



The Scottish Parliament  
Pàrlamaid na h-Alba

## Official Report

### **PUBLIC AUDIT COMMITTEE**

Wednesday 13 May 2015



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**CONTENTS**

	<b>Col.</b>
<b>DECISION ON TAKING BUSINESS IN PRIVATE .....</b>	<b>1</b>
<b>SECTION 22 REPORT .....</b>	<b>2</b>
“The 2013/14 audit of NHS Highland: Financial management” .....	2

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**PUBLIC AUDIT COMMITTEE**

**9<sup>th</sup> Meeting 2015, Session 4**

**CONVENER**

\*Paul Martin (Glasgow Provan) (Lab)

**DEPUTY CONVENER**

\*Mary Scanlon (Highlands and Islands) (Con)

**COMMITTEE MEMBERS**

\*Colin Beattie (Midlothian North and Musselburgh) (SNP)

\*Nigel Don (Angus North and Mearns) (SNP)

\*Colin Keir (Edinburgh Western) (SNP)

\*Stuart McMillan (West Scotland) (SNP)

\*Tavish Scott (Shetland Islands) (LD)

Drew Smith (Glasgow) (Lab)

\*David Torrance (Kirkcaldy) (SNP)

\*attended

**THE FOLLOWING ALSO PARTICIPATED:**

Garry Coutts (NHS Highland)

Nick Kenton (NHS Highland)

Elaine Mead (NHS Highland)

**LOCATION**

The Mary Fairfax Somerville Room (CR2)



## Scottish Parliament

### Public Audit Committee

*Wednesday 13 May 2015*

*[The Convener opened the meeting at 10:00]*

### Decision on Taking Business in Private

**The Convener (Paul Martin):** Good morning, colleagues. I welcome members of the press and the public to the ninth meeting of the Public Audit Committee in 2015. I ask all those present to ensure that their electronic items are switched to flight mode, so that they do not affect the work of the committee.

I have received apologies from Drew Smith.

Under agenda item 1, the question is, that we take agenda items 3 to 5 in private. Are we agreed?

**Members** *indicated agreement.*

## Section 22 Report

### “The 2013/14 audit of NHS Highland: Financial management”

10:00

**The Convener:** Item 2 is a section 22 report, “The 2013/14 audit of NHS Highland: Financial management”. I welcome from NHS Highland Elaine Mead, chief executive; Garry Coutts, chair; and Nick Kenton, director of finance. I advise colleagues that this is our second evidence session with NHS Highland on this section 22 report, following on from our meeting in Inverness on 2 February. I propose that we move straight to questions.

I ask members and witnesses to keep their questions and answers brief. I would also be grateful if colleagues could direct their questions to specific witnesses.

Ms Mead, I will start with the issue of brokerage, on which we have previously had detailed discussions. It would be helpful for the *Official Report* today, and following on from our meeting in February in Inverness, if you could give us some background on what exactly brokerage is.

**Elaine Mead (NHS Highland):** Brokerage is an ability—if we agree it with the Scottish Government—to take some additional resources to allow the organisation to break even at the year end. That was the situation for us. At the year end we required £2.5 million of brokerage, which amounted to 0.3 per cent, to break even financially.

**The Convener:** To clarify, then, brokerage is in effect an additional lending facility provided by the Scottish Government.

**Elaine Mead:** It is. We are of course required to pay it back in subsequent years.

**The Convener:** It is a significant decision that has to be taken by your organisation, for which you are the accountable officer.

**Elaine Mead:** It absolutely is. It is not something that we would wish to do or that we would do lightly, but it is available to us by agreement only with the Scottish Government.

**The Convener:** Let me give you an analogy. People go through the process of obtaining additional lending almost every day. As we speak, people will be obtaining additional lending throughout the world. It is a significant decision for people to take. Considering the autonomy of those decisions, those with whom they are taken in partnership have to be kept informed of them. In clear terms, can you lay out what the process is

for your organisation? In effect, you are accountable to your quango—the health board to which you are responsible. Is that correct?

**Elaine Mead:** Absolutely. We monitor the financial position throughout the year in NHS Highland, and we report that formally to a number of committees and, most importantly, to the board. The board is then very much aware of our financial position and of the decisions that we make as an executive and management team throughout the year. The board gives me guidance, as accountable officer, on the actions that it wishes me to pursue.

When it came to the end of the year and it became apparent that—

**The Convener:** I want first to clarify the process that you follow for that and who is responsible for it. Can you confirm how many board members you have?

**Elaine Mead:** I am sorry, I cannot. Is it 13—

**Garry Coutts (NHS Highland):** It is a board of about 22, of which there is a mixture of executives, non-executives and stakeholders.

**The Convener:** All those individuals have a responsibility for the decisions that are taken by the board. Am I correct?

**Elaine Mead:** Indeed but, as the accountable officer, I have the ultimate responsibility to Parliament for the decisions that are made about finance.

**The Convener:** Yes, but the board members have to be informed of the financial decisions that are taken, do they not?

**Elaine Mead:** They do.

**The Convener:** So they would expect to be informed formally of this additional lending facility, which is what brokerage is in effect, would they not? They would expect to be absolutely clear that they have taken on the responsibility of additional lending from the Scottish Government. They have significant responsibilities as board members, do they not?

**Elaine Mead:** They do.

**The Convener:** They cannot be kept in the dark. When a decision is taken for which they are ultimately responsible, you have a responsibility to report that to them, do you not?

**Elaine Mead:** As the accountable officer, I have the responsibility but, absolutely, I also have the responsibility of reporting that to the board—and we reported it to the board.

**The Convener:** I understand that you have the responsibility to report it to the board, but the board members then have the responsibility to

take the decision to apply for that additional lending, do they not?

**Elaine Mead:** The standing financial instructions are silent on that. It is not clear that it is the board in total. As I was the accountable officer and had been guided by the board to take all action required to break even, it was my responsibility and my decision to secure the brokerage.

**The Convener:** I just want to clarify this, because I do not think that we quite got to this stage previously. You are saying that the instructions are silent on that, but you said at our session in Inverness that you accepted the section 22 report that the Auditor General for Scotland submitted to us, which advised us that the reasons for your applying for additional brokerage were issues relating to financial management and financial reporting to the board.

**Elaine Mead:** Indeed.

**The Convener:** So that is correct and you accepted that in your previous evidence.

**Elaine Mead:** We absolutely accepted that. I absolutely accepted that.

**The Convener:** You advised us that the rules on this appear to be silent, but the reason why we are in this position is that the board was not made aware of this, so it could have been taking decisions across the board not knowing that it had already submitted itself to a lending facility that you had not informed it of.

**Elaine Mead:** I informed the chairman immediately that we had made that decision.

**The Convener:** I am not interested in the chairman. Say that I am a board member on your board. I put myself in a position where I am taking decisions every single day relating to the financial management of your organisation. For me to do that, you need to make sure that I am constantly informed of the position at least in the cycle of the meeting papers that are put before me. That did not happen, which had consequences, did it not?

**Elaine Mead:** We did keep the board informed and the board gave me clear instruction to take whatever action was necessary in order to break even. It was on that mandate that I made the decision to request and secure brokerage from the Scottish Government.

**The Convener:** I understand that you said that you had done that and that is the position you took, but do you appreciate the impact that that could have had on the decision-making process of your board members? For them to be in a position to take decisions at the board, surely they have to be informed properly through the board paper process. Is that not correct?

**Elaine Mead:** It is, but it is my belief and understanding from board members that they were fully informed and quite clear about the action that I would be required to take.

**The Convener:** The board members felt fully informed.

**Elaine Mead:** Yes.

**The Convener:** They were quite happy that you had decided to take on the brokerage responsibility, despite the fact that they were not informed and despite the fact that you had in effect signed up to a lending facility. Obviously, you have had corporate experience elsewhere, but not many businesses across whatever sector would think that it was acceptable for somebody to take a significant decision like that without having the sign-off process to do so. It is pretty unacceptable and it is very unusual, is it not?

**Elaine Mead:** These were unusual circumstances for NHS Highland. We had never required to secure brokerage before. On reflection, I accept the point that you are making that it might have been better for us to have an additional board discussion. My feeling at the time—and still today—is that we had had a number of discussions with the board and the board was quite clear in its mandate to me, which was a requirement to break even. In fact, up until month 10, we were on track to deliver that without brokerage.

**The Convener:** I just have a final question before I move on to other members who have questions to ask. I have looked at your board papers for other issues on which you have taken decisions. Some of them cover a wide range of issues relating to the management of your board on a daily basis. I am sure that we could probably find something in here that tells us how many paper clips you have bought and how many other procurement processes you have gone through, so there are other elements of your business strategy or your business decisions that are taken every day that you have reported to the board that, to me, are important but nowhere near as important as somebody on the board being advised, “Yes, we’ve now taken on an additional lending facility and, listen, you’re responsible for that.”

**Elaine Mead:** We did report that to the board, but—

**The Convener:** After the decision was taken.

**Elaine Mead:** I am absolutely accepting that, but we had had a mandate from the board to secure financial break-even, and at that point there was a—

**The Convener:** Can you clarify what the mandate was? What do you mean by “mandate”?

**Elaine Mead:** The board had requested that I do everything necessary to break even.

**The Convener:** So you got a blank cheque. It just said, “Go and do whatever you need to do. Go and get whatever loan you want to get.” Did the board really just say then, if the loan was for £12 million, “It doesn’t matter—just do whatever you have to do to break even”? Is that what it said?

**Elaine Mead:** No, it did not. It was quite clear on the scale and the actions that we were taking, and the alternative actions that would be necessary should we not secure brokerage.

**The Convener:** Were you not surprised, though, when the board said, “Just go and do whatever you want to do. You’re the chief executive. Go and do whatever you want”? Did you not say to it, “Well, you’ve got some governance responsibilities here”?

**Elaine Mead:** My view was that board members were executing that governance responsibility by keeping very clear to the position and discussing with us the action that they wished me to take.

**The Convener:** I will pass you on to Mary Scanlon.

**Mary Scanlon (Highlands and Islands) (Con):** It is just on that very point. The one thing that Audit Scotland and the committee in particular are 100 per cent concerned about is an audit trail—we have looked at that issue for the college sector and various sectors—and it is a very serious cause of concern here. In the 3 March paper that the board got, you are talking about breaking even; on 6 March, you confirm agreement with the Scottish Government; and then on 1 April you do not, according to your audit trail—these are papers that we did not have in Inverness—ask the board to agree to a loan of £2.5 million from the Scottish Government but ask it to “note” the loan.

Whatever informal arrangements or discussions you had, the audit trail says that your board members—non-executive directors—were kept in the dark. That is a serious audit concern. Again, I refer to the proof that we have in the papers before us. The 3 March paper has no mention of brokerage and talks about reducing costs for depreciation and asset lives et cetera, but on 6 March you confirm agreement with the Scottish Government. You were obviously doing all this behind the board members’ back. You were telling them that they would break even, but behind their back you were negotiating a loan and on 1 April asking them to “note” it.

I find that a matter of serious concern, given the amount of audit reports that this committee looks at. As a local member I am concerned, but in terms of the grand scale of all the audit reports that we get, it is a matter of very serious concern

that you are not including the non-executive board members in the decisions. I am also concerned about your response to the convener that this was all your decision. Perhaps you would like to explain why you told board members on 3 March that you were likely to break even but three days later the loan was confirmed and on 1 April you asked them to “note” it? To me, that is rather disrespectful to your board members. Can you comment on that?

**Elaine Mead:** I can, Ms Scanlon, and I agree, on reflection, that it was remiss of me to ask the board to “note” the brokerage. That was unacceptable; we should have asked it for its clear understanding of and agreement to the brokerage.

**Mary Scanlon:** Should you not have asked board members for their agreement before you sought the brokerage—the loan—which was agreed on 6 March, rather than ask them to agree to a loan that you already had in your pocket by 1 April?

**Elaine Mead:** I understood that I had permission from the board that—

**Mary Scanlon:** There is nothing in the audit trail; we have nothing to say that you had permission.

**Elaine Mead:** Indeed, and because of that I would agree with you that it would have been better, on reflection, for us to have asked for that absolute agreement from the board.

**Mary Scanlon:** My previous question still stands. Where is the audit trail that you sought the formal agreement of the 22 non-executive board directors of NHS Highland? Where is the audit trail of their agreement to the loan from the Government that was due to poor financial management?

10:15

**Elaine Mead:** The poor financial management that you refer to became apparent to us only on 18 February. That was when the month 10 position was published and we saw that the plan was off track. Until that point, we had been rightly pointing out to the board that, although it would be difficult to break even, we were confident that we would be able to do so. It was only on 18 February that we saw that there was deterioration of the expected improvement position in Raigmore hospital, plus, as you have mentioned, an issue around some additional funding for asset lives. That meant that the likelihood of us being able to break even, in my view, was diminishing.

At that point, we were discussing that both informally with board members and at the formal board meeting. At every formal board meeting we have had a report that has described our position

and the risks attached to it. However, you are quite right to point out that that report said that our expectation was that we would break even.

**Mary Scanlon:** On 18 February you knew that you were going to have to seek a loan from the Government, but on 3 March the board members agreed to the paper that we have in front of us that states that the board is going to break even. On 6 March you confirmed brokerage. To me, that is not keeping board members informed. The audit trail does not show that the board members were kept informed. Why is there no audit trail? That would help you enormously in these circumstances.

**Elaine Mead:** We have reflected on that following the section 22 report. The informal discussions that we have with the board are now noted and minuted so that, in the future, there will be an audit trail of them. I completely accept the point that, although we were having informal discussions and I was taking guidance from the board in those informal discussions, we do not have an audit trail of them. We have now moved to put that audit trail in place.

**Mary Scanlon:** What we have is this: the board members and the general public in Highland think that NHS Highland is breaking even—that is the public face of NHS Highland. The private face, which we do not know if board members were aware of, is that you are doing backroom deals or seeking loans from the Scottish Government and then asking the non-executive board members to “note” it, which for them is really the final insult.

**Elaine Mead:** The public face was in line with our expectations that we would break even.

**Mary Scanlon:** No, I am sorry—you said that on 18 February you had serious concerns so you talked to the Scottish Government, but you did not tell your board members that you were negotiating deals. You told them that you were expecting to break even while at the same time you were asking for brokerage behind their backs. That is our concern. It is the whole governance issue.

**Elaine Mead:** I understand your concern. I understand that that may be how it is perceived. I can—

**Mary Scanlon:** It is a fact. Bring us the audit trail that shows the discussion—it is not here. It is not my perception; it is a fact.

**Nick Kenton (NHS Highland):** