



The Scottish Parliament
Pàrlamaid na h-Alba

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

AGENDA

29th Meeting, 2018 (Session 5)

Thursday 13 December 2018

The Committee will meet at 10.00 am in the Adam Smith Room (CR5).

1. **Decision on taking business in private:** The Committee will decide whether to take item 3 in private.
2. **Section 22 report - The 2017/18 audit of NHS Tayside:** The Committee will take evidence on the Auditor General for Scotland's report entitled "the 2017/18 audit of NHS Tayside" from—

Caroline Gardner, Auditor General for Scotland;

Fiona Mitchell-Knight, Audit Director, Leigh Johnston, Senior Manager, Performance and Best Value, and Bruce Crosbie, Senior Audit Manager, Audit Scotland.

3. **Section 22 report - The 2017/18 audit of NHS Tayside:** The Committee will consider the evidence heard at agenda item 2 and take further evidence from—

Caroline Gardner, Auditor General for Scotland;

Fiona Mitchell-Knight, Audit Director, Leigh Johnston, Senior Manager, Performance and Best Value, and Bruce Crosbie, Senior Audit Manager, Audit Scotland.

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The papers for this meeting are as follows—

Agenda Item 2

Note by the Clerk

PAPLS/S5/18/29/1

PRIVATE PAPER

PAPLS/S5/18/29/2
(P)

Public Audit and Post-legislative Scrutiny Committee
29th Meeting, 2018 (Session 5), Thursday 13 December 2018
Section 22 report – The 2017/18 audit of NHS Tayside

Introduction

1. At its meeting today, the Public Audit and Post-legislative Scrutiny Committee will take evidence from the Auditor General for Scotland on the section 22 report on [the 2017/18 audit of NHS Tayside](#). A copy of the report can be found in **Annexe A**.
2. The Auditor General has prepared a briefing on the key messages from the report and this is attached in **Annexe B**.

Clerks to the Committee
10 December 2018

The 2017/18 audit of NHS Tayside



AUDITOR GENERAL 

Prepared for the Public Audit and Post-Legislative Scrutiny Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
December 2018

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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 2018. 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 NHS Tayside's worsening financial position and the increasing challenges it faces in meeting its financial and performance targets. The report provides an update on events over the last financial year, including arrangements for the departure of the previous Chief Executive. Appendix 1 provides a timeline of the major events. The report also summarises work that is under way to address the pressures facing NHS Tayside.

Auditor's opinion

3. The auditor issued an unqualified audit opinion on the 2017/18 financial statements. However, she reported on weak financial management, financial sustainability issues and weaknesses in the governance arrangements for NHS Tayside in her [Annual Audit Report](#) (AAR).
4. In the 2017/18 Corporate Governance Statement, the new Chief Executive says that, after considering the governance framework and the assurance from the board's committees, he is not able to conclude that corporate governance was operating effectively in 2017/18. The auditor concluded that the Corporate Governance Statement was consistent with her knowledge of the board and prepared in accordance with relevant guidance.
5. No significant internal control weaknesses relating to the financial systems which produce the boards financial statements were reported by either the Chief Executive or internal audit. The external auditor reported that this is consistent with the results of her audit testing, and she has reported that the financial statements show a true and fair view of NHS Tayside's financial position.

Summary of findings

6. This is the fourth consecutive report I have provided to the Parliament on NHS Tayside.^{1 2 3} My reports have highlighted a series of significant concerns, covering financial, performance and governance issues.
7. Since 2013/14, NHS Tayside's financial position has been unsustainable. It has needed brokerage from the Scottish Government to achieve in-year financial balance in each of the last six financial years.⁴ NHS Tayside has received £50.2 million of brokerage since 2012/13.

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

² [The 2015/16 audit of NHS Tayside: Financial sustainability](#), Audit Scotland, October 2016.

³ [The 2016/17 audit of NHS Tayside: Financial sustainability](#), Audit Scotland, October 2017.

⁴ Brokerage is a form of loan funding that the Scottish Government can agree to provide an NHS board to help it manage changes to planned expenditure.

Of this, £45.9 million has not been repaid. During 2017/18, NHS Tayside received £12.7 million in brokerage.

