NHS Highland
Financial Management Review

Prepared for NHS Highland
May 2015
Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.
Contents

Financial management review ....................................................................................................................................... 2
  Introduction ............................................................................................................................................................ 2
  Background .......................................................................................................................................................... 2
  Audit scope and objectives ................................................................................................................................. 3
  Key findings .......................................................................................................................................................... 4
  Areas for improvement ......................................................................................................................................... 11
  Management action ............................................................................................................................................... 12
  Acknowledgements ............................................................................................................................................. 12

Appendix A - 2013/14 Annual audit report: action plan progress .............................................................................. 13
Appendix B – Interlinked project charters .............................................................................................................. 18
Financial management review

Introduction

1. As external auditors we assess the Board’s corporate governance arrangements relating to systems of internal control. Our 2013/14 annual audit report highlighted weaknesses in these arrangements relating to financial management at NHS Highland. The Auditor General for Scotland prepared a Section 22 report on the Board's 2013/14 audit which was considered by the Scottish Parliament’s Public Audit Committee (PAC) on 5 November 2014. The PAC met on 2 February 2015 to receive evidence from NHS Highland on their response to the Section 22 report and has requested further evidence that it will consider at a meeting on 13 May 2015.

2. As agreed in our 2014/15 annual audit plan we have considered actions taken to address the issues highlighted in relation to financial management raised in our 2013/14 annual audit report and the Section 22 report. Our findings are detailed within this report.

Background

3. At the request of management, internal audit had reviewed financial management arrangements within Raigmore in 2013. They identified a number of significant control weaknesses and made recommendations, accepted by management to improve the situation. The 2013 report was followed up by internal audit in 2014 and although there had been some improvement, several high risk areas identified in the earlier report had not been fully addressed. It was not clear whether the weaknesses found at Raigmore were prevalent across other operating units, although the year end financial outturn reported that overspends were mostly confined to Raigmore. The Board asked internal audit to undertake similar reviews across the other three operational units and findings from the first of these (North and West) were reported to the December 2014 Audit Committee. This highlighted that improvements could be made but that "the issues were not as severe or to the same extent as within the Raigmore review."

4. In our 2013/14 annual audit report we highlighted:
   - that weaknesses in budgetary control at Raigmore Hospital led to it reporting a £9.65 million overspend in the year
   - the Board required a loan of £2.5 million from the Scottish Government, known as brokerage, in order to achieve one of its statutory financial targets of breaking even against its revenue resource limit (RRL). The need for brokerage was not confirmed until late in the financial year and was not formally reported to Board members until papers for the April 2014 meeting were issued on 25 March 2014.

1 Internal Audit report North & West Financial Management and Governance page 4
• the Board’s financial plan for 2013/14 included the need to deliver against savings targets in order to break even, but we reported that these savings plans were not sufficiently detailed to show how the Board expected to bridge the gap between the in month deficit position and the forecast break even

• NHS Highland has been increasingly reliant on non-recurring savings in order to secure break even for a number of years. As these are one-off, in-year savings, the Board has to find further savings the following year to meet its financial target. The impact of this was that £8 million non recurring savings delivered in 2013/14 were carried forward into 2014/15

• the Board’s 2014/15 Local Delivery Plan (LDP) assumed a phased return to recurring balance over three years and includes an overall savings requirement of £21.9 million in the year, £3.7 million of which: would be on a non recurring basis. However, the Board anticipated an underlying deficit of £6 million at the end of 2014/15

• the financial plan 2014-2019 includes indicative recurring savings of £18 million and £26 million for 2015/16 and 2016/17 respectively. A further £4 million of non recurring savings in 2015/16 and £2 million in 2016/17 will also be needed. Together with the need to repay brokerage to SGHSCD, delivering a breakeven budget over the coming years will be challenging for the Board. It plans to deliver the required savings through a combined approach of traditional savings and by further embracing the quality agenda to reduce waste and improve productivity.

