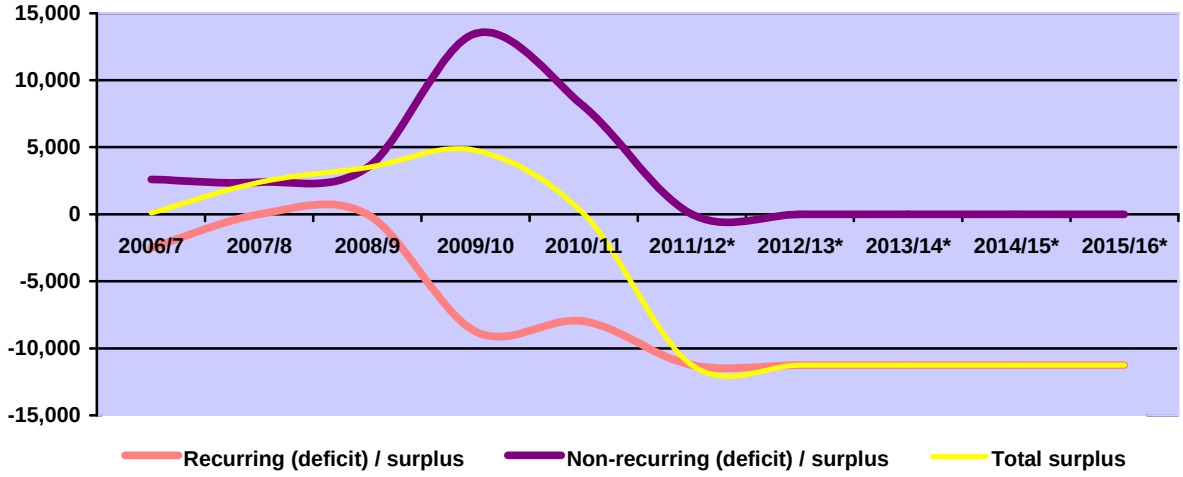
The 5 year financial plan reflects the increasingly challenging financial climate

38. The Board prepared a 5 year financial plan covering the period 2010/11 to 2015/16 as part of its Local Delivery Plan submission to the Scottish Government. However, formal agreement has only been reached with SGHD on the forecast position for 2011/12. The Board should seek to reach agreement over the full five year plan as soon as is practicable, once the September 2011 Spending Review implications are known.

Action plan point 3

39. Diagram 1 shows that the Board's LDP forecasts significant recurring deficits in the coming years. These forecasts are subject to ongoing scrutiny and update, in collaboration with SGHD, and plans are being continually revised by the Board as it looks to achieve a sustainable position. The Board is clear that further cash savings have still to be identified in response to this situation.

Diagram 1 – Recurring and non-recurring surplus and deficit analysis 2006/07 – 2015/16



*(Source: Previous annual audit reports, *: Based on Board-approved financial plan/LDP)*

Funding

40. NHS Forth Valley has received significant increases in resources over the past few years, with the RRL rising some 22% between 2006/07 and 2010/11 (from £386m to £470m). This has been used to fund pay modernisation, meet challenging service delivery targets and meet significant costs associated with service redesign and the Integrated Healthcare Strategy.

41. NHS Forth Valley receives £11m less than its target allocation under the National Resource Allocation Committee (NRAC) formula. As a move towards NRAC parity, the Board has included a further uplift of £1.15m in its financial plan for 2011/12 and similar parity movements are incorporated in future years. The Board considers this funding to be vital to the implementation of the Integrated Healthcare Strategy and to meet the demands of local population demographics, and has identified this risk within the financial risk schedule underpinning the financial plan. The Board's financial plan includes an assumed maximum increase of 1% on recurring baseline funding allocations in future years. Coupled with the forecast NRAC uplift this equates to an expected overall increase in baseline funding of 1.3% in 2011/12.

Cost pressures

Cost increases exceed funding increases

42. The Board faces very significant financial challenges in the coming years. Implementing the Integrated Healthcare Strategy must be managed alongside wider challenges such as demographic changes, pay modernisation, price and prescribing increases and more general health improvement initiative costs. The financial plan has been constructed on the basis of the financial assumptions shown in Table 3.

Table 3 - Price increase assumptions

Assumptions	2011/12
Resources	1.00%
Pay – general*	0.00%
Pay – drift due to Agenda for Change	1.60%
Prices – general	2.00%
Rates	4.00%
Energy	12.00%
PFI contract uplift**	5.5%
GP Prescribing & hospital drugs	6.00%

*does not include the costs of £250 increase for those earning below £21,500 per annum

**4.7% per LDP in February 2011, but 5.5% figure reflects the actual uplift actually incurred

(Source: LDP submission/related updates)

43. Cumulatively the difference between additional funding received and cost pressures, VAT increases, demographic pressures etc is a shortfall of £14m (approx. 3.5%) for 2011/12. This has led to a need for the Board to identify and deliver considerable cash savings. Board management are committed to working towards financial balance in 2011/12, including strict vacancy management and a targeted approach to prescribing. However, the Board faces an extremely challenging year if a balanced outturn is to be achieved.

44. There is a detailed financial risk assessment framework in place within the Board to help identify, appraise and monitor financial risks. Board management are quick to factor these pressures into the financial planning process. However, from 2011/12 onwards, the Board has not yet developed detailed cash savings plans to cover all of these pressures.

Savings plans

Savings targets were not met in 2010/11 and even more challenging savings are required in 2011/12

45. Table 4 sets out the cash savings programme delivered during 2010/11, showing a significant shortfall against the planned savings. The savings delivered were identified through a mixture of specific efficiencies highlighted at the start of the financial year and “in-year” programmes.

Table 4 – Cash savings 2010/11

Source of savings	2010/11 Savings target £000s	2010/11 Actual savings £000s	Variance £000s
Acute	2,499	211	2,288
Change and improvement plan	3,380	1,387	1,993
Primary care prescribing	3,000	700	2,300
New monies	405	455	(50)
Area corporate	1,229	835	394
Total	**10,513**	**3,588**	**6,925**

(Source: NHS Board report, May 2011)

46. Actual savings recognised in the period have been significantly below the target set, with only £3.588m being achieved in year (34% of the target).