8. Further brokerage will be required. The appointed auditor highlights in her AAR that financial management in the board has been weak and it failed to achieve its 2017/18 financial plan. In June 2018, the board approved a one-year financial plan for 2018/19, which identifies a potential deficit of £18.7 million for the year.⁵ In addition to this, the board will receive a further £3.6 million in brokerage to cover repayment of endowment fund monies.
9. The board's worsening financial position has been compounded by the mismanagement of eHealth funding and endowment fund monies in earlier years. The Scottish Government commissioned an independent review of eHealth funding by Grant Thornton⁶ and subsequently a review of financial governance within NHS Tayside.⁷ The recommendations from these reviews have been progressed and implemented, strengthening the financial management and governance arrangements within the board.
10. NHS Tayside continues to have an expensive operating model. While the current transformation programme has delivered substantial cost savings, in June 2018 there was limited evidence of sustainable service redesign and transformation. The independent Assurance and Advisory Group (AAG), set up by the Scottish Government to provide independent scrutiny and challenge on the deliverability of NHS Tayside's transformation programme, was due to provide an update on progress in November 2018.
11. Alongside its worsening financial position, NHS Tayside's performance is deteriorating. Against 20 national standards: seven were met or exceeded as at March 2018 (compared to nine in 2016/17); and 13 were not met (Appendix 2).
12. Several senior staff have left the board over the last year, and an interim Chief Executive and Chair and a new Director of Finance took up post in 2018. The auditor reviewed arrangements relating to payments made to the former Chief Executive and identified several errors in the process and a lack of good governance.
13. The board continues to face leadership challenges. The interim Chief Executive, appointed in April, retired from his role as Chief Executive of NHS Grampian in September and will leave NHS Tayside in December. The appointment of a new Chief Executive was announced on 28 November 2018. A recruitment exercise is also under way to appoint a new Chair before the end of the 2018/19 financial year.
14. In October 2018, the Scottish Government published its Medium-Term Health and Social Care Financial Framework.⁸ The Cabinet Secretary for Health and Sport announced that all outstanding brokerage will be written-off at the end of the 2018/19 financial year and NHS

⁵ Board paper 8.1, NHS Tayside, 30 August 2018.

⁶ An [independent review](#) by Grant Thornton UK LLP on eHealth funding between eHealth, NHS National Services Scotland and NHS Tayside between 2012 and 2018, Grant Thornton, March 2018.

⁷ An [independent review](#) by Grant Thornton UK LLP on agreed areas of NHS Tayside financial governance arrangements between the financial years 2012/13–2017/18, Grant Thornton, May 2018.

⁸ Medium-Term Health and Social Care Financial Framework, Scottish Government, October 2018.

boards will no longer be required to break even at the end of each financial year. Instead, they will be required to break even every three years. NHS Tayside is planning to issue a draft three-year plan to be formally considered for approval by the board in February 2019.

Conclusion

15. The interim Chief Executive and Chair and the new Director of Finance are working to review and update the processes and plans in place to address the financial pressures facing NHS Tayside. NHS Tayside urgently needs to set out its medium-term financial plans and how it intends to achieve service reform and further reduce its operating costs. The board needs effective leadership to drive forward its plans for transformation. The interim Chief Executive is leaving at the end of the year and the Chair is leaving soon however a new Chief Executive has now been appointed. It is important that the board puts in place a realistic action plan, accompanied by the capacity and resources required to deliver it, to address the issues it faces.

Findings

What is the extent of the financial challenges facing NHS Tayside?

16. NHS Tayside's financial position is unsustainable. The board has needed brokerage from the Scottish Government to help it achieve in-year financial balance in each of the last six financial years.
17. NHS Tayside continued to experience significant cost pressures in 2017/18. Net expenditure was £900.7 million, one per cent higher than the £892.0 million reported in 2016/17. The board has not managed to reduce its expensive operating model. Without addressing this, the board will struggle to achieve financial balance.
18. The appointed auditor highlights in her AAR that, while her audit opinion is unqualified, financial management has been weak and the board failed to achieve its 2017/18 financial plan. Financial reports to the board on the budget and projection of its financial outturn were overly optimistic. The board's Local Delivery Plan for 2017/18 identified a potential deficit of £4.0 million for 2017/18. This deficit increased to £12.5 million by March 2018. Brokerage of £12.7 million was then agreed with the Scottish Government ([Exhibit 1](#)).

Exhibit 1

NHS Tayside financial outturn, 2017/18

2017/18	Core revenue resource limit (£ million)	Non-core revenue resource limit (£ million)	Core capital resource allocation (£ million)	Non-core capital resource allocation (£ million)	Savings (£ million)
Final allocation	820.8	34.1	8.5	16.7	47.8 (target)
Outturn	820.6	34.1	8.5	16.7	46.8 (98% of savings target achieved)
Brokerage	12.7	-	-	-	
Reported final outturn	0.2 (surplus)	0	0	0	46.8 (64% of savings achieved are non-recurring)

Source: Tayside Health Board Annual Report and Accounts for Year Ended 31 March 2018

Brokerage

19. NHS Tayside has received £50.2 million of brokerage from the Scottish Government since 2012/13. Of this only £4.3 million has been repaid ([Exhibit 2](#)).

Exhibit 2

NHS Tayside brokerage and repayment

Year	Brokerage received (£million)	Repaid (£million)	Cumulative balance outstanding (£million)	Repayment details
2017/18	12.7	0	45.9	No repayment made
2016/17	13.2	0	33.2	No repayment made
2015/16	5.0	0	20.0	No repayment made
2014/15	14.2	4.1	15.0	No repayment made
2013/14	2.9	0.2	4.9	£2.1 million repaid in 2014/15
2012/13	2.2	N/A	2.2	£0.2 million repaid in 2013/14 and £2 million repaid in 2014/15

Source: Audit Scotland

20. In 2017, the Scottish Government agreed to suspend the requirement for NHS Tayside to repay outstanding brokerage until the board can achieve financial balance on a recurring basis. The Cabinet Secretary for Health and Sport announced in October 2018 that the Scottish Government Health and Social Care Directorate will not seek repayment of brokerage accumulated to 31 March 2019 from territorial NHS boards.

