

The 2015/16 audit of NHS Tayside

Financial sustainability



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 Tayside for the year ended 31 March 2016. 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, which I have prepared under section 22(3) of the Act.
2. The purpose of this report is to draw Parliament's attention to the scale of the challenge NHS Tayside faces in meeting its financial targets. NHS Tayside has needed financial assistance from the Scottish Government for four successive years in order to break even. I previously reported to Parliament on NHS Tayside in October 2015.¹

Summary

3. The Scottish Government can agree to provide an NHS board with additional funding to help it manage unexpected changes to planned expenditure. This is a form of loan funding known as brokerage. It is arranged on the basis of assurance from the board that it can repay the brokerage over an agreed period.
4. NHS Tayside has needed brokerage from the Scottish Government to break even in each of the last four financial years. During 2015/16, NHS Tayside received a total of £5 million (0.65 per cent of its RRL) in brokerage to cover pressures including workforce costs, prescribing costs, reaching national performance targets and difficulties in achieving its savings targets.
5. The board has identified that in order to be financially sustainable in the long term, it must make savings of £175 million, five per cent of its Revenue Resource Limit (RRL), over the next five years.² This is in addition to increasing reliance on non-recurring savings and with a total of £20 million of outstanding brokerage to be repaid.
6. The board is projecting a potential deficit of £11.65 million (1.7 per cent of its RRL) for 2016/17 and, despite the development of a medium to long-term transformation plan and One Year Operational Delivery Plan for 2016/17, it does not have plans in place that fully address this gap. There is a significant risk that NHS Tayside will need brokerage again to break even this year.

Auditor's opinion

7. The auditor issued an unqualified audit opinion on the 2015/16 financial statements. In their accompanying report, they highlighted the financial pressures on the board.

¹ *The 2014/15 audit of NHS Tayside: [Financial Management](#)*, Audit Scotland, October 2015.

² The Revenue Resource Limit is the amount of money an NHS board is allocated to spend on day-to-day operations in any one financial year.

Findings

Financial position

8. At March 2016, prior to receipt of brokerage, NHS Tayside anticipated an overspend of £4.858 million. After the board received £5.0 million brokerage from the Scottish Government, the final position at the end of 2015/16 was a surplus of £0.145 million ([Exhibit 1](#)). The board also benefitted from a retrospective change in funding for an existing injury benefit provision created before 2010, which released £5.6 million to help the board break even. Without this additional funding and the brokerage received, the board's overspend would have been over £10 million.

Exhibit 1

NHS Tayside Financial outturn 2015/16

2015/16	Core revenue resource limit £ million	Non-core revenue resource limit £ million	Capital resource allocation £ million	Savings £ million
Initial allocation	759.161	44.858	11.090	27.0 (target)
Outturn	764.019 (4.858 overspend)	44.858	11.090	23.4 (87% of savings target achieved)
Brokerage received	5	-	-	-
Reported final outturn	0.145 (surplus)	0	0	23.4 (61% of savings achieved are non-recurring)

Source: 2015/16 Annual Audit Report on NHS Tayside

9. NHS Tayside consistently struggled to achieve a break-even position during 2015/16. It started projecting an overspend in July 2015. The main contributory factors included workforce, prescribing costs, additional unsocial hours leave payments (known as Enhancements During Leave, paragraph 12), the financial impact of national performance targets, and the balance of savings to be identified. During 2015/16, NHS Tayside did not repay brokerage funding of £15 million which it had received in prior years and which was scheduled for repayment.
10. The main overspends occurred in:
- Medical Group. The overspend was £7.028 million, an increase of £2.159 million compared to 2014/15.
 - Surgery and Theatres Group. The overspend was £6.639 million, an increase of £3.693 million compared to 2014/15.
 - Specialist Services Group. The overspend was £2.934 million.
 - Perth and Kinross Community Health Partnership. The overspend was £2.856 million.

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11. NHS Tayside achieved savings of £23.4 million in 2015/16, 87 per cent of its saving target of £27 million. £15.3 million (65 per cent) of these savings were non-recurring and its reliance on non-recurring savings has grown over the last three years. Non-recurring savings are one-off savings that apply only to one financial year, and do not result in ongoing (recurring) savings in future years. While it can be appropriate to have some non-recurring savings, recurring savings are needed to ensure boards' ability to continue to meet their financial commitments.

Enhancements during leave

12. As a consequence of changes to the Working Time Regulations in 2008, the way in which staff working unsocial hours were paid during periods of annual leave have changed. NHS terms and conditions state that staff must now be paid 'as if at work' during periods of annual leave, including any enhancements for unsocial hours. These payments are known as Enhancements During Leave (EDL).
13. Prior to October 2008, NHS Tayside paid staff an additional percentage in lieu of paid annual leave. However, following concerns raised by staff, NHS Tayside undertook more detailed work during 2014/15 and found that managers had not uniformly applied NHS guidance.
14. By the end of February 2015, approximately 1,700 staff had received payments totalling £1.66 million dating back to 2010. Payments relating to periods prior to 2010 had not been made as data was not easily available. The board therefore included an estimate of the amount due to be paid within its 2014/15 financial statements. The total EDL expense recognised in 2014/15 was £4.35 million. I highlighted this in my report to the Public Audit Committee last year.
15. In April 2015, following work undertaken by NHS Tayside's internal auditors, inaccuracies were found in the data used to arrive at payments made and the accrual for further payments due. The internal auditors found a number of instances in which the annual leave data within the Scottish Standard Time System (SSTS) was inaccurate.
16. Work undertaken by management during 2015/16 identified additional EDL payments of £5.006 million. This took the total EDL expense to £9.356 million, of which £0.8 million relates to financial year 2015/16. To date, a total of £5.840 million has been paid in relation to years 2008 to 2015. To cover payments not yet made, £3.516 million relating to 1 October 2008 to 31 March 2016 was included within the 2015/16 financial accounts.

Brokerage

17. NHS Tayside has received a total of £24.3 million of brokerage from the Scottish Government over the last four years ([Exhibit 2](#)).

Exhibit 2

NHS Tayside brokerage receipts and repayment plans

Year	Brokerage received £ million	Details of Brokerage received	Repayment details
2015/16	5	Brokerage was allocated to help the board meet financial commitments arising from additional Enhancements During Leave (EDL) exposure of £5 million and increased costs resulting from Treatment Time Guarantee, prescribing and workforce pressures.	£15 million of brokerage remained unpaid as at 31/03/2016, in addition to the £5 million received for 2015/16. The board is currently having on-going discussions with the Scottish Government on the repayment profile.
2014/15	14.2	Brokerage was allocated to help the board meet financial commitments arising from EDL payments and overspends in operational areas.	Full amount was due for repayment in 2015/16 through proceeds from sale of surplus properties
2013/14	2.85	Brokerage was received to meet financial commitments arising from planning delays to four former healthcare sites declared as surplus.	Repayment of £2.05 million made in 2014/15. Remaining £0.8 million to be repaid in 2015/16.
2012/13	2.25	Brokerage was received to support deferred income for sales made in the year and to cover the impairment which was charged in the year.	£0.25 million repaid in 2013/14, the balance of £2 million in 2014/15.

Source: 2015/16 Annual Audit Report on NHS Tayside

18. NHS Tayside has previously relied on income received from the sale of surplus assets to repay brokerage. At March 2016, it had classified a total of 24 properties and sites as 'Assets Held for Sale'. Thirteen of the properties have been held for sale longer than one year, with three properties listed for over four years. The board anticipates receipts of £7.6 million from the sale of these assets, but this figure is dependent on market conditions.
19. NHS Tayside has agreed with the Scottish Government that in its 2016/17 financial plan receipts from sales will be used to help it break even rather than to repay outstanding brokerage. Property receipts form part of the board's future income and it is important that NHS Tayside monitors closely the anticipated value and timing of the sales to ensure they remain realistic. Money from one-off sales of property is not a sustainable way to help manage the board's finances.

Performance

20. NHS Scotland has a series of national targets, known as the Local Delivery Plan (LDP) standards, which contribute towards delivery of the Scottish Government's Purpose and National Outcomes and NHS Scotland's Quality Ambitions. During 2015/16, the LDP standards replaced the previous system of HEAT targets. NHS Tayside met five out of the 15 national targets it reported on in its annual report ([Appendix 1](#)).