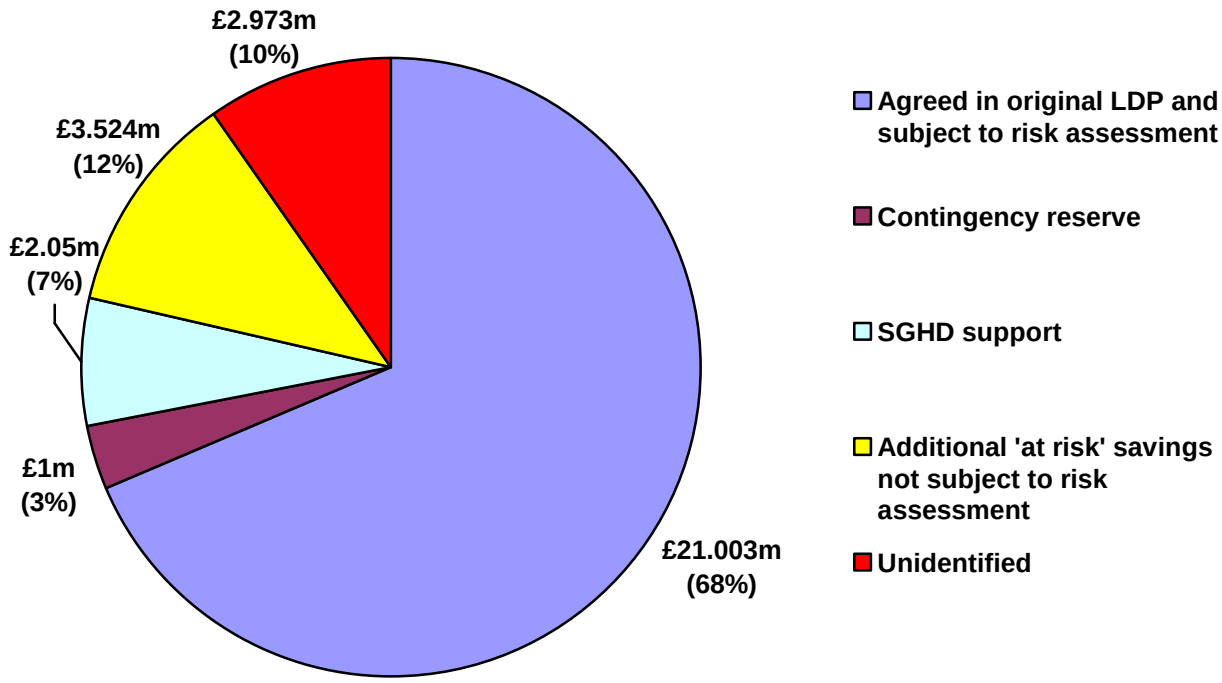
2011/12 savings target is £20m higher than 2010/11

47. The Board has identified the need to achieve cash savings of £30.550m in 2011/12 if it is to break even. This appears to be extremely challenging given that only £3.588m of savings were achieved in 2010/11. There has been extensive dialogue with SGHD regarding the particular circumstances of NHS Forth Valley during 2010/11 and 2011/12, including given the implementation of the significant Integrated Healthcare Strategy changes coinciding with the impact of the economic downturn. This area should be a key area of regular reporting and significant challenge and scrutiny by senior management and the Board during 2011/12.

Action plan point 4

48. The Board has consulted widely to try to identify areas for possible future savings. The 2011/12 savings plan is summarised below.

Diagram 2 – Savings plan



(Source: Board savings Plan 2011/12 – June 2011)

49. The savings plan which was reported to the Board in May 2011 included identified savings of £21.003m. These savings have been subject to a risk assessment and have been agreed with individual budget managers. This position left £9.547m of in-year savings which would need to be identified if a break even position was to be achieved. Following the communication with SGHD a further £3.524m of savings have been earmarked through higher level reviews, however these have been reported as being "subject to risk" as they have not been subject to the same risk assessment and formal sign off with budget managers as the £21.003m savings. The Government have also agreed £2.050m of additional support and the Board has released £1m which would otherwise be held in its contingency reserve. This leaves £2.973m of savings which have not been identified but which are required for the Board to reach a break even position.

Action plan point 5

50. NHS Forth Valley is seeking to develop and improve its efficiency arrangements, recognising that it must deliver sustainable levels of efficiency savings. It must ensure that identifying and responding to efficiency opportunities becomes embedded within rolling programmes of service reviews. This approach is in line with good practice and will help maintain a focus on patient pathways and the provision of high quality services.

People and workforce management

Significant transfer of staff in 2010/11, but workforce issues are impacting on the delivery of savings

51. NHS Forth Valley has a workforce plan and workforce modernisation strategy, underpinned by a range of policies and plans. During 2009 NHS Forth Valley developed its fourth iteration of the workforce plan, which addresses both national priorities and local demographic and related factors. The plan is coordinated with the LDP and the Board's financial plans.

52. As part of the Integrated Healthcare Strategy, some 428 staff transferred from the Board to SERCO, the facilities management provider at Forth Valley Royal Hospital, during 2010/11. This reflects the long term plan in place as part of the move to the new acute hospital and has led to a significant decrease in the overall number of staff employed directly by the Board.

53. Whilst the Board's savings plans will look to minimise the impact on front line services, savings will have to be generated from workforce management reorganisation. Given that over 70%[1] of staff employed by NHS Forth Valley are in clinical posts, the Board believes it is unlikely that staffing reductions can only be made in non-clinical areas. However, the Board reported that the low level of staff turnover was a limiting factor in its ability to make the targeted level of savings in 2010/11. During a period of austerity workforces are often predicted to remain in post due to uncertainties within the labour market.

Purchasing

NHS Forth Valley has good arrangements in place for procurement with only minor areas identified for improvement

54. During the year we carried out a follow-up review of the Audit Scotland report *Improving public sector purchasing.*

55. NHS Forth Valley's Procurement Capability Assessment (PCA) concluded that the Board has demonstrated superior performance, and has been highlighted as an example of best practice amongst health boards in Scotland. The Board has a comprehensive strategy setting out objectives and an action plan for delivering against these objectives.

56. We identified only a small number of action points, all of which we graded as being of low risk exposure. This reinforces the positive findings from the PCA.

[1] NHS Forth Valley Workforce Plan

Overall conclusion on financial management and use of resources

Financial challenges ahead risk continued delivery of services within allocated resources

57. Our overall conclusion from our review of the Board's financial performance, underlying financial position, financial plans, financial reporting and achievement of savings targets is that, whilst the Board has a history of effective financial management, there are substantial risks in this area in 2011/12 and beyond.

58. Achievement of future financial targets will be extremely demanding. This will depend on continued tight control of expenditure, delivery of very challenging savings plans and seeing through the difficult decisions the Board may have to take in relation to workforce planning. Savings plans been revised upwards several times in the past few months and there is a risk that short term focus on delivering against annual targets prevents action being taken which reflects a more strategic and long term approach to financial sustainability. This is an issue which may require further dialogue with key external stakeholders.

Performance

Introduction

59. This section of the report looks at performance management arrangements within NHS Forth Valley. An effective performance management system is a key component in the effective monitoring and management of public sector resources.

60. NHS Forth Valley's Corporate Plan sets out the key areas of work for the Board in the coming financial year, covering both local and national priorities. The Plan sets out the targets and measures for the Board demonstrating that health improvement, efficiency, access and treatment (HEAT) targets within the LDP are considered and detailed within local planning arrangements. The Plan is linked with the workforce management plan, the financial and capital plan and the Board's Local Delivery Plan. The Corporate Plan is approved by the Board on an annual basis.

61. During 2009/10 the Board's performance monitoring arrangements were reviewed by internal audit and NHS Quality Improvement Scotland (QIS). These reviews found that the Board has developed robust performance monitoring arrangements that provide assurance on the accuracy of information reported.