What are the main factors contributing to the financial position at NHS Tayside?

21. In previous reports on NHS Tayside's financial sustainability, I have highlighted the expensive operating model in NHS Tayside compared to other NHS boards. This is a main contributory factor to the financial challenges it has faced over the years. NHS Tayside recognises this position and the board's transformation programme will be key to reducing the cost base. Despite a range of interventions, in June 2018 there was limited evidence that this situation had changed.

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22. The board delivered £46.8 million (6.5 per cent of baseline resource revenue limit (RRL)) efficiency savings in 2017/18. While this is a very significant sum it was still £1.0 million below target. In its 2017/18 financial plan, NHS Tayside set a target of 50 per cent of savings being on a recurring basis. This target was not achieved, with 36 per cent of savings achieved on a recurring basis, and the remaining 64 per cent on a non-recurring basis. 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 help NHS boards to continue to meet their financial commitments.
23. The board's main overspends in 2017/18 occurred in:
- workforce costs - overspent by £6.2 million, compared to an overspend of £3.7 million in 2016/17
 - prescribing costs - overspent by £6.7 million, the same as in 2016/17
 - eHealth funding - removal of £2.7 million funding from the 2017/18 budget, and the repayment of £2.6 million funding received in 2016/17 that did not belong to the board.

Significant governance events in 2018

24. Several significant events relating to finances and governance at NHS Tayside emerged in 2018.

eHealth funding

25. Early in March 2018, Scottish Government staff identified that NHS Tayside was holding money intended to fund eHealth in other NHS boards, and commissioned an independent review of eHealth funding by Grant Thornton.⁹ The review highlighted that an arrangement had been in place since 2012/13 to route eHealth money from the Scottish Government through NHS National Services Scotland (NSS) then on to the NHS boards. Since that time, underspent funds on the eHealth programme had been passed to NHS Tayside and used to fund its annual expenditure. The funds were then returned to the Scottish Government as funding allocation credits the following year.
26. NHS boards are required to reflect the funding included in Scottish Government funding allocation letters as income in their accounts. For 2016/17, a sum of £2.6 million was received by NHS Tayside for eHealth underspends, with a net sum of £1.9 million (ie, net of a 2015/16 repayment of £0.6 million) included in the 2016/17 financial statements. The eHealth funding was shown in the Scottish Government funding allocation letters as belonging to NHS Tayside, with no indication that it belonged to other boards or that it was repayable. As a result, the auditor concluded that the prior year accounts were correct.

⁹ An [independent review](#) by Grant Thornton UK LLP on eHealth funding between eHealth, NHS National Services Scotland and NHS Tayside between 2012 and 2018, Grant Thornton, March 2018.

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27. NHS Tayside anticipated a further £2.7 million of eHealth monies for 2017/18. The board included this in its budget for 2017/18, resulting in a financial position which was £5.3 million more optimistic than was justified. When identified, this increased the deficit and therefore the amount of brokerage needed by the board at the year end.
28. The accountable officer has provided the auditor with assurances that all funding in the Scottish Government allocation for 2017/18 belongs to the board. Audit testing has not revealed any funding that has not been properly accounted for. The auditor has concluded that the income in the 2017/18 accounts is fairly stated.
29. The Grant Thornton review of eHealth funding identified five areas where action should be taken by NHS Tayside, all of which have been implemented by management. The steps taken to improve controls over funding include:
- The financial forecasts for 2017/18 were rebased to exclude £5.3 million of eHealth funding allocations that had been incorrectly included.
 - Standing Financial Instructions were changed, to ensure that any alterations to the Revenue Resource Limit will be signed off by the Director of Finance and the Chief Executive.
 - The format of the financial reports has been changed, to improve understanding and transparency regarding the financial position including detail of, and the extent to which, non-recurring measures or board 'reserves' are being utilised.
 - There is greater transparency in reporting to the board on the extent of reliance on non-recurring allocations received for specific purposes but spent on other areas in the year of receipt. These are known by the board as 'deferred expenditure,' and are being utilised to manage its financial position. The funds carried forward in this way have been managed down from £27 million at 31 March 2013 to £14 million at 31 March 2018.
30. Grant Thornton was subsequently commissioned to carry out a review of financial governance within NHS Tayside, on behalf of the Scottish Government. Its report, issued in May 2018, made recommendations in respect of budgeting and financial reporting.¹⁰ The steps now taken by management to improve this reporting include:
- Feedback has been sought from board members on the revised financial monitoring reports.
 - A review of how financial forecasts are prepared has been completed. The board feel that there is now a more accurate and consistent approach to preparing month-on-month information so that the board members can take confidence in the forecasting. This should support sound financial decisions and identify potential areas of overspending captured earlier in the year.

¹⁰ An [independent review](#) by Grant Thornton UK LLP on agreed areas of NHS Tayside financial governance arrangements between the financial years 2012/13–2017/18, Grant Thornton, May 2018.

