

The 2013/14 audit of NHS Highland

Financial management



Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000

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Introduction

1. I have received audited accounts and the auditor's report for NHS Highland for the year ended 31 March 2014. The purpose of this report is to draw Parliament's attention to poor financial management in NHS Highland during 2013/14.
2. I submit these accounts and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.

Auditor's opinion

3. The auditor gave an unqualified opinion on the board's accounts. However, he highlighted in his annual audit report for 2013/14 that weaknesses in financial management were a major factor in the board requiring brokerage of £2.5 million from the Scottish Government to break even. While this amount of brokerage represents a small percentage of the board's total revenue budget (0.3 per cent), the auditor reported that the need for brokerage was mainly due to an overspend on the operating costs for Raigmore Hospital and that weaknesses in financial management at the hospital emerged late in the year. Other factors contributing to the need for brokerage were financial pressures in the acute sector from costs associated with hiring agency staff, particularly locum doctors, and meeting national waiting times targets. The auditor also highlighted the board's continued reliance on non-recurring savings.

Findings

2013/14 outturn

4. The Scottish Government allocated £634.3 million to NHS Highland in 2013/14: £617.9 million for revenue and £16.4 million for capital.¹ NHS boards have two financial targets, which are to break even against each of these budgets at the end of the financial year. NHS Highland met both targets in 2013/14 and made a small surplus of £0.1 million against its revenue budget (0.01%), but it needed brokerage of £2.5 million from the Scottish Government to reach this position.
5. NHS Highland's total revenue budget for 2013/14 was £724.6 million which included £617.9 million from the Scottish Government and £87.5 million from Highland Council for the costs of adult health and social care integration.²

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6. Throughout the year until February 2014, NHS Highland was forecasting that it would break even at the end of the financial year (March 2014). Monthly monitoring reports to its Board

¹ The revenue budget is known as the Revenue Resource Limit (RRL) and the capital budget is known as the Capital Resource Limit (CRL). This relates to funding from the Scottish Government.

² The remaining £19.2 million is other income from sources such as private patients, recharges for secondees and services to other NHS boards.

forecast a break-even position at the year-end throughout the financial year.³ However, the actual year-to-date outturn position showed significant overspends against the budget each month. Monthly information prepared by the finance team for Board members and the Scottish Government had reported that the deficit would be addressed from 'management planned actions'. However, there were no sufficiently detailed plans to bridge the gap between its in-year deficit position and its forecast break-even position.

7. The chief executive and director of finance discussed the board's financial position with the Scottish Government in December 2013 but did not formally advise the Board at that time about the possibility that NHS Highland might not break even at the year-end. In February 2014, the board approached the Scottish Government to discuss arrangements for additional funding, known as brokerage, to enable the board to break even at the year-end. Officers did not formally report the brokerage agreement with the Scottish Government to the Board until close to the end of the financial year. We were informed that officers advised Board members about the extent of the financial challenges at informal Board development sessions. NHS Highland is due to repay the brokerage over the next three years (£0.5 million in 2014/15 and £1 million in each of the next two years).
8. Poor financial management was a major factor in NHS Highland needing brokerage in 2013/14. Weaknesses in budgetary control at Raigmore Hospital contributed to the hospital reporting a £9.65 million overspend in the year. An internal audit report in April 2013 about financial management in Raigmore Hospital highlighted several weaknesses in governance processes, including budgetary control. A follow-up report by the internal auditor in May 2014 highlighted a lack of progress with the recommendations in the 2013 report. The report highlighted that one of the underlying causes of Raigmore Hospital's overspend at the year ending 31 March 2014 was inadequate budget management by budget holders and overspends not being monitored or addressed.
9. In response to the internal auditor's report of May 2014, the board developed a three-year recovery plan to address financial management at the hospital and to review arrangements in the board's three other operational units. The chief executive advised the auditor that the full extent of overspending and weaknesses in financial controls at Raigmore Hospital did not emerge until late in 2013/14, following the appointment of a new management team at the hospital in December 2013.

Financial pressures

10. The auditor highlighted that financial pressures in the acute sector from costs associated with hiring agency staff, mostly locum doctors, and meeting national waiting times targets also contributed to the need for brokerage. Spending on hiring agency staff grew from £5.275 million in 2012/13 to £9.593 million in 2013/14, an increase of 83 per cent. The number of agency staff increased from 52.7 whole time equivalents (wte) in 2012/13 to 92.1 wte in 2013/14. In recent years, the board has relied on hiring agency staff to fill vacant posts and it

³ We use the term Board to refer to NHS Highland's board of governance whose members include non-executive and executive directors.

faces continued challenges in recruiting staff in rural areas, particularly consultants, GPs, senior nurses and pharmacists.