62. The Board continues to monitor its performance management arrangements to assess the effectiveness of data control and reporting arrangements. There are still areas of the Board's performance management arrangements which can be improved. For example, not all performance measures for Community Health Partnerships (CHPs) are measurable or time bound.

NHS Forth Valley's self-assessment of Best Value identified good practice and areas for improvement but no action plan for follow-up has been put in place

63. The Board is beginning to develop its own arrangements for assessing and monitoring best value. In 2010 NHS Forth Valley carried out a self-assessment of its delivery against the characteristics of Best Value. The review identified a number of strengths but also areas of weakness. Scott-Moncrieff carried out a review of the Board's self-assessment in March 2010. The Board's initial assessment of best value arrangements demonstrated a good understanding of the characteristics of best value and what the Board is doing to deliver against each characteristic. We found however, that the Board had played down some of its strengths and weaknesses. This meant that NHS Forth Valley would not get the recognition for its success or be able to demonstrate the level of progress made against identified areas of weakness

64. NHS Forth Valley is currently reviewing and updating its self-assessment. A paper is due to be presented to the Board in July 2011. To date there is no clear action plan for how the Board will take forward weaknesses in best value or how it will improve and develop areas of good practice. Therefore it will be difficult for the Board to monitor progress or to hold staff

accountable for targets and planned changes. The Board must develop an action plan to address the issues identified through its best value self assessment.

Action plan point 6

65. In March 2011 the Board applied the Audit Scotland self-assessment toolkit on delivering efficiency savings. The findings of the self-assessment indicated that the Board has good underpinning processes in place in relation to identifying, delivering and reporting efficiencies. Senior management lead on the process, and significant efficiencies have been reported in recent years. Going forward, the Board should develop a formal action plan in relation to the best value efficiencies toolkit, in order to maximise the value of the self-assessment and help embed best value within the Board's efficiency arrangements.

Action plan point 7

66. NHS Forth Valley has stated that it delivers efficiency savings over and above those which are reported to the Board. These savings are not reported within the regular finance reports presented to the Board however as they are non-cash savings, e.g. productivity improvements regarding the quality or quantity of services for the same level of inputs. Therefore the level of efficiency savings reported to the Board are not the total levels of efficiency savings achieved. The Board should ensure that all efficiency savings, including non-cash savings, are reported to the Board.

Action plan point 8

NHS Forth Valley is monitoring the quality of service provision across the Board and a formal paper collating all existing workstreams is currently being developed

67. In May 2010 the Scottish Government launched its Healthcare Quality Strategy for NHS Scotland. The Board's Director of Nursing is preparing a Board wide response to the Scottish Government's quality strategy. This paper will bring together a number of structures and processes currently in place within the Board. This paper would be the first stand alone paper on quality to the Board. It is therefore expected to be a very useful paper for getting Board buy-in and identifying commitments and objectives of the Board.

68. In August 2010 NHS Forth Valley set up a Quality Improvement Steering Group, Chaired by the Chief Executive. The group is seen by the Board as being key to driving forward the quality improvement agenda. It is looking at metrics and quality information on care, and has set up quality champions and has held staff sessions with the aim of identifying options for improvement. As part of this work NHS Forth Valley held a major event for key senior level staff within the Board who were identified as stakeholders in this work. The Board is also looking at how the work of this group can be linked to the efficiency and productivity work being led by the Chief Operating Officer.

69. The work of the Quality Improvement Steering Group goes beyond the three quality care principal aims. The group has set out quality measures for the Board and the approach to measurement. This looks at the level of information and data needed at the operational level

and the changes in information and data needed by senior management and by the Board. This work is being piloted within orthopaedics but the outcomes have not yet been formally reported. The timescale for rolling this pilot out across other services has not been finalised. The Board should set out timescales for when a report on this pilot will be delivered and when it will be rolled out across NHS Forth Valley.

Action plan point 9

70. NHS Forth Valley approved its Patient Focus and Public Involvement Strategy 2010 – 2013 in January 2010. Patient Focus and Public Involvement is a key strategic priority of the Board and the strategy sets out how the Board would seek to continue to improve its performance within this area. A progress report against the strategy was presented to the Board in March 2011 with the paper stating that there was full achievement against six areas of the strategy. However, clear targets and measures were not set for these priority actions and therefore the Board's reporting on how successfully it has achieved these targets is not clear. For example, one of the Board's targets was to increase public involvement. This target could have been achieved through the additional involvement of one person or 1,000 people. The lack of a clear target means the Board is unsure if the level of increased public involvement was in line with expectations or was even a material increase in the level of public involvement. The Board must ensure that it sets SMART[2] targets which will enable the Board to demonstrate not only the achievement of its targets but indicate if it has exceeded targets or expectations.

Action plan point 10

71. NHS Forth Valley's Integrated Healthcare Strategy set out significant changes for its patients and stakeholders. The most physical change of the strategy was the development of Forth Valley Royal Hospital. However, this is just one aspect of the changes in the Board's delivery of services and its approach to delivering healthcare. The Board is focussing on the quality of services provided to patients and the patient pathway. The Integrated Healthcare Strategy seeks to enhance both patients' experience and the quality of services they receive.

72. NHS Forth Valley has stated its view that "the extent of change achieved to date across Forth Valley as a result of [its] Integrated Health Strategy is unprecedented."[3] The Board recognises however that it must be able to demonstrate the effective delivery and implementation of its Integrated Healthcare Strategy to its external stakeholders. To achieve this, the Board must have clear and effective performance measures in place. The Board also needs to have quality measures which will enable it to demonstrate continuous improvement going forward. The current HEAT targets provide some information and the Board supplements this by providing regular performance reports on relevant service areas. The Board should seek to provide performance reports to its key external stakeholders on the quality of services being delivered through the Integrated Healthcare Strategy.

Action plan point 11

[2] Specific, Measurable, Accurate, Timely and Relevant (SMART).

[3] *Communications Strategy 2010 – 2014*, NHS Forth Valley, November 2010

A new communications strategy has been approved by the Board but measures for assessing effective communication have not yet been identified

73. In November 2010 the NHS Forth Valley Board reviewed and approved a revised communications strategy. The strategy outlines the key principles underpinning NHS Forth Valley's communications with staff and stakeholders. The key principles set out in the strategy include:

- clear and effective communication with patients and stakeholders prior to major changes in service delivery;
- honest, open, timely and accurate communications; and
- that staff and key stakeholders will be informed of key NHS Forth Valley initiatives or announcement in advance of external audiences.

74. The strategy also sets out the main methods of communication which will be used by the Board and the objectives it expects to deliver. These cover a range of media approaches as well as the use of joint communications initiatives with local authorities and public sector partners. The strategy sets out the Board's priorities for effective communication. The strategy does not however set out how the Board will measure the delivery of the strategy nor does it set targets for improvements in communications with stakeholders. Whilst the strategy does outline tools available to the Board to assess communications no targets have been identified.

Action plan point 12

Improvements continue to be made to the Board's Community Health Partnerships

75. The Board has three Community Health Partnerships (CHPs) with the local authorities in the Board's territorial boundary (Clackmannanshire, Stirling and Falkirk councils). The CHPs bring together the Board, the respective local authority, the voluntary sector and other stakeholders. In 2010 we reported that the arrangements supporting the Board's three CHPs would have to evolve if the CHPs were to meet their strategic objectives and demonstrate best value through effective partnership working. We stated that the existing structures were not providing effective scrutiny and challenge on performance. The Board recognised this issue and reviewed the management arrangements for the three CHPs.

76. The revised structures have seen a higher level of engagement and input from board members and partners. At the time of our audit the new structures were still being embedded and revised. The Board has therefore not yet formally reviewed the effectiveness of these structures. The Board continues to monitor and adapt these arrangements as they develop. For example, whilst the wider management review is being completed Stirling and Clackmannanshire CHPs will be managed by a single CHP Manager. The Board should explore further the opportunity for further sharing of posts across CHPs.

77. Performance reports on CHPs are still being revised by the Board. Whilst all three CHPs have set out short, medium and long-term targets not all targets are measurable. An outline paper on revising CHPs' performance reports is being developed by the Board's management team. It is

important that the Board develops prioritised performance reporting with clear targets for all three CHPs.

Action plan point 13

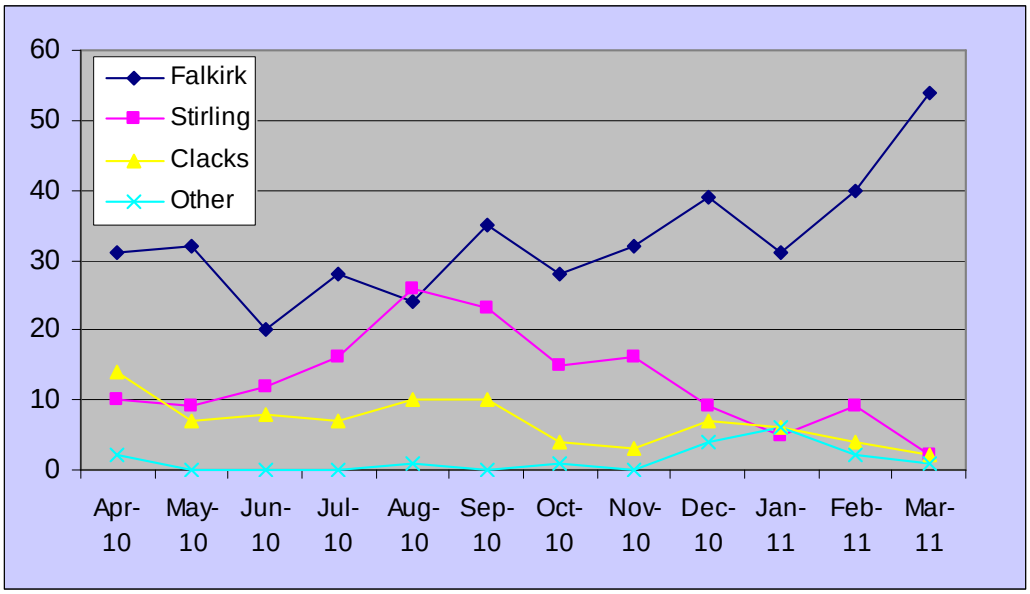
78. In June 2011 Audit Scotland published the findings of its national review of CHPs. The review considered CHPs' governance arrangements and whether CHPs were achieving what they had been set up to deliver. The review found that governance and accountability arrangements for CHPs are not always clear and needed to be improved. The review also found limited evidence of CHPs delivering sustained improvements. These key findings are reflected in the experiences of NHS Forth Valley. The Board's revised structure for its CHPs already addresses some of the key recommendations of the national Audit Scotland report. The Board should review all the recommendations within the Audit Scotland report and ensure it can demonstrate how it is responding to each one.

Action plan point 14

NHS Forth Valley has made significant reductions in the level of delayed discharges and is working with all three councils to reduce these further

79. NHS Forth Valley covers three local authority territories and therefore it must work with three different councils' approaches to addressing delayed discharges. To enable effective analysis of delayed discharge information the Board reports on delayed discharges at a combined level but also by each council. Historically, delayed discharges has been an area requiring development for NHS Forth Valley. Reporting on delayed discharges at a council level has helped identify weaknesses in different council arrangements. Weekly micro management meetings are also held to discuss delayed discharges and what actions are required to move patients on. Stirling Council had a high level of delayed discharges. A multi-agency inspection of the Council's delayed discharge arrangements was carried out two years ago. Following the review there were significant reductions in Stirling's delayed discharges figures. Delayed discharges fell from 20 in March 2010 to two in March 2011. The council within NHS Forth Valley with the highest levels of delayed discharges in 2010/11 was Falkirk Council (Diagram 3). Delayed discharges for patients from the Falkirk Council area rose from 38 in March 2010 to 54 in March 2011. During 2010/11 Falkirk Council had an average level of 33 delayed discharges.

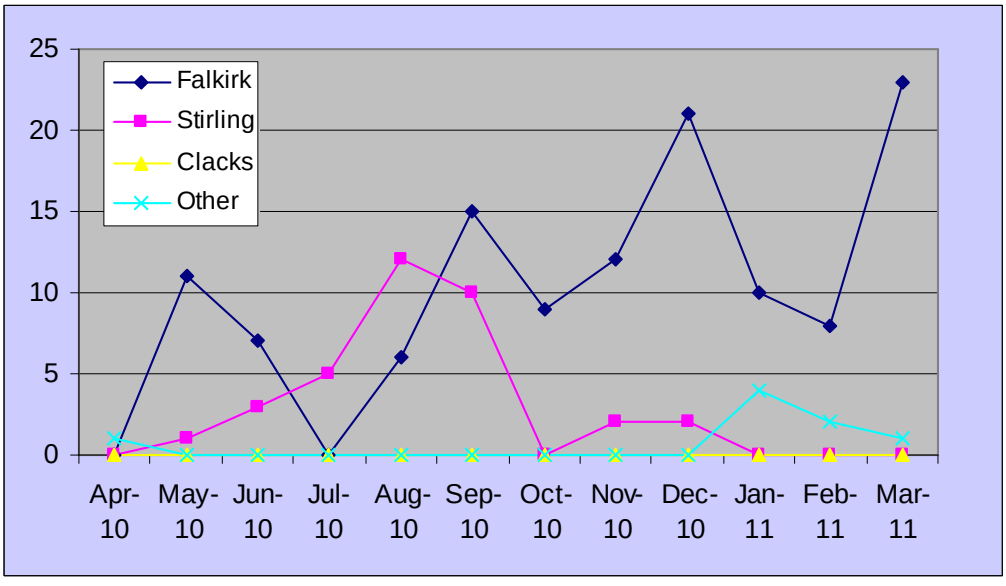
Diagram 3 – Delayed Discharges by Council



(Source: Scott-Moncrieff from figures reported by NHS Forth Valley)

80. Falkirk Council also had the highest level of patients exceeding the national six week target for delayed discharges. The average number of patients exceeding the six week delayed discharge target in Falkirk Council during 2010/11 was ten. In March 2011 23 patients from Falkirk Council's region were exceeding the delayed discharge target, compared with zero in March 2010 (Diagram 4). Clackmannanshire Council had no patients exceeding the six week target throughout 2010/11. Despite two peak months in August and September Stirling Council had an average of three patients exceeding the national target during 2010/11. Falkirk Council is currently undergoing a review of its delayed discharge arrangements in conjunction with the SGHD Joint Improvement Team (JIT).