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- The Director of Finance is monitoring the implementation of all agreed improvement actions from Grant Thornton's and external audit reports in a Tracker Report. This is reported to the Audit Committee.
 - A revised protocol is in place whereby Internal Audit report progress to the board's Audit Committee against improvements from its reports.
31. The complexity of the allocations process for the NHS is highlighted in my annual overview of the NHS in Scotland and in individual NHS board AARs.¹¹

Tayside Health Endowment Fund

32. In April 2018, allegations were reported in the media about the use of Tayside Endowment Fund monies by NHS Tayside in 2013/14, involving temporary suspension of the fund's policy and procedures to allow the approval of retrospective expenditure proposals.
33. The audit of NHS board endowment funds is not within my statutory remit. Each endowment fund board appoints its own auditor. The Tayside NHS Board Endowment Fund 2013/14 accounts report that the Trustees had approved retrospective funding on projects that NHS Tayside had commenced. The amount funded retrospectively was £3.6 million. The endowment fund's external auditor, MMG Archbold, issued an unqualified audit opinion for 2013/14. The retrospective approval was reported by NHS Tayside's auditor in his annual audit report for 2013/14.
34. The Office of the Scottish Charity Regulator (OSCR) is conducting a formal inquiry into the use of funds by the Tayside NHS Board Endowment Fund. The OSCR inquiry was due to report at the end of November 2018.
35. The Grant Thornton report on financial governance at NHS Tayside also included a review of the use of endowment fund monies. It made a number of recommendations, most of which relate to the culture, leadership and member support within NHS Tayside:
- Linked to the wider organisational cultural change programme and focus on leadership, management should ensure that internal audit plays a pivotal role in supporting cultural change and that its input and recommendations are valued and actioned by management.
 - Finance reports, which are clear and easy to understand by a non-finance person, should be presented on a timely basis to the board to allow board members effective insight and scrutiny of the financial position.
 - There is an opportunity for the leadership team and the board to further set out the culture they expect to be in place and demonstrated across NHS Tayside, including continuing to encourage open and honest conversations based on the promotion of doing the right thing and the wider NHS in Scotland values.

¹¹ [NHS in Scotland 2018](#), Audit Scotland, October 2018.

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- The board should explore what additional training and support is needed to support the non-executive directors in their role to ensure effective scrutiny and leadership, including ensuring their voice is heard and acted on by management.

36. In April 2018, NHS Tayside's Board approved a proposal to repay to the endowment fund £3.6 million, to cover funds used by the board in 2013/14 and 2014/15. The board will consider a paper in December 2018, setting out the specific statutory basis for transferring board funds to the endowment fund. The Scottish Government will provide funding to cover this repayment.

Changes to the senior management team

37. The Director of Finance was suspended on 26 February 2018, immediately after he informed the former Chief Executive about the treatment of the eHealth funding, pending an internal investigation. The following day he requested that his retirement be progressed. An employee who is a member of the 1995 pension scheme can choose to retire at any time after the age of 55, with actuarial reduction of their pension, without the employer's consent.
38. The former Chief Executive sought and followed appropriate advice in managing the Director of Finance's departure. He was paid three months' salary in lieu of notice on his departure. This notice period was in accordance with his contract of employment. The board were advised of this during an extraordinary meeting held on 5 March 2018.
39. Had the Director of Finance not chosen to retire, there would have been a full investigation process and he would have remained suspended on full pay until the investigation was complete. In these circumstances, the time required to conclude the investigation and the ultimate costs to the board are uncertain.
40. Interim arrangements were put in place to manage the board's financial arrangements. The NHS Grampian Director of Finance, who was already providing external support to the board, took on an extended senior finance role at NHS Tayside as the interim Strategic Director of Finance. Ministerial approval was given to make this appointment permanent effective from 1 June 2018.

Payments relating to the departure of the former Chief Executive

41. In April 2018, the Cabinet Secretary for Health and Sport moved NHS Tayside to the highest level of escalation. Following this, the Chair of the NHS Tayside Board stood down and the former Chief Executive was removed from her accountable officer status. She left NHS Tayside in July 2018.
42. The former Chief Executive's employment with NHS Tayside ended on 31 July 2018, with a negotiated settlement. The approach taken by the board to negotiate the settlement was reasonable, but errors were made in the process and the settlement business case submitted for approval by the Scottish Government did not contain all the pertinent information.
43. The payments made relating to the settlement were:
- payment of £64,211.52 to the former Chief Executive equating to six months' notice

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- payment of £6,904.46 to the former Chief Executive in lieu of 20 days' annual leave entitlement due, but not taken
 - a contribution of £19,135.08 to the NHS Scotland pension fund, intended to cover the notice period
 - a contribution of £1,028.76 to the NHS Scotland pension fund, to cover annual leave not taken.
44. NHS Tayside's Assistant Chief Executive/ Strategic Director of Workforce was responsible for managing the departure and agreeing the settlement for the former Chief Executive. The current Chief Executive and the Chair have both confirmed that they supported the actions taken to secure the settlement and each stage of the settlement was discussed with them. The Assistant Chief Executive/ Strategic Director of Workforce had support from the NHS Central Legal Office (CLO) and Scottish Government Health and Social Care Workforce Directorate throughout the settlement process.
45. The current Chief Executive and the Chair agreed with the Scottish Government Health and Social Care Workforce Directorate that early resolution of the former Chief Executive's position was necessary. The board determined that any possible legal action which could have arisen from a proposed contract termination would have been expensive, time consuming and entail a reputational risk. The total costs of the negotiated settlement to the board were less than the Central Legal Office's estimated cost of defending an unsuccessful legal case.
46. The decision to reach a negotiated settlement with the former chief executive was reasonable, but there were several weaknesses in the settlement process and a lack of good governance.
47. The Scottish Executive Health Department's circular on Pay and Conditions for Executive Managers¹² is mandatory and states a minimum notice period of between three to six months should be included in all executive manager contracts. The former Chief Executive's contract of employment, dated 17 December 2013, includes a notice period of three months. Following discussions between the Assistant Chief Executive/ Strategic Director of Workforce, the current Chief Executive, the Chair, the Scottish Government's Director of Health Workforce and Strategic Change and the CLO, this was increased to six months. The Assistant Chief Executive/ Strategic Director of Workforce and current Chief Executive believed this was required to bring parity with other chief executives across the NHS, but the board cannot provide evidence to substantiate this. This increased the payments made to the former Chief Executive by £32,105.
48. Since these discussions with the board, auditors have confirmed that the current chief executives of three territorial and four special boards have contractual notice periods of three months, with the others having contractual notice periods of six months. The board's assumption that the former Chief Executive's notice period needed to be changed to bring parity with all other boards was, therefore, not correct.

¹² Pay and Conditions for Executive Managers, The Scottish Executive Health Department, NHS HDL (2006) 23.

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49. The Scottish Government's Director of Health Workforce and Strategic Change approved the settlement, in accordance with Scottish Public Finance Manual guidance. The business case for the settlement, submitted for approval to the Scottish Government on 25 June 2018 by the Assistant Chief Executive/ Strategic Director of Workforce, records the contractual notice period as six months. It does not mention the three months' notice period included in the contract of employment. The CLO has subsequently confirmed that three months was the contractual position until the settlement was agreed on 26 July 2018, when the notice period was revised to six months. The Scottish Government's Director of Health Workforce and Strategic Change was aware of the change of notice period before the settlement was approved.
 50. To comply with the Pay and Conditions for Executive Managers circular,¹³ any extension of the Chief Executive's notice period to six months should have been explicitly approved by the board's remuneration committee. The board was unaware that the Remuneration Committee was required to approve the change in the notice period, until the auditors brought it to the board's attention. This was approved by the Remuneration Committee, retrospectively, on 15 November 2018.
 51. The business case excluded the pension contributions of £1,028.76 paid by the board (on 7 August 2018) to cover untaken holiday leave. This amount was also excluded from the settlement agreement.
 52. The settlement agreement states that the termination payment includes £19,135.08 in employer pension contributions to cover the former Chief Executive's notice period. The board identified late in the negotiation process that payment in lieu of notice does not represent pensionable service and, therefore, pension contributions should not be made. At this late stage, the former Chief Executive was not prepared to consider an updated settlement. The agreement was not changed, and the payments were made to the Scottish Public Pensions Agency (SPPA).
 53. The board now aims to recover these contributions through year-end adjustments with the SPPA. However, the CLO has said that, in its view, this would be a breach of the agreement and they cannot advise the board to do this. The Assistant Chief Executive/ Strategic Director of Workforce's view is that these contributions do not provide any benefit to the former Chief Executive and that as result they will go ahead and seek repayment of £19,135.08 later in the year. The auditor will follow this up as part of the audit of the 2018/19 accounts.

Departure of non-executive board members

54. Three non-executive board members, who were members of the audit committee, resigned in October 2018. The appointment of three new non-executive board members was announced on 15 November 2018.

¹³ Pay and Conditions for Executive Managers, The Scottish Executive Health Department, NHS HDL (2006) 23.

Are the financial pressures facing NHS Tayside having an impact on service delivery?

55. 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. There are 18 non-financial standards (with two of these having a sub-indicator each). NHS Tayside's performance against these standards is deteriorating. Of the 20 standards, seven (35 per cent) were being met or exceeded (compared to nine in 2016/17) and 13 were not being met as at March 2018 (Appendix 2).

What work is under way to address the financial pressures facing NHS Tayside?

56. Since 2013/14, NHS Tayside has depended on brokerage from the Scottish Government to achieve financial balance.
57. The board's financial plan forecasts that efficiency savings of £48.1 million (6.5 per cent of baseline RRL) will be required for 2018/19. This sum excludes £3.6 million for the proposed repayment to the endowment fund, which the Scottish Government has committed to fund. NHS Tayside has identified £31.6 million of the required savings. Included in the savings are recurring savings of £20.9 million (43 per cent of its total savings requirement). The source of the remaining savings has yet to be identified.
58. The Cabinet Secretary announced in October 2018 that NHS boards will no longer be required to break even at the end of each financial year. Instead, they will be required to break even every three years. NHS Tayside is planning to issue a draft three-year plan to be formally considered for approval by the board in February 2019.¹⁴

Service change required to become financially sustainable

59. NHS Tayside initially established a five-year transformation programme in 2015. This covered the period 2017/18 to 2021/22 and aimed "to improve the sustainability of services and enhance the quality of care". The focus of the plan was based on improved productivity and efficiency, service redesign and transformation. This transformation programme has delivered substantial cost savings through efficiency and productivity measures but has not yet delivered the recurring savings necessary through service redesign and transformation.
60. In April 2017, the Scottish Government established an independent Assurance and Advisory Group (AAG). The group's terms of reference and work plan are designed to provide independent scrutiny and challenge on NHS Tayside's financial planning and the deliverability of its transformation programme.
61. In its initial staging report in June 2017, the AAG identified ten recommendations for management to take forward in delivering the board's transformation programme. The Scottish

¹⁴ Medium-Term Health and Social Care Financial Framework, Scottish Government, October 2018.