5. The Auditor General for Scotland prepared a Section 22 report highlighting poor financial management at the Board and this was considered by the Scottish Parliament’s Public Audit Committee (PAC) on 5 November 2014.

6. The Board asked internal audit to review the following three specific areas reported in the Section 22 report—financial management at Raigmore Hospital; financial reporting to the Board during 2013/14; and financial planning, control and reporting to deliver financial balance in 2014/15. An additional Audit Committee meeting was held in January 2015 to consider the draft findings from this review and the final report was presented to the Board in February 2015. Recommendations included:

• clarifying the language used in financial reports
• adopting an earlier closedown of the financial ledger to enable more timely monthly reporting and monitoring of the financial position
• enhancing the robustness of the financial reports through the provision of additional detail
• formalising Board development days and more clearly recording communications with members outwith the formal Board meetings and
• retaining the Delivering Financial Balance Programme Board beyond 2014/15.

Audit scope and objectives

7. Our 2014/15 audit work considers the Board’s financial management and reporting arrangements following the 2013/14 annual audit report and Section 22 report and focusses on:
progress made on any actions agreed in the 2013/14 annual audit report relating to financial management

reviewing the internal auditors' work on the Section 22 Follow up (which includes an update on Raigmore Hospital's financial position) and determining progress taken to date on the agreed action plans for their earlier reports

comparing and contrasting finance reports to the Board between November 2014 and March 2015, against the same period in 2013/14 to determine the extent of changes/improvements made

considering whether the information in finance related reports to the Board and its committees is consistent and whether these reports are understandable to a reader with no financial background. Observe Board and committee meetings to establish the extent of verbal presentations that accompany finance papers

reviewing the Board's standing orders, standing financial instructions and scheme of delegation relating to financial management along with the terms of reference for both the Improvement Committee and Finance and Performance Sub-Committee

comparing the actual financial position to local development plan (LDP) projections over the last 6 months of 2014/15 to determine whether the Board’s forecasting was on target

identifying (through discussions with officers and a review of Delivering Financial Balance Programme Board minutes) the actions taken to reduce the level of non recurring savings

selecting a sample of savings charters and identifying progress made to date on delivery of these

reviewing the level of monitoring to date on the financial recovery plan by the Board/Improvement Committee

reviewing the consistency of information reported via the Board monthly monitoring returns compared to the financial returns submitted to the Scottish Government.

8. In addition, we met with two non executive directors of the Board to get their views on financial management and reporting in 2014/15.

Key findings

Follow up actions from the 2013/14 annual audit report

9. We found that NHS Highland has made good progress during 2014/15 to improve its financial management arrangements. Action taken included:

• close monitoring of progress on savings trajectories which led to development of an in-year recovery plan to address the projected shortfall

• on-going monitoring of the savings charters and the recovery plan by the Delivering Financial Balance Programme Board

• inclusion of a savings table in financial reports showing projections by month along with actual savings achieved

• development of a training programme for budget holders at Raigmore

• more stringent controls over the use of locums across the operational units.
10. Appendix A details the specific audit risks from the 2013/14 annual audit report relating to financial management and provides more detail on the actions taken during 2014/15.

Review of the internal audit Section 22 follow up report

11. Following publication of the Section 22 report, the Board asked its internal auditors to provide assurance that the issues raised in the report had been objectively assessed, lessons had been learned and actions taken, where appropriate, to address the issues identified and support continuous improvement in line with the Board’s Highland Quality Assurance framework.

12. This internal audit review looked specifically at the progress the Board had made in relation to the two previous internal audit reports on financial management at Raigmore. The key areas of concern related to the accountability of budget holders and their overall engagement in the budget management and financial management process.

13. The report concluded that "whilst achieving financial balance within Raigmore Hospital is still a challenge, …., significant progress has been made in implementing the agreed recommendations from previous internal audit reports in recent months." This included development of a budget holder register and several new controls to improve budget holder accountability at all levels. It also confirmed there was more stringent scrutiny and monitoring of budgets, vacancies and additional activity at the hospital.