Diagram 4 – Delayed Discharges Exceeding Six Week Target by Council



(Source: Scott-Moncrieff from figures reported by NHS Forth Valley)

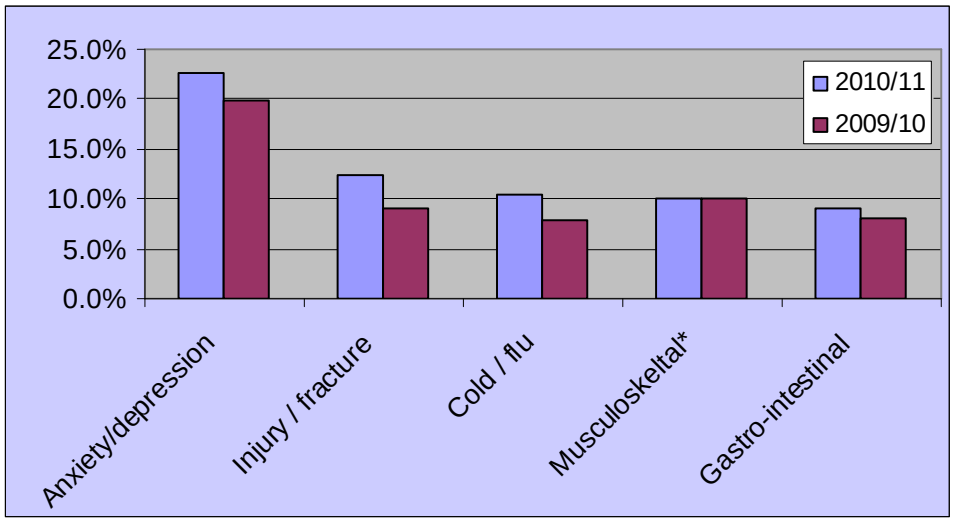
81. The Board meets on a regular basis with all three councils at an officer level and at a Board and elected member level. Difficulties and differences in existing arrangements between the Board and the councils can be based on political decisions taken by the individual councils. The Board must therefore seek to highlight the potential consequences of decisions on health service delivery and patients.

Absence management continues to be an area of weakness for NHS Forth Valley

82. NHS Forth Valley continues to report levels of staff absence above the national target. The Board has maintained a steady level of absence of around five percent against the national target of four per cent. The Board has continued to monitor this situation during 2010/11.

83. In 2010 we noted that the Board had reviewed its performance reporting on sickness absence levels. Through this the Board was able to identify the top five reasons for staff absence and was committed to addressing these areas. However, the performance data for 2010/11 shows little change in the levels of staff absence or in the reasons for staff absence (Diagram 5). The current arrangements for reducing sickness absence have therefore not worked as effectively as the Board intended.

Diagram 5 – NHS Forth Valley Top Five Reasons for Absence



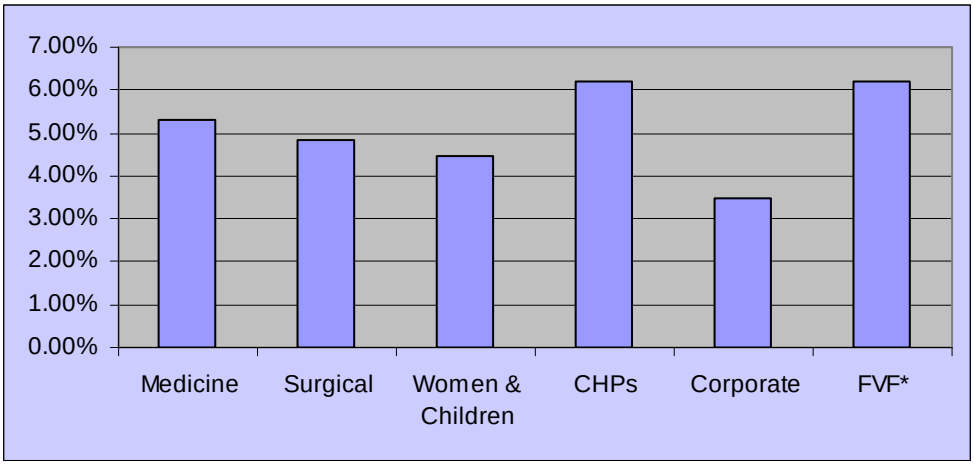
(Source: Scott-Moncrieff from figures reported by NHS Forth Valley)

84. NHS Forth Valley continues to monitor and report the main reasons for absence. There has been little change in the main reasons for absence between 2009/10 and 2010/11, which continues to be anxiety and depression. The level of hours lost to this has increased from 19.8 per cent in 2009/10 to 22.7 per cent in February 2011. For February 2011 the level of staff hours lost to anxiety and depression was greater than the combined hours lost to the next two highest absence reasons of cold / flu and injury / fractures.

85. The Board also reports absence levels by specialisms and areas within NHS Forth Valley (Diagram 6). Therefore the Board can identify the differences in absence levels across functions, e.g. between medicine and corporate services. This enables the Board to identify areas of weakness and trends. As can be seen from Diagram 5 only Corporate Services reported absence levels below the national target of four per cent. The Board must continue working to ensure that resources and objectives are targeted to the areas of highest and sustained absence levels. The Board should also seek to identify and share good practice across service areas, where appropriate.

Action plan point 15

Diagram 6 – NHS Forth Valley Absence Levels by Service Area



** Forth Valley Facilities*

(Source: Scott-Moncrieff from figures reported by NHS Forth Valley Board in May 2011)

The Board's readmission rates are among the highest in Scotland and work is ongoing to identify effective solutions for addressing this

86. NHS Forth Valley's service redesign work sought to change the way patients received services, accessed health care and also sought to reduce the time patients spend in hospital following surgery or treatments. The Board recognised that seeking to reduce post treatment time in hospital could result in increased readmission rates. Our interim audit report highlighted that NHS Forth Valley has the highest level of re-admission rates for surgical and medical admissions in Scotland.

87. The Board continues to be an outlier in readmission levels for mainland boards. This has been discussed with senior managers, at committee level and with the Board, and measures have been put in place to address the issue. In the latest performance reports readmission rates have reduced. Readmissions levels within seven days dropped from 5.1 per cent in July 2010 to 4.6 per cent by April 2011, whilst readmission rates within 28 days dropped from 13.8 to 13.4 percent within the same time period. There was however an increase for the average length of stay for patients over the same period. Average length of stay rose from 5.1 to 5.5 days.