11. NHS Highland continues to rely on non-recurring savings to help it break even.⁴ These are savings that are only made for one year, rather than savings that the board will continue to make every year. I have previously reported the risk of relying on a high percentage of non-recurring savings.⁵
12. The board had set a target to achieve 67 per cent of its savings in 2013/14 on a recurring basis and 33 per cent on a non-recurring basis. Of the board's total savings of £18.4 million in 2013/14, 62 per cent were non-recurring (£11.4 million). Levels of non-recurring savings were 55 per cent and 58 per cent in 2012/13 and 2011/12 respectively.⁶ The board's Local Delivery Plan (LDP) for 2014/15 assumes a phased return to recurring balance over three years, through the delivery of further non-recurring savings.
13. The Scottish Government uses a formula developed by the National Resource Allocation Committee (NRAC) to allocate funding to NHS boards. The formula has been in place since 2009/10, and the Scottish Government is aiming for all NHS boards to be within one per cent of their target allocations by 2016/17. In 2013/14, NHS Highland was 2.2 per cent (£11.3 million) below its target funding level. While receiving funding that is below its target level may have contributed to NHS Highland's financial difficulties in 2013/14, the board broke even using unsustainable methods, specifically brokerage from the Scottish Government and high levels of non-recurring savings.

Looking forward

14. NHS Highland continues to experience financial pressures in 2014/15. Its financial position to the end of August 2014 reports a forecast year-end break-even position. The director of finance reports that achieving break-even requires a £12.3 million improvement on the month 5 projected position by the year-end with £9.9 million of this relating to Raigmore Hospital. NHS Highland and Highland Council continue to make progress in integrating health and social care through the lead agency model although it is expected to be some years before a significant impact is made. The auditor has highlighted that the cost of delivering adult social care services in Highland also continues to pose a financial risk to the board. To help alleviate these pressures, the Scottish Government allocated additional funding of £1 million in 2012/13 towards the transitional costs of integration and Highland Council provided £1 million in both 2012/13 and 2013/14. The council and the board have agreed that the council will provide £4.5 million in 2014/15, £4.3 million in 2015/16 and £4.7 million in 2016/17. This covers the remaining three years of the partnership agreement for adult health and social care services.

⁴ *NHS financial performance 2012/13*, Audit Scotland, October 2013.

⁵ *NHS financial performance 2011/12*, Audit Scotland, October 2012 and *NHS financial performance 2012/13*, Audit Scotland, October 2013.

⁶ *NHS financial performance 2012/13*, Audit Scotland, October 2013.

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15. The auditor has reported that NHS Highland's financial position will remain challenging for the next five years. While the board is forecasting a break-even position in each of these years, this requires the board to deliver its target for recurring savings. At the same time as delivering these savings, the board will also have to repay brokerage to the Scottish Government. As with other NHS boards, NHS Highland faces significant pressures arising from increasing demand as a result of demographic change, the number of people with long-term health conditions and people's rising expectations of healthcare; and costs pressures associated with medicines and other health technologies.
 16. NHS Highland recognises the significant challenges it faces in identifying and delivering savings. A new management team is in place at Raigmore Hospital and training is being organised for all budget holders. The board has also established a programme board, chaired by the chief executive and including all executive and operational directors, to oversee the delivery of savings. The programme board is focusing on delivering savings to achieve financial balance. The board is also committed to improving and redesigning its services in line with the Healthcare Quality Strategy and the 2020 Vision for the NHS.⁷

Conclusion

17. As public sector budgets continue to tighten, effective financial management has never been more important. It is also a critical factor in helping those charged with governance to make informed decisions. There were weaknesses in financial management and reporting to Board members in NHS Highland during 2013/14. This led to a request late in the financial year for additional funding from the Scottish Government. Throughout most of the year, finance reports to the Board continued to forecast a break-even position at the year-end. While these reports highlighted financial difficulties, they did not present sufficiently detailed plans about how these were going to be resolved. In addition, the Board was not formally advised of the need for brokerage until close to the end of the financial year. NHS Highland continues to place a high reliance on non-recurring savings which may not be sustainable in the longer term.

⁷ *The Healthcare Quality Strategy for NHSScotland*, Scottish Government, May 2010 and *2020 Vision - Strategic Narrative*, Scottish Government, September 2011.