14. It is important that the public are able to understand the Board’s finances so that they can be involved in and understand decisions taken. Comprehensive, transparent, reliable and timely budget documents and financial reports are at the heart of good governance and decision making. This helps ensure that stakeholders have an accurate picture of the Board’s financial position and the potential risks it may encounter. As part of their Section 22 review work, internal audit recommended adopting an earlier closedown of the financial ledger to enable more timely monthly reporting and monitoring of the financial position and management agreed to review the feasibility of this change. The review also highlighted that the content of finance reports had been amended during 2014/15 to include more details on the risks involved in achieving savings or reducing the overspend along with a trajectory of savings. The following changes were also recommended to clarify the language used and to provide additional information:

- more detail on the key assumptions underpinning the plan
- more detail on the risks associated with particular savings targets/charters
- more information on action plans in place around savings
- analysis by type of spend as well as by operating unit
- details on savings targets and milestones
- forecast profile of expenditure over remaining months as well as year to date and year end forecasts.

15. We note that management has agreed to consider making the recommended changes to the financial reports and a review is currently underway. Amendments will be actioned from June 2

2 NHS Highland Internal Audit Report Section 22 review page 3
2015. It was also agreed that the dates of Board meetings would be moved from September 2015 to allow more timely financial reports to be presented.

16. Board and committee meetings that form part of the formal governance structure are formally minuted, however, financial information may also be discussed at various informal meetings including Board development sessions which are not minuted. Internal audit recommended formalising Board development days and more clearly recording communications with members outwith the formal Board meetings to strengthen financial control and this has been actioned from March 2015.

17. The internal audit report said that achieving savings targets will become increasingly difficult to achieve and retaining the Delivering Financial Balance Programme Board to monitor savings charters and challenge managers on delivery beyond 2014/15 could be beneficial. We note that a review of the Board's governance and committee structure is currently underway and, in response to internal audit's recommendation, management agreed to consider the role of the Delivering Financial Balance Programme Board as part of this overall governance review.

Financial reporting

18. As part of our 2014/15 review of financial management we considered the completeness, adequacy and application of the Board's standing orders (SO), standing financial instructions (SFI) and scheme of delegation relating to financial management. The SO state that the Board will monitor financial business plans and budgets (albeit detailed figures are to be monitored by committees) and the SFI states that NHS Highland should achieve at least break-even taking one year with another and operate within both the revenue and capital resource limits.

19. Section 4 to the SFI covers the preparation and submission of budgets, and monitoring of budgets throughout the year. It also states that the Director of Finance has a responsibility to ensure that adequate training is delivered on an on-going basis to budget holders to help them manage their budgets successfully. As highlighted above, a more detailed training programme for budget holders was put in place during the year. This focussed initially on Raigmore and is being rolled out to other operational units. This should help improve the financial control environment and quality of financial forecasting. The Director of Finance has recently increased the level of experience in the Raigmore finance team.

20. The Board's scheme of delegation states that the Director of Finance is authorised to put in place proper arrangements to ensure that the financial position of the Board is soundly based by ensuring that the Board, its committees, and supporting management groupings receive appropriate, accurate and timely information and advice with regard to:

- the development of financial plans, budgets and projections
- compliance with statutory financial requirements and achievement of financial targets
- the impact of planned future policies.

21. We are satisfied that NHS Highland's governing documents provide a clear framework for financial management and reporting. It remains key that the Board takes steps to ensure the processes outlined in the framework are applied in practice.
22. Exhibit 1 shows the wide range of meetings where financial reports are formally considered. The level of detail provided at each of these meetings is tailored to the specific group/committee.

Exhibit 1: Financial discussions

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Board wide financial details</th>
<th>Tailored financial details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Delivering Financial Balance Programme Board</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Improvement Committee</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Highland Health &amp; Social Care Committee</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Finance &amp; Performance Sub-Committee of HHSCP</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Argyll &amp; Bute Governance Committee(formerly A&amp;B CHP)</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Senior Management Team</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Highland Partnership Forum (and local partnership forums in each unit)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Raigmore Senior Management Team</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>North &amp; West Highland Senior Management Team</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(also District and Area Management Teams)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South &amp; Mid Highland Senior Management Team</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>(also District and Area Management Teams)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Argyll &amp; Bute Core Management Team (also Management Team and Localities Management)</td>
<td></td>
<td>✓</td>
</tr>
<tr>
<td>Directors of Operations meeting</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Asset Management Group</td>
<td>✓</td>
<td>(capital only)</td>
</tr>
<tr>
<td>Scottish Government mid year and annual reviews</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Adult Services Resources &amp; Commissioning Group</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Children’s Services Resources &amp; Commissioning Group</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Strategic Commissioning Group</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

23. Financial reports are also discussions at Board development sessions, Area Clinical Forum, Professional Executive Committee, Raigmore clinical forum, Audit Committee and at ad hoc meetings with the Scottish Government.

24. We considered the terms of reference for both the Improvement Committee and Finance and Performance Sub-Committee as two of the key committees tasked with monitoring the Board's financial position.
25. The Improvement Committee is responsible for high level scrutiny of the Board's financial performance against budget, focussing on areas where improvement would be required to meet financial targets. The Finance and Performance Sub Committee provides financial scrutiny for the Highland area (financial monitoring of Argyll and Bute is undertaken at the A&B Governance Committee), monitoring performance and agreeing actions to mitigate the risk of poor performance. This sub-committee reports to the Highland Health & Social Care Committee. Given the remit of both these groups it is essential that members received sufficient information to allow them to fully scrutinise and monitor the financial position.

26. From a review of the information to the Board, the Improvement Committee and the Finance & Performance Sub-Committee we noted that the format and detail of financial reports discussed is consistent across all three governance levels. We also looked at presentations given to Board members at development days and noted that the financial details contained in these were well explained and presented in plain English.

27. From discussions with non executive directors and our own observations of Board meetings it is clear that the verbal presentations given by the Chief Executive and Director of Finance enhance the written information provide in financial reports and adds further context to the financial position. The non-executive directors we interviewed confirmed that whilst they were generally content with the information provided there was scope to simplify the financial reports they received.

28. We reviewed the financial reports provided to the Board between November 2014 and March 2015, against the same period in 2013/14 to determine the extent of changes/improvements. Overall we found the Board had taken the following steps to improving the finance reports:

- a savings table is now included; this replaced the previous narrative section which gave details of actions being taken to achieve breakeven
- from December 2014, financial reports also include an additional table monitoring progress against the in year recovery plan (we discuss the recovery plan further at paragraphs 32, 35 and 40 and Appendix B outlines the eight interlinked savings charters).

29. As part of this review we also considered whether the financial reports were easily understood and identified some areas where improvements could be made to the readability of the reports, for example:

- overall there are few reference in the body of the financial report to the detailed financial tables in the appendices. It would be beneficial to the reader to clarify what the individual tables are reporting and how these ties in to the summary information in the report
- the table in section 3 is headed *Summary of Month x Financial Position* although it actually details savings and cost pressures which may be confusing to the reader.

30. We also reviewed the consistency of information reported via the Board monthly monitoring reports compared to the financial returns submitted to the Scottish Government and found that, whilst these reported financial information in different ways the figures could be reconciled and there were no discrepancies.
2014/15 Financial Plan

31. The Board's financial plan for 2014/15 required it to make savings of £22.5 million in order to meet its financial targets. This was inclusive of a £0.5 million brokerage repayment to the Scottish Government. To deliver the required savings, the Board identified eight key interlinked projects (see Appendix B). Each of the projects was underpinned by a project charter that set out the background, goals, actions required and measures for tracking progress. Each project was led by an Executive Director or a Director of Operations. The Delivering Financial Balance Programme Board, which includes two non executive directors, each with a finance background, was established to scrutinise and monitor the charters and challenge managers on progress.