88. As part of its work in monitoring readmission rates the Board is reviewing how staff are coding patients admitted to hospital. To reduce the number of bed spaces required by the Board patients admitted for assessment and initial treatment are allowed to go home until their next scheduled treatment. There is a concern within the Board that these patients are incorrectly coded as readmissions when they return for scheduled treatment. A verbal update on the Board's performance against readmission rates was presented to the Acute Clinical Governance Committee in May 2011. The Board should ensure a timescale is established for receiving a formal report in this area.

HEAT and performance targets

89. Performance against HEAT and other targets for 2010/11 was reported to the Board at its meeting in June 2011. Almost 90 per cent of the Board's targets are above target or within an acceptable tolerance level of the target (Table 5).

Table 5 – Overall progress against targets

Progress	Number	Per Cent
Above or on target	20	61%
Within tolerance level	9	27%
Below target	4	12%
No data available	1	>1%

(Source: Board Performance Reports)

90. The four areas which were reported as being below target in 2010/11 were:
- Number of successful smoking cessation attempts
- Per cent breastfeeding at 6-8 weeks
- Forth Valley sickness absence
- Delayed discharges greater than six weeks

91. The Board had set a target of eight per cent of its smoking population having quit between 2008/09 and 2010/11 and is below target for a second year in a row. To address this situation the Board appointed a smoking cessation trainer and continues to deliver smoking cessation across a range of settings. The Board has noted that there has been a reduction in the number of people accessing smoking cessation services, though this is in line with the experience of other health boards. The Board is developing an action plan to improve performance in this area but this has not yet been finalised.

92. The Board reported that only 24 per cent of mothers are breast feeding by six to eight weeks. To address this issue and other areas of maternal and child development the Board has approved a Maternal and Infant Nutrition action plan. This is currently being implemented and

the Board believes it will lead to improved performance and increased levels of mothers breast feeding within six to eight weeks.

Action plan point 16

93. Two areas reported as below target in 2009/10 but now within accepted tolerance levels are the number of anti-depressant daily dispersed doses per capita and Accident and Emergency (A&E) attendances per 100,000 population.

94. The Board is taking steps to address the number of anti-depressant daily dispensed doses per capita. The Board formed a delivery group to take forward the Forth Valley Psychological Therapies Strategy approved in 2009. To support the work of this strategy the Board also created a part time training coordinator post, funded by NHS Education for Scotland. The Board has also carried out a pilot scheme in Clackmannanshire to provide alternatives to prescribing. This has been completed and the Board is using the findings of the pilot to redesign its behavioural psychotherapy services.

95. The Board has committed to reducing A&E attendances to 2,002 per 100,000 of population by March 2011. To enable effective comparison the board developed a fluctuating target to take account of seasonal variations. The Board has improved its annual performance from 2009/10 and the indicator has moved from a rating of significantly below target to within an acceptable tolerance level. The Board's performance in this area does however continue to fluctuate significantly and in March 2011 attendances were 2,136 against a target of 1,916.

The Board continues to develop and monitor arrangements for the effective transfer of providing healthcare to prisoners

96. In 2010, the Scottish Government announced that responsibility for providing healthcare to prisoners will transfer from the Scottish Prison Service to individual health boards. There are three prisons within NHS Forth Valley. These are Her Majesty's Prison (HMP) Corton Vale, HMP Glenochil and Her Majesty's Young Offenders' Institute at Polmont. NHS Forth Valley is therefore responsible for providing healthcare to prisoners within these institutions.

97. A paper on this change and the implications for NHS Forth Valley was presented to the Board's Operational Group in May 2011. The paper "acknowledged that there is still much to be done in the Forth Valley area". The Board has prepared an action plan to address the issues raised, with lead officers and timescales against each action. The Board must ensure that this area of service delivery is monitored closely, and that all actions are delivered in line with agreed timescales.

Governance

98. This section sets out the main findings arising from our review of NHS Forth Valley's governance arrangements as they relate to:

- Corporate governance
- Risk management
- Internal audit
- Prevention and detection of fraud and irregularity and the National Fraud Initiative (NFI)

Corporate governance

99. Our work on corporate governance focussed on our review of the Board's arrangements to ensure effective systems of internal control, prevention and detection of fraud and irregularity and standards of conduct and prevention and detection of corruption.

100. We are pleased to report that governance arrangements at NHS Forth Valley remain effective. The Board continues to receive regular and detailed performance and financial information which provides a good basis to facilitate scrutiny and challenge, as well as identifying the key risk factors which may impact on achievement of financial and non-financial outcomes.

Risk management

101. Effective risk management is especially critical in the health service, where adverse incidents could result in poor quality health care as well as putting a strain on staff and financial resources.

102. Within the Board, Service Directors are responsible for managing risks within their remit whilst the Chief Operating Officer is responsible for operational risks to service delivery. The Corporate Risk Register (CRR) is used to monitor strategic risks on a monthly basis. The outputs of this process are reported to the Board through the Board Performance Reports. Following recommendations made in our 2009/10 interim report the CRR has been updated to show residual risk and due dates for implementing mitigating actions, as appropriate.

103. In 2009/10, NHS Quality Improvement Scotland reviewed the Board's clinical governance and risk management arrangements. That report rated the Board as being at the "monitoring" stage in relation to risk management (which is the third of the four stages of the rating criteria). The review findings continue to be consistent with the findings from our audit work. Risk management arrangements have improved over the last five years and continue to develop.

Internal audit

104. The Board's internal audit service is provided by FTF Audit and Management Services (FTF).

105. In accordance with International Standard on Auditing (ISA) 610 – Considering the work of internal audit, "the external auditor should perform an assessment of the internal audit function

when internal auditing is relevant to the external auditor's risk assessment." Overall, we concluded that FTF provides a service which complies with Government Internal Audit Standards and which we can rely upon. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the FTF internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

106. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Board's arrangements to prevent and detect fraud and irregularity. We did not find any indication of fraud and irregularity and concluded that the Board's internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

The Board has generally adequate arrangements in place to enable it to take part in the National Fraud Initiative

107. The National Fraud Initiative (NFI) is a counter-fraud exercise undertaken by Audit Scotland in conjunction with the Audit Commission, external auditors and a number of public sector bodies, including NHS Forth Valley. Data was uploaded for the 2010/11 exercise in October 2010. Reports for each type of NFI match are released through a secure website to which participating organisations and auditors have access. 2010/11 matches were released in January 2011.

108. In March 2011 the Audit Committee received a report on the progress of the 2010/11 NFI exercise, ensuring the issue was raised at non-executive level within the Board. This noted the progress the Board made in investigating payroll matches and has submitted payables information for the first time this year. The investigation of payables matches is planned to take place following the completion of the financial statements and we fully encourage the Board to continue its NFI work.