Government has also set up an NHS Tayside Transformation Support Team (TST) to report on progress made by NHS Tayside in implementing the recommendations.

62. In its report to the AAG in January 2018, the TST reported that progress had been made with the first five of the recommendations but that the other five recommendations are longer-term and will take more time to evidence delivery. The TST reported that NHS Tayside has worked hard to implement the recommendations of the AAG report but that there was still much work to do, particularly to further develop the integrated clinical strategy. A further update was due from the AAG in November 2018.
63. The new senior management team has reviewed NHS Tayside's approach to transformation and has developed plans to deliver change through a combination of a long-term strategy, *Transforming Tayside* (the Integrated Clinical Strategy); a three-year Quality Improvement Programme; and actions to deliver immediate financial efficiencies.
64. The elements within the long-term strategy are currently being developed, with a view to them being in place by December 2018. NHS Tayside states that the Integrated Clinical Strategy will require a radical departure from the current model of care and for it to be achievable there are several critical changes that need to be made. These centre on:
 - a focus on prevention, maintaining existing health through anticipation, coproduction and self-management
 - joined up pathways of care between primary and secondary care and between clinical services
 - enhanced community provision
 - preventing hospital admissions or keeping them as short as possible and enabling people to go home as soon as it is appropriate
 - safe, effective, high quality and person-centred care
 - making sure that NHS Tayside have the infrastructure, workforce and organisational culture with the capacity and capability to support and enable the necessary step change to deliver the 2020 Vision.
65. The quality improvement programme is seen as a key component in supporting financial recovery and the wider Transforming Tayside programme, incorporating clinically-led quality improvement programmes in:
 - transforming outpatients
 - inpatient flow
 - theatre utilisation
 - mental health
 - prescribing and medicines management
 - primary care improvement plan.
66. The AAG has been retained to provide support to the board in taking forward its transformation programme. In my 2016 and 2017 reports, I highlighted that NHS Tayside has

an expensive operating model and higher staffing costs compared to other NHS boards. The transformation programme and changes to the way services are delivered will be critical in reducing these. The Cabinet Secretary's announcement that all outstanding loans will be written-off at the end of 2018/19 reduces the pressure on NHS Tayside to make repayments. However, it does not address the underlying financial problems in the board. Before this announcement, the auditor concluded that, based on a review of financial and savings plans, there was a risk that the board would be unable to repay brokerage in the short to medium term.

Future financial health

67. The board faces a significant challenge in turning around the financial health of the organisation. In June 2018, the board approved a one-year financial plan for 2018/19, which identifies a potential deficit of £18.7 million for the year.¹⁵ Financial reports acknowledge that further brokerage would be required. However, the Cabinet Secretary also announced in October 2018 that NHS boards will no longer be required to break even at the end of each financial year. Instead, they will be required to break even every three years. NHS Tayside is planning to issue a draft three-year plan to be formally considered for approval by the board in February 2019.¹⁶

¹⁵ Board paper 8.1, NHS Tayside, 30 August 2018.









¹⁶ Medium-Term Health and Social Care Financial Framework, Scottish Government, October 2018.

Appendix 1. Timeline of key events




Key dates	Details
2017	Scottish Government agreed to suspend the requirement for NHS Tayside to repay outstanding brokerage until the board can achieve financial balance on a recurring basis.
June 2017	Scottish Government Assurance and Advisory Group (AAG) identified ten recommendations for management to take forward in delivering the board's transformation programme.
2017/18	NHS Tayside received £12.7m in brokerage from the Scottish Government.
January 2018	In its report to the AAG, the NHS Tayside Transformation Support Team (TST) reported that progress had been made with the first five of the ten recommendations.
26 February 2018	Director of Finance informed previous Chief Executive about treatment of eHealth funding and was immediately suspended, pending an internal investigation.
27 February 2018	Director of Finance requested his retirement be progressed. Interim arrangements were put in place to manage the board's financial arrangements with the NHS Grampian Director of Finance taking on an interim role. This appointment has now been made permanent.
March 2018	Deficit increased from £4.0m to £12.5m.
March 2018	Scottish Government commissioned an independent review of eHealth funding by Grant Thornton.
April 2018	Allegations made in the media about the misuse of Tayside Endowment Fund monies by NHS Tayside.
April 2018	The Cabinet Secretary for Health and Sport moved NHS Tayside to the highest level of escalation. Following this, the Chair of the NHS Tayside Board stood down and the previous Chief Executive was removed from her accountable officer status.
April 2018	Interim Chairman and Chief Executive were appointed to NHS Tayside Board.
April 2018	Tayside's Board approved a proposal for a repayment to be made to the endowment fund to cover funds used by NHS Tayside in 2013/14 and 2014/15. Scottish Government funding is being provided to cover this repayment.