32. The risk of failing to deliver financial balance was included in the Board's corporate risk register and during 2014/15 it became apparent that the savings trajectories were not on target. This led to a financial recovery plan being developed in November 2014 and agreed at the December 2014 Board meeting.

NHS Scotland Resource Allocation Committee (NRAC)

33. The NHS Scotland Resource Allocation Committee (NRAC) ran from 2005 to 2007 and was established to improve the Arbuthnott formula, which was the method used at the time to divide the NHS budget among Boards. The NRAC formula calculates target shares (percentages) for each NHS Board based on a weighted capitation approach that starts with the number of people resident in each NHS Board area. The policy of the Scottish Government Health & Social Care Directorate (SGHSCD) is to phase in the formula by way of 'differential growth' whereby all Boards would continue to enjoy real-terms growth in their allocations year-on-year, with those above parity (i.e. above their formula target share) receiving less growth than those below parity until the new distribution was achieved.

34. The Scottish Government announced additional funding for the NHS designed to move all boards to within 1% of parity in 2015/16. NHS Highland is one of the boards that has been under parity and will receive an increase in NRAC funding in 2015/16 of £11.5 million. It was agreed with the Scottish Government in December 2014 to bring forward £3 million of this allocation to help it manage its financial position in 2014/15. This afforded the Board the option of not implementing some of the more challenging areas to deliver savings that could have had a more direct impact on patient services. The Board's in year recovery plan targets were re-profiled following receipt of this further funding.

Financial Position

35. The Director of Finance presented the period 11 financial report to the April 2015 Board meeting. He verbally updated Board members that the expected year end position, subject to external audit, was that both the revenue and capital financial targets had been met. He highlighted that some of the key recovery plan areas were behind target although this was compensated by additional savings in other areas which enabled the Board to achieve its breakeven target. The Board's unaudited financial statements were passed to external audit on 5 May 2015 and the audited position will be known by 30 June 2015.
36. NHS Highland has been increasingly reliant on non-recurring savings in order to secure breakeven for a number of years. As these are one-off savings this increases the level of savings required the following year and, at the start of 2014/15, the Board's saving requirement was £8 million higher as a result. It will be essential for the Board to reduce reliance on one-off savings if it is to achieve financial balance going forward.

37. We noted that there had been a concerted effort this year to deliver savings on a recurring basis. The Chief Executive wrote to senior officers in January 2015 reminding them of the need to reduce reliance on non-recurring savings and the Board's unaudited year end position shows unmet recurring savings to be carried forward were reduced to £5.6 million. This is £2.4 million lower than the previous year and shows good progress.

38. The Board has developed a 10 year operational plan which was approved in February 2015. This includes a financial outlook for the next 10 years, however, it acknowledges more work needs to be done in developing savings plans beyond 2015/16. As part of this development work the Board has indicated its intention to undertake a wider strategic review of how services are delivered to enable it to achieve financial balance going forward. For 2015/16 the focus will be on four areas for delivery of efficiencies - adult social care and flow, rural general hospitals, specifically Caithness, out of hours and transforming outpatients across the whole of Highland.

39. Board members also agreed that additional senior manager capacity would be needed to deliver these savings charters and are currently looking to recruit three Deputy Directors of Operations in Highland. This will free up Directors of Operations to take forward the four key projects.