109. We have reviewed the Board's participation in the NFI including an assessment of the Board's overall approach to NFI and a consideration of whether matches have been investigated efficiently and effectively. The Board's arrangements have been generally adequate in the year. However, in the May 2010 NFI national report, Audit Scotland recommended that participating bodies carry out a self-assessment, with a checklist appended to the annual NFI report. It was recommended that the findings of this exercise should be reported to the Audit Committee. This has not been carried out by the Board to date.

Action plan point 17

Looking forward

Finance

110. The Board is projecting a breakeven position in 2010/11. However this is predicated on large in-year savings, including substantial savings which have been reported as either being "subject to risk" or as yet unidentified. £11.244m of non-recurring surplus will be required to break even in 2011/12. It is therefore vital that the Board monitors this position closely. Maintaining services at current levels may not be sustainable. Risks in this regard are increasing and difficult decisions are undoubtedly being faced the Board.

111. The Board has not yet formally agreed a position with SGHD for the remainder of the Board's five year financial plan. It is currently projecting a recurring deficit of £11.244m which will require to be managed annually unless further recurring savings can be found. There are likely to be a number of years of financial challenge for the Board.

112. Key financial risks which may impact on the achievement of the projected financial outturns have been identified by the Board, and areas such as demographic change and advancing technology will create further pressure. The analysis of these risks recognises that, whilst the health sector is expected to be the most protected from looming budget reductions, there is still significant uncertainty over the longer term level of funding that will be provided to boards across Scotland.

113. The Integrated Healthcare Strategy is in a critical phase, with Forth Valley Royal Hospital becoming fully operational in July 2011 and plans being finalised for community hospital provision across the Board area. This should allow NHS Forth Valley to build on the significant progress already made in service redesign and to deliver operating efficiencies.

Performance

114. HEAT targets will come under increasing pressure in the current financial operating environment. The time for 'difficult decisions' is very much here, particularly given the significant savings the Board will have to deliver. The challenge will be to operate sustainably whilst minimising impact of performance and the quality of services.

115. Audit Scotland is committed to extending best value across the public sector and it is expected that further best value toolkits will be applied in 2011/12.

Governance

116. To help NHS Forth Valley address its pressures and challenges, both as a result of local and national issues, it is more important than ever that sufficient and appropriate leadership, scrutiny and challenge is in place to deliver the best outcomes for the public. Maintaining an effective governance framework will be key to the future success of the Board.

Action Plan

Our annual report action plan details the more significant control weaknesses and opportunities for improvement that we have identified during our final audit visit in addition to any reportable matters arising from our review of performance and governance systems.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. The Board should assess these recommendations for their wider implications before approving the action plan.

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

Grading

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

Grade 5	Very high risk exposure - Major concerns requiring Board attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Issues arising from our 2010/11 audit

No	Title	Issue identified	Risk and recommendation	Management comments
1	**Non-executive remuneration (Para 19)**	The Board has disclosed in its remuneration report a payment to Her Majesty's Revenue and Customs (HMRC) of £51,634 in respect of pay as you earn (PAYE) tax and national insurance contributions (NIC) relating to a non-executive director. The Board had been paying the non-executive director's remuneration gross, however, the remuneration should have been paid via the payroll with PAYE tax and NIC deducted at source.	The Board should recover, from the non-executive director, the amounts due relating to the period before the non-executive director was transferred to the Board's payroll, in accordance with the Scottish Public Finance Manual. In determining the amount to recover, the Board should explore fully with HMRC whether there is an opportunity to reclaim any of the payment noted above by off-setting it against any tax and NIC already paid by the non-executive director. **Grade 3**	Agreed. **Responsible officer**: Director of Finance **Deadline**: December 2011

No	Title	Issue identified	Risk and recommendation	Management comments
2	**Bellsdyke reporting (Para 24)**	The Board has an established governance and monitoring framework to oversee the Bellsdyke development agreement. However, we believe that a more joined up approach could be taken to link this with more formal identification and reporting of possible impacts on the year end financial position.	A small adverse impact from disposal could push the Board into a deficit outturn position. Reporting of the potential impact of Bellsdyke disposals on the year end outturn should be considered for inclusion as a standing item within Board Finance Reports, particularly towards the end of the financial year. This will make clear the projected impact of any disposal and provide at least some scope to react to the possible impact on the outturn position. **Grade 3**	Agree to incorporation within finance report. Future accounting treatment will be discussed with incoming auditors. **Responsible officer**: Assistant Director of Finance **Deadline**: March 2012

No	Title	Issue identified	Risk and recommendation	Management comments
3	**5 year financial plan (Para 38)**	The Board has prepared a 5 year financial plan covering the period 2010/11 to 2015/16 as part of its Local Delivery Plan submission to the Scottish Government. However, formal agreement has only been reached on the 2011/12 position (impacted by the current Spending Review covering only a one-year period).	The Board should seek to reach agreement over the full five year plan as soon as is practicable, once the September 2011 Spending Review implications are known. This should include detailed discussion and exploring fundamentally revised approaches to deliver financial balance, in discussion and collaboration with SGHD. **Grade 4**	The Five Year Financial Plan will be updated once the outcome of the Spending Review is known. The local focus on savings has always sought to ensure sustainable financial balance and has sought to address cash releasing savings through a structured strategic approach as there has been concern about the sustainability of 'salami-slicing.' **Responsible officer:** Director of Finance **Implementation date:** February 2012
4	**Efficiency savings (Para 47)**	The Board has identified the need to achieve cash savings of £30.550m in 2011/12 if it is to break even. There has been extensive dialogue with SGHD regarding the particular circumstances of NHS Forth Valley during 2010/11 and 2011/12.	This appears to be extremely challenging given that only £3.588m of savings were achieved in 2010/11. This area should be a key area of regular reporting and significant challenge and scrutiny by senior management and the Board during 2011/12. **Grade 4**	Agreed – this has already been the major focus of work over the preceding year. **Responsible officer:** Director of Finance **Implementation date:** Ongoing

No	Title	Issue identified	Risk and recommendation	Management comments
5	**Savings plans (Para 49)**	The Board has earmarked £4.524m of savings which have been reported as being "subject to risk" and have not been subject to the same risk assessment and formal sign off with budget managers as other (identified) savings. In addition, £2.973m of savings have been included in the LDP which have been identified.	The Board must achieve cash savings of £30.550m in 2011/12 if it is to break even in 2011/12 per its financial plans. Given that £7.497m of these savings are 'subject to risk' or are unidentified there is significant risk that this target will not be achieved. The Board should quantify where, and how, it will make the savings required in a detailed savings plan. This should include formal agreements with the relevant budget holders charged with delivering these savings. **Grade 4**	Agreed. **Responsible officer:** Chief Operating Officer **Implementation date:** September 2011
6	**Best Value (Para 64)**	NHS Forth Valley is currently reviewing and updating its Best Value self-assessment. A paper is due to be presented to the Board in July 2011. To date there is no clear action plan for how the Board will improve weaknesses in Best Value or how it will sustain and develop areas of good practice.	The Board must develop an action plan to address the issues identified through its Best Value self assessment. **Grade 3**	Consideration will be given to the relative priority of developing an action plan in respect of Best Value. **Responsible officer:** Director of Finance **Implementation date:** October 2011