Key dates	Details
May 2018	Grant Thornton issued their report on financial governance within NHS Tayside on behalf of the Scottish Government.
June 2018	The board approved a one-year financial plan for 2018/19.
25 June 2018	Business case for the settlement payment to the former Chief Executive was submitted for approval to the Scottish Government.
26 July 2018	Settlement was agreed when the notice period was revised to six months.
31 July 2018	Chief Executive left the employment of NHS Tayside with a negotiated settlement.
September/ October 2018	Three non-executive board members, who were also members of the Audit Committee resigned.
October 2018	Scottish Government published its Medium-Term Health and Social Care Financial Framework. Cabinet Secretary announced that NHS boards will no longer be required to break even at the end of each financial year (it will be every three years instead) and all outstanding loans will be written-off at the end of the 218/19 financial year.
15 November 2018	Three new non-executive board members are appointed.
November 2018	Further update due from the AAG.
28 November 2018	New Chief Executive is appointed.
December 2018	Interim Chief Executive will leave.
February 2019	NHS Tayside to approve a draft three-year plan.

Appendix 2. Performance against non-financial LDP standards



Target/ standard	Performance at March 2018 ¹
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG Standard: 100%	 71% (16/17 - 81%) (Scottish Average - 75%)
12 Weeks First Outpatient Appointment Percentage of patients waiting no more than 12 weeks from referral to first outpatient appointment Standard: 95%	 71% (16/17 - 86%) (Scottish Average - 75%)
Cancer Treatment Percentage of patients beginning treatment within 31 days of decision to treat Standard: 95%	 93% (16/17 - 89%) (Scottish Average - 94%)
Cancer Treatment Percentage of patients beginning treatment within 62 days of urgent referral Standard: 95%	 87% (16/17 - 88%) (Scottish Average - 85%)
Child and Adolescent Mental Health Services (CAMHS) Waiting Times Percentage of patients seen within 18 weeks Standard: 90%	 41% (16/17 - 95%) (Scottish Average - 71%)
Psychological therapy Percentage of patients to start treatment within 18 weeks of referral Standard: 90%	 59% (16/17 - 72%) (Scottish Average - 78%)
4-hour A&E Percentage of all attendances seen within 4 hours Standard: 95%	 98% (16/17 - 99%) (Scottish Average - 93%)
Drug and alcohol treatment Percentage of patients seen within 3 weeks Standard: 90%	 87% (16/17 - 98%) (Scottish Average - 94%)

Target/ standard	Performance at March 2018 ¹
<p>Antenatal care</p> <p>Percentage of pregnant women in each SIMD quintile will have booked for antenatal care by the 12th week of gestation</p> <p>Standard: 80%</p>	<p>● 89%</p> <p>(16/17 - 91%)</p> <p>(Scottish Average - 86%)</p>
<p>Clostridium Difficile Infections</p> <p>Rate of infections in patients aged 15 and over, per 1,000 total occupied bed days</p> <p>Standard: 0.32</p>	<p>● 0.20</p> <p>(16/17 - 0.24)</p> <p>(Scottish Average - 0.27)</p>
<p>Staphylococcus Aureus Bacteraemia (SABs)</p> <p>Rate of SABs per 1,000 total occupied bed days</p> <p>Standard: 0.24</p>	<p>● 0.41</p> <p>(16/17 - 0.32)</p> <p>(Scottish Average - 0.33)</p>
<p>Smoking cessation</p> <p>Sustain and embed successful smoking quits, at 12 weeks post quit, in the 40% SIMD areas in the NHS board area</p> <p>Standard: 637</p>	<p>● 523 (16/17 - latest available)</p> <p>(Scottish Average - N/A)</p>
<p>People diagnosed and treated in the first stage of breast, colorectal and lung cancer</p> <p>Standard: Increase the proportion by 25%</p>	<p>● 25% (16/17 latest available)</p> <p>(Scottish Average - 25%)</p>
<p>People newly diagnosed with dementia will have a minimum of 1 year's post-diagnostic support</p> <p>Standard: None set</p>	<p>● - 97% (15/16 latest available)</p> <p>(Scottish Average - 85%)</p>
<p>18 weeks Referral to Treatment (RTT)</p> <p>Percentage of patients seen and treated within 18 weeks from initial referral.</p> <p>Standard: 90%</p>	<p>● 72%</p> <p>(16/17 - 87%)</p> <p>(Scottish Average - 81%)</p>
<p>IVF Waiting Times</p> <p>All eligible patients will commence IVF treatment within 12 months</p> <p>Standard: 90%</p>	<p>● 100%</p> <p>(16/17 - 100%)</p> <p>(Scottish Average - 100%)</p>
<p>Alcohol Brief Interventions</p> <p>Sustain and embed in primary care, A&E, antenatal and broaden delivery in wider settings</p> <p>Standard: 4,758</p>	<p>● 4,226</p> <p>(16/17 - N/A)</p> <p>(Scottish Average - N/A)</p>

Target/ standard	Performance at March 2018 ¹
<p>48 Hour Access - GP Practice Team</p> <p>Percentage of patients who were able to obtain a consultation with a GP or appropriate healthcare professional within 2 working days of initial contact</p> <p>Standard: 90%</p>	<p> 94%</p> <p>(16/17 - N/A)</p> <p>(Scottish Average - 93%)</p>
<p>Advance Booking - GP</p> <p>Percentage of patients who were able to book a consultation with a GP more than 2 working days in advance</p> <p>Standard: 90%</p>	<p> 64%</p> <p>(16/17 - N/A)</p> <p>(Scottish Average - 68%)</p>
<p>Sickness absence rate</p> <p>Maximum sickness absence rate every 12-month period.</p> <p>Standard: 4%</p>	<p> 5%</p> <p>(Scottish Average - 5.4%)</p>

Note: 1. Latest available data - [Scotland Performs: NHS Scotland](#).

Key:

-  Currently not met
-  Currently achieving standard

The 2017/18 audit of NHS Tayside

This report is available in PDF and RTF formats, along with a podcast summary at:

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**REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22 OF THE PUBLIC FINANCE
AND ACCOUNTABILITY (SCOTLAND) ACT 2000**

STATUTORY REPORT ON 2017/18 ACCOUNTS OF NHS TAYSIDE

1. The Auditor General has prepared a report on the 2017/18 accounts of NHS Tayside. This report is made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 and is based on the annual audit report for NHS Tayside. The auditor gave an unqualified opinion on the accounts of NHS Tayside but highlighted several significant risks.
2. This is the fourth consecutive section 22 report provided to the Parliament on NHS Tayside. Previous reports have highlighted a series of significant concerns, covering financial, performance and governance issues. This report sets out NHS Tayside's worsening financial position and the increasing challenges it faces in meeting its financial and performance targets. The report provides an update on events over the last financial year, including arrangements for the departure of the previous Chief Executive and notes the actions taken to date.
3. Key messages from the current report are:
 - For the last six years, the board has required brokerage from the Scottish Government to help it achieve financial balance. In 2017/18, the board delivered £46.8 million of savings, but still required brokerage of £12.7 million. The board has a total of £45.9 million outstanding brokerage and further brokerage will be required. In June, the board approved a one-year financial plan for 2018/19, which identifies a potential deficit of £18.7 million for the year. In addition to this, the board will receive a further £3.6 million in brokerage to cover repayment of endowment fund monies.
 - The Cabinet Secretary for Health and Sport announced in October 2018 that the Scottish Government will not seek repayment of brokerage accumulated to 31 March 2019 from territorial NHS boards. This reduces the pressure on NHS Tayside to make repayments. However, it does not address the underlying financial problems in the board.

- NHS Tayside's financial position is unsustainable. NHS Tayside continued to experience significant cost pressures in 2017/18. The board has not managed to reduce its expensive operating model. Net expenditure increased by one per cent on the previous year. Without addressing this, the board will struggle to achieve financial balance. The board's main overspends in 2017/18 were workforce costs, prescribing costs and the removal and repayment of the eHealth funding.
- Whilst the current transformation programme has delivered substantial cost savings, in June 2018 there was limited evidence of sustainable service redesign and transformation. The new senior management team has reviewed NHS Tayside's approach to transformation and has developed plans to deliver change through a combination of a long-term strategy, *Transforming Tayside* (the Integrated Clinical Strategy); a three-year Quality Improvement Programme; and actions to deliver immediate financial efficiencies. The independent Assurance and Advisory Group (AAG), set up by the Scottish Government to provide independent scrutiny and challenge on the deliverability of NHS Tayside's transformation programme, was due to provide an update on progress in November 2018.
- The board faces a significant challenge in turning around the financial health of the organisation. The Cabinet Secretary announced in October 2018 that NHS boards will no longer be required to break even at the end of each financial year. Instead, they will be required to break even every three years. NHS Tayside is planning to issue a draft three-year plan to be formally considered for approval by the board in February 2019.
- Several significant events relating to finances and governance at NHS Tayside emerged in 2018 including the mismanagement of eHealth funding and endowment fund monies. These events have further compounded the board's worsening financial position.
- Several senior staff have left the board over the last year, and an interim Chief Executive and Chair and a new Director of Finance took up post in 2018. The auditor reviewed arrangements relating to payments made to the former Chief Executive and concluded that whilst the decision to reach a negotiated settlement with the former chief executive was reasonable, there were several weaknesses in the settlement process and a lack of good governance.
- The board continues to face leadership challenges. The interim Chief Executive will leave NHS Tayside in December. The appointment of a new Chief Executive was

announced on 28 November 2018. A recruitment exercise is also under way to appoint a new Chair before the end of the 2018/19 financial year.

- NHS Tayside urgently needs to set out its medium-term financial plans and how it intends to achieve service reform and further reduce its operating costs. The board needs effective leadership to drive forward its plans for transformation. It is important that the board puts in place a realistic action plan, accompanied by the capacity and resources required to deliver it, to address the issues it faces.