Looking forward

Financial sustainability

21. NHS Tayside's latest LDP identifies a potential deficit of £11.65 million for 2016/17. The efficiency savings target for 2016/17 is set at an unprecedented level of £58.4 million which represents 8.4 per cent of its core Revenue Resource Limit (RRL).
22. Of the required efficiencies, NHS Tayside has assessed that approximately £8.0 million relates to additional agency, overtime and nurse bank staff costs and has plans to reduce its reliance on these temporary staffing measures for which it has not budgeted. Other savings are expected to be delivered from efficiencies in areas including drugs and prescribing, procurement and workforce. As at July 2016, NHS Tayside had delivered £3.106 million savings in its workforce efficiency work stream and £0.887 million savings in its procurement and estates work stream.
23. NHS Tayside has assessed that around 12 per cent (£7.048 million) of its £58.4 million efficiency target is at high risk of not being achieved. As at May 2016, the board had yet to identify £5.966 million of the required efficiency savings.
24. It will be a significant challenge for NHS Tayside to deliver savings of this level. The target for 2016/17 is more than double the savings target for the previous year, which the board did not achieve. If the board does not achieve the level of savings required, there is a significant risk that its deficit will be larger than the £11.65 million projected.
25. The auditor reports that NHS Tayside has an expensive operating model that results in average weekly inpatient costs of £4,643. This is the third highest in Scotland (behind NHS Shetland and NHS Orkney), with the Scottish average being £3,939. Prescription costs for NHS Tayside are also third highest in Scotland (behind NHS Lothian and NHS Grampian). NHS Tayside's average cost per item dispensed is £11.51 compared to a Scottish average of £10.43.
26. NHS Tayside recognises that in order to achieve longer-term sustainability, it has to make savings on workforce spending. It has identified that it has consistently higher staffing numbers and costs in comparison to other Scottish NHS boards.
27. Excess hours, agency, bank and overtime costs have increased by 18 per cent from £17.372 million in 2014/15 to £20.535 million in 2015/16. Agency and bank staff costs have risen most significantly whilst the board has achieved a reduction in excess hours costs. Spending on agency staff (combined nursing and medical) has increased by 39 per cent, from £6.022 million in 2014/15 to £8.366 million in 2015/16.
28. Using supplementary staff provides flexibility to cover for vacancies and staff absence. However, continued reliance on supplementary staff will have an impact on the board's plans to achieve the savings required for longer-term sustainability. The board is revising its workforce plans in the context of its transformation programme and service redesign.

29. The board recognises that significant effort is required to meet the planned outturns for 2016/17 to 2020/21 and achieve long-term financial sustainability. In response to this, NHS Tayside has set up seven work streams as part of its five-year Transformation Programme, covering:

- workforce
- realistic medicine
- facilities and estates
- better buying and procurement
- repatriation
- service redesign
- property.

Conclusion

30. NHS Tayside forecasts a potential deficit of £11.65 million for 2016/17. The board has identified that it needs to make savings of a total of £175 million (5 per cent of its RRL) over the next five years.³ In addition, it needs to repay £20 million of outstanding brokerage to the Scottish Government.
31. NHS Tayside has a transformation programme aimed at increasing the quality, safety and cost-effectiveness of services to address the significant challenges it faces. NHS Tayside has needed brokerage from the Scottish Government to break even in each of the last four financial years. Given this trend, along with a projected deficit for 2016/17, increasing reliance on non-recurring savings and the need to identify further, unprecedented levels of savings, there is a significant risk that it will not achieve its financial plan for 2016/17 and future years.

³ This compares to an average of savings at 3.1 per cent of RRL over the next three years, with only NHS Shetland, NHSTayside, Healthcare Improvement Scotland and the State hospital forecasting savings of five per cent of RRL.

Appendix 1

NHS Tayside performance against LDP targets 2015/16 (at May 2016) compared to national target and Scottish average performance levels

Standard	National target (per cent)	Scottish average results (per cent)	NHS Tayside results reported in Local Delivery Plan (per cent)	NHS Tayside comment
12 week Treatment Time Guarantee (TTG) for inpatient and day cases	100	92.7	80.5	At the end of March 2016, 795 patients had been waiting more than 12 weeks (including unavailable patients)
95% of patients will wait no more than 12 weeks from referral (all sources) to a first outpatient appointment	95	85.3	88.1	At the end of March 2016, 2,201 patients were waiting over 12 weeks (including 41 of whom were unavailable)
95% of patients begin cancer treatment within 31 days of decision being taken to treat	95	94.9	88.6	Achievement of the 31 day standard was seen in Q1 of 2015/16. Subsequent performance in Q2-Q3 was predominantly below the 95% level with achievement only being seen in the months of November and December 2015. Performance in 2015/16 concluded with the standard consistently not being met throughout Q4
95% of patients begin cancer treatment within 62 days of urgent referral with a suspicion of cancer	95	90.2	93.3	Performance against the 62 day standard has predominantly remained below the 95% level throughout 2015/16 with the exception of 3 months – April, May and December 2015
90% of patients referred for Child & Adolescent Mental Health Services (CAMHS) are to start treatment within 18 weeks of referral	90	84.2	99	This standard has consistently been met since December 2015
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Standard	National target (per cent)	Scottish average results (per cent)	NHS Tayside results reported in Local Delivery Plan (per cent)	NHS Tayside comment
90% of patients referred for Psychological Therapies are to start treatment within 18 weeks of referral	90	82.8 (Quarter ending March 2016)	87	The standard was consistently achieved in Q1-Q3 of 2015/16, however in the final quarter performance remained below the 90% level. This was due to vacant key posts arising within some sub-specialisms. The process to recruit to these posts is under way
95% of patients attending Emergency Departments to wait less than four hours from arrival to admission, discharge or transfer for A & E treatment	95	93.1	99	This standard has been consistently achieved throughout 2015/16
90% of clients will wait no longer than three weeks from referral received to appropriate drug or alcohol treatment	90	94.8	96.3	This standard has been consistently achieved throughout 2015/16
At least 80% of pregnant women in each SIMD quintile will have booked for antenatal care by the 12th week of gestation	80	82.3 (2014/15)	93 (2014/15)	This standard has successfully been achieved throughout 2015/16, with performance remaining consistently above 90%
90% of eligible patients to be screened for IVF treatment within 12 months of the decision to treat	90	99.7 (Quarter ending March 2016)	100 (Quarter ending March 2016)	A 100% success rate of screening eligible patients at an IVF centre within 12 months of decision to treat has been achieved
Obtain a maximum rate of 0.32 cases of Clostridium difficile infections in patients aged 15 and over per 1,000 total occupied bed days	0.32	0.33 (2015)	0.36 (2015)	The three antibiotic prescribing targets that support this standard were achieved. The standard itself has not been achieved throughout 2015/16

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Standard	National target (per cent)	Scottish average results (per cent)	NHS Tayside results reported in Local Delivery Plan (per cent)	NHS Tayside comment
A maximum rate of 0.24 cases of staphylococcus aureus bacteraemia (including MRSA) per 1,000 acute occupied bed days	0.24	0.32 (2015)	0.35	This standard has not been achieved throughout 2015/16
Sustain and embed successful smoking quits, at 12 weeks post quit, in the 40% most-deprived datazones in the NHS Board area	350 (December, number of quits)	Successful quits in the most deprived areas 7,017, Successful quit rate 18%, per cent of standard achieved 58%	319 (Dec) Successful quits in the most deprived areas 435, Successful quit rate 15%, per cent of standard achieved 49%	Improvement was particularly seen in Q2 and Q3 to deliver three-month quits
Increase the proportion of people diagnosed and treated in the first stage of breast, colorectal and lung cancer to 29% by 2014/15 (refers to two calendar years combined from January 2014 to December 2015) from the baseline performance in 2010/11	29	25.1	23.9% (interim) 2014/15	The standard value of 29% has not been achieved
People newly diagnosed with dementia will have a minimum of one year's post-diagnostic support	-	-	84	Overall compliance with post diagnostic monitoring in NHS Tayside is 84% at year-end position

Source: 2015/16 2015/16 Annual Audit Report on NHS Tayside, and the Scottish Government