No	Title	Issue identified	Risk and recommendation	Management comments
7	**Efficiencies (Para 65)**	The Board applied the Audit Scotland self-assessment toolkit on delivering efficiency savings. The findings of the self-assessment indicated that the Board has good underpinning processes in place in relation to identifying, delivering and reporting efficiencies.	The Board should develop a formal action plan in relation to the best value efficiencies toolkit, in order to maximise the value of the toolkit and help embed best value within the Board's efficiency arrangements. This could be integrated into any wider Best Value action plan developed by the Board. **Grade 2**	Consideration will be given to developing an action plan however there is concern that the efficiencies toolkit focuses on the governance and process rather than being a useful tool in identifying real opportunities for cash savings. **Responsible officer:** Director of Finance **Implementation date:** September 2011
8	**Reporting of efficiency savings (Para 66)**	NHS Forth Valley has stated that it delivers efficiency savings over and above those which are reported to the Board. These savings are not reported within the regular finance reports presented to the Board as they are non-cash savings (ie productivity improvements).	The Board should ensure that all efficiency savings, including non-cash savings, are reported to the Board. **Grade 3**	This has already been incorporated into the local benchmarking work however a further review of how productivity efficiency is further developed will be considered both as part of this and as part of the approach to Quality. **Responsible officer:** Head of Performance Management **Implementation date:** December 2011

No	Title	Issue identified	Risk and recommendation	Management comments
9	**Quality data (Para 69)**	The Quality Improvement Steering Group is looking at the level of information and data needed at the operational level and the changes in information and data needed by senior management and by the Board. This work is being piloted within orthopaedics but the outcomes have not yet been formally reported. The timescale for rolling this pilot out across other services has not been finalised.	The Board should set out timescales for when a report on this pilot will be delivered and when the pilot is expected to be rolled out across NHS Forth Valley. **Grade 2**	As indicated work is ongoing and expected to evolve over the year. Timeframes for report on pilot and thereafter roll-out if successful will be confirmed. **Responsible officer:** Medical Director **Implementation date:** September 2011
10	**PFPI (Para 70)**	Clear targets and measures were not set for the PFPI actions and therefore the Board's reporting on how successfully it has achieved these targets is not clear.	The Board must ensure that it sets SMART targets for going forward. **Grade 2**	Consideration will be given to SMART measures as appropriate and in agreement with PPF. **Responsible officer:** Director of Nursing **Implementation date:** March 2012

No	Title	Issue identified	Risk and recommendation	Management comments
11	**Reporting on performance quality (Para 72)**	NHS Forth Valley's Integrated Healthcare Strategy set out significant changes for its patients and stakeholders. The Board is focussing on the quality of services provided to patients and the patient pathway.	The Board should seek to provide performance reports to its key external stakeholders on the quality of services being delivered through the Integrated Healthcare Strategy. **Grade 2**	A Post Project Evaluation is required for each Project and these will be widely available : these will provide the basis of an overall assessment of the impact of changes. As indicated in Action Point 9 the Quality Steering Group is looking at the level of information needed and this action point will be incorporated into the response to that action Point.
12	**Communications (Para 74)**	The Board's communication's strategy does not set out how the Board will measure the effective delivery of the strategy nor does it set targets for improvements in communications with stakeholders.	The Board should identify measures and targets for monitoring the effectiveness of its communications strategy. **Grade 2**	Agreed where feasible. **Responsible officer:** Head of Communications **Implementation date:** December 2011

No	Title	Issue identified	Risk and recommendation	Management comments
13	**CHP performance reporting (Para 77)**	Performance reports on CHPs are still being revised by the Board. Whilst all three CHPs have set out short, medium and long-term targets not all targets are measurable.	It is important that the Board develops prioritised performance reporting with clear targets for all three CHPs. **Grade 3**	In respect of Older Peoples Services such measures are being developed through the Change Fund Process and work this year will continue to focus on this area of development. **Responsible officer:** Head of Performance Management **Implementation date:** October 2011
14	**Audit Scotland CHP report (Para 78)**	In June 2001 Audit Scotland published the findings of its national review of CHPs. The review found that governance and accountability arrangements for CHPs are not always clear and needed to be improved. The review also found limited evidence of CHPs delivering sustained improvements.	The Board should review all the recommendations within the Audit Scotland report and ensure it can demonstrate how it is responding to each one. **Grade 2**	Agreed. **Responsible officer:** CHP General Managers **Implementation date:** October 2011

No	Title	Issue identified	Risk and recommendation	Management comments
15	**Absence Management (Para 85)**	For the third year in a row NHS Forth Valley continues to report levels of staff absence above the national target. The Board has maintained a steady level of absence of around five percent against the national target of four per cent.	The Board must continue working to ensure that resources and objectives are targeted to the areas of highest and sustained absence levels. The Board should also seek to identify and share good practice across service areas, where appropriate. **Grade 3**	A local Group is in place to oversee the approach to absence management chaired by a General Manager and includes this sharing of best practice. Drop in clinics involving the Director of HR to review and assist with the management of specific cases has been established. At present it is the intention to allow this latter introduction to settle in and be reviewed before agreeing any further action. **Responsible officer:** Director of Human Resources **Implementation date:** Ongoing
16	**Finalising action plans (Para 92)**	The Board is developing an action plan to improve performance in smoking cessation but this has not yet been finalised. To address poor performance in breastfeeding and other areas of maternal and child development the Board has approved a Maternal and Infant Nutrition action plan.	The Board must ensure that the action plans for smoking cessation and breastfeeding are approved. Appropriate monitoring arrangements should be put in place to assess the effectiveness of these plans. **Grade 2**	Agreed. **Responsible officer:** Director of Public Health **Implementation date:** October 2011

No	Title	Issue identified	Risk and recommendation	Management comments
17	**NFI self assessment (Para 109)**	The Board's NFI arrangements have been generally adequate in the year. However, in the May 2010 NFI national report, Audit Scotland recommended that participating bodies carry out a self-assessment, with a checklist appended to the annual NFI report. It was recommended that the findings of this exercise should be reported to the Audit Committee. This has not been carried out by the Board to date.	To ensure the Board fully engages with the NFI process and provides sufficient scrutiny opportunity, we recommend that this assessment is undertaken and reported back to the Audit Committee. **Grade 2**	As indicated in the Report the Audit Committee received a report on NFI Progress at its March Meeting including comparative data from previous years. Consideration will be given to the completion of the self assessment - Board Officers were not aware this otherwise it would have been included in the NFI Report to the Audit Committee. At present whilst conscious of the wider public sector impact the NFI workload is outweighing any local benefit to NHS Forth Valley. **Responsible officer:** Director of Finance **Implementation date:** September 2011

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