40. Local Delivery Plans (LDP) focus on the priorities for the NHS in Scotland and support delivery of the Scottish Government’s national performance framework. LDPs contain financial plans and the Scottish Government hold NHS boards to account on the content of their agreed LDPs. We compared NHS Highland’s actual financial position to LDP projections over the last six months of 2014/15 to determine whether the Board’s forecasting was robust. We were aware that whilst the year to date savings were ahead of target up to 31 October, (see Exhibit 2) the Board had identified a number of risks, including additional cost pressures, which indicated that the savings target would not be achieved in full and this led to the in year recovery plan. Although savings delivered in the second half of the year were generally slightly behind the projections, the actions taken by the Board and the additional NRAC funding received in the year ensured it kept in line with its LDP projections.
Exhibit 2 Savings projections and actuals

Raigmore

41. Weaknesses in budgetary control at Raigmore Hospital led to it reporting a £9.65 million overspend in 2013/14 and a three year recovery plan was agreed to bring this operational unit into financial balance. Although the position improved in 2014/15 with an overspend of £6.9 million, this fell short of the target per the three year recovery plan of £6 million. This shortfall adds pressure to the Board’s savings target for 2015/16.

Table 2 Raigmore financial position

<table>
<thead>
<tr>
<th>Financial year</th>
<th>Budget (£m)</th>
<th>Actual (£m)</th>
<th>Overspend (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>138.9</td>
<td>145.8</td>
<td>6.9</td>
</tr>
<tr>
<td>2013/14</td>
<td>136.2</td>
<td>145.9</td>
<td>9.7</td>
</tr>
</tbody>
</table>

42. Management have advised that the new senior management team at Raigmore is developing a culture based on a greater focus on financial management and budgetary control. This will need to be maintained if the Raigmore delivery plan is to be achieved.

Areas for improvement

43. The Board has taken a number of positive steps to improve its approach to financial management and reporting. It has established a more strategic approach to savings via the savings charters and progress against these is regularly reported to the Board. There has also been a stronger focus on converting non recurring savings to recurring to reduce financial pressures going forward.

44. Further improvements could be made to the Board’s public facing financial reports to make them clearer to the reader, particularly for people unable to attend their public Board and Committee meetings. As the Board has already committed to reviewing the content of its
financial reports via the internal audit Section 22 review (see paragraph 14) we are not making a further recommendation here, although the Board may wish to consider the following as part of its review:

- providing additional narrative details expanding on the detail in the savings table
- referring figures in the body of the financial report to the detailed financial tables in the appendices.

45. The Board should also build on the momentum achieved in 2014/15 in converting non recurring savings into recurring. It will also need to focus attention on achieving savings beyond 2015/16 and particularly on ensuring the Raigmore recovery plan is delivered.

Management action

46. The issues identified in preparing this report are only those which have come to our attention during the course of the review and are not necessarily, therefore, all the issues that may exist. It remains the responsibility of management to determine the extent of any improvement actions appropriate to the Board. We would stress, however, that commitment to an improvement agenda is an essential part of the efficient management of any organisation.

Acknowledgements

47. The contents of this report have been agreed with relevant officers in terms of factual accuracy. The assistance and co-operation received from officers during the course of our audit work is gratefully acknowledged.
Appendix A - 2013/14 Annual audit report: action plan progress

<table>
<thead>
<tr>
<th>Issue, risk and recommendation</th>
<th>Management action/response, Responsible officer and target date</th>
<th>Progress to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Monitoring</td>
<td>Agreed. The Board has set up a Programme Board to monitor the delivery of key efficiency projects on a weekly basis. This is chaired by the Chief Executive and attended by all Executive Directors and Operational Directors. Once a month the meeting is attended by two non-executive Board members. The key efficiency projects are backed by formal charters and driver diagrams. Monthly finance reports will include a risk assessment for the savings programme. Responsible officer - Director of Finance</td>
<td>Formal charters and driver diagrams support delivery of the key efficiency projects and progress is monitored by the Delivering Financial Balance Programme Board, Improvement Committee and the Board. An in-year financial recovery plan was approved by the Board in December 2014. This detailed the level of savings required under specific areas e.g. out of hours, locums, adult social care to bring the Board into financial balance. The recovery plan was monitored by the Delivering Financial Balance Programme Board.</td>
</tr>
<tr>
<td>Risk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information provided to the Board is not sufficiently detailed to enable sound decision making.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recommendation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detailed plans for the savings required in 2014/15 should be formally documented and monthly finance reports to the Board should sufficiently capture any risks around the achievement of financial targets.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issue, risk and recommendation</td>
<td>Management action/response, Responsible officer and target date</td>
<td>Progress to date</td>
</tr>
<tr>
<td>-----------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Financial Pressures</td>
<td>Agreed. It should be recognised that at this stage formal plans will be high level for future financial years. The Board will agree principles for service delivery in summer 2014 (as part of the Co-production &amp; Improvement Plan) and this will inform the detail of future savings plans. The plans for 2014/15 are already set out in some detail (in the form of charters with supporting driver diagrams). Many of these will have actions and impacts well beyond 2014/15 and these will form the basis of plans for future years. Responsible officer - Director of Finance  Target date – on-going</td>
<td>The Board’s savings target for 2014/15 was £22.4 million (inclusive of £0.5 million brokerage repayment) the majority of which were set out in the savings charters. The in-year recovery plan and financial reports to the Board highlighted the level of unidentified savings. As at February 2015 the Board reported an overall breakeven position was expected and that £19.3 million savings had been achieved, £1.8 million forecast to be delivered by the end of the year and £1.3 million savings still to be identified. Per the LDP the Board planned to deliver non recurring savings of £6 million in 2014/15. The month 11 position showed a £6.8 million shortfall on recurring savings and finance staff have advised that the unaudited year end underlying deficit position is £5.6 million.</td>
</tr>
</tbody>
</table>

Financial Pressures
The financial position and delivery of the cost savings plan for 2014/15 and subsequent years will continue to remain challenging. At the start of 2014/15 the Board had a carry forward of non-recurrent savings of £8 million. The overspend position at Raigmore is a significant financial pressure for the Board as are the pressures in relation to adult social care services. It is anticipated that it will need to seek non recurring support, in addition to the already agreed recurring funding, from the council in future years to help alleviate these pressures (£1.5 million non recurring agreed for 2014/15).

Risk
The required efficiency savings will not be achieved which could have an adverse impact on the quality of service delivery.

Recommendation
The Board should ensure that formal plans are produced covering all of the required savings for 2014/15 onwards.
<table>
<thead>
<tr>
<th>Issue, risk and recommendation</th>
<th>Management action/response, Responsible officer and target date</th>
<th>Progress to date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Budget management procedures – Raigmore.</strong></td>
<td>Internal audit will review the financial management and budgetary control systems within the other operating units beginning with North &amp; West in autumn 2014/15. In addition, a budget holders training programme is being formulated with initial focus on Raigmore unit and thereafter, rolled out to other operational units if/as required. Responsible officer - Director of Finance Target date – progress in 2014/15 but in effect this will be ongoing</td>
<td>The Board agreed a 3 year recovery plan for the hospital to return to underlying balance with a target overspend of £6 million in 2014/15. At month 11, Raigmore’s forecast year end position was just under £7 million and whilst work continued to bring this down to the £6 million target the unaudited year end position indicated that the target was not achieved. Improvement actions to address concerns about poor financial management at the hospital were progressed with a register of budget holders being put in place and formal finance training being given to all budget holders. Internal audit reported the North &amp; West Financial Management and Governance findings to the December 2014 Audit Committee. This highlighted that there were a range of controls in place to support financial management and governance within the unit with scope for these to work more effectively and efficiently to support efforts to deliver financial balance. A progress report was taken to the March 2015 Audit Committee advising of progress on budgetary training for N&amp;W managers.</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Board is unable to meet financial targets as a result of poor budget monitoring across operational units.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget holders should be required to appropriately manage their budgets and be held to account for overspends.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Issue, risk and recommendation

**Sickness Absence**

Although the Board has reduced its sickness absence in 2013/14 to 4.8% it is finding it difficult to achieve the national target of 4%.

**Risk**

A high sickness absence level will impact on the Board’s ability to achieve its financial and non-financial performance targets and could adversely impact on safe and efficient service delivery.

**Recommendation**

The effectiveness of the measures introduced to reduce absence levels should be assessed to ensure they are appropriate and can deliver the necessary reductions.

### Management action/response, Responsible officer and target date

Monitoring of sickness absence levels and appropriate interventions within agreed PIN Policies are continuous actions taken by Managers, HR and OHU staff. Sickness absence annual average rates have ranged between 4.43% and 5.03% in the last 5 years. Our evidence also shows that over the same period long term sickness accounts for 65-70% of all sickness absence. As this accounts for around 3% of our total, our efforts are focussed on this group through individual case audit, case conference management of particular cases, rehabilitation support via OHU services and appropriate use of interim redeployment and/or phased returns. We believe this is the correct area of focus.

**Responsible officer** - Director of Human Resources

**Target date** – on-going

### Progress to date

The Board’s sickness absence rate at the end of 2014/15 had increased slightly to 4.9%. This continues to be a challenging area for the Board and this will need to be actively managed if the national target is to be achieved.
### Issue, risk and recommendation

<table>
<thead>
<tr>
<th>Issue, risk and recommendation</th>
<th>Management action/response, Responsible officer and target date</th>
<th>Progress to date</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Agency workers</strong></td>
<td>There is a high level project charter in place for 2014/15 led by the Chief Executive and Medical Director to reduce overall cost attributed to medical locums by 50% (net of vacancy funding). £1.85 million plans are also in place to improve RGH consultant recruitment (being driven nationally by SGHD). There is also an ongoing focus to reduce supplementary staffing (bank agency and overtime) across all staff groups and monitoring and reporting is in place to the Board via finance and the quarterly workforce plan rolling action plan update. Responsible officer - Chief Executive</td>
<td>Controls around the use of locums have been tightened with Directors of Operations taking responsibility for approving locum requests. Local teams are required to cover staffing shortages wherever safe to do so to avoid incurring the significant cost of locum cover. As a result Raigmore locum costs fell by 31% in the first 10 months of 2014/15 although this was subsumed by increased locum costs across other operational units. Recruitment of key medical staff in remote and rural areas continues to be a significant challenge for the Board. Overall total agency costs rose by 3% in 2014/15 (unaudited position).</td>
</tr>
<tr>
<td><strong>Risk</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Continued reliance on agency workers to this extent will have a significant impact on the Board’s ability to achieve the savings required for longer term sustainability.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Recommendation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The Board should monitor and manage the use of agency staff with a view to reducing their cost.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Appendix B – Interlinked project charters

<table>
<thead>
<tr>
<th>Project</th>
<th>Charter target £m</th>
<th>Actual 2014/15 savings/cost reduction achieved £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locums</td>
<td>1.85</td>
<td>1.103</td>
</tr>
<tr>
<td>Out of Hours (OOH)</td>
<td>1.0</td>
<td>0.027</td>
</tr>
<tr>
<td>Out of Hospital Care</td>
<td>Not quantified</td>
<td>0</td>
</tr>
<tr>
<td>Adult Social Care</td>
<td>4.6</td>
<td>2.5</td>
</tr>
<tr>
<td>Highland Elective Surgical Services</td>
<td>0.1</td>
<td>0</td>
</tr>
<tr>
<td>Highland Elective Surgical Services (theatre utilisation)</td>
<td>0.1</td>
<td>0</td>
</tr>
<tr>
<td>Orthopaedic Services</td>
<td>0.85</td>
<td>0.863</td>
</tr>
<tr>
<td>Procurement</td>
<td>1.0</td>
<td>1.008</td>
</tr>
<tr>
<td>Drugs</td>
<td>2.0</td>
<td>2.050</td>
</tr>
</tbody>
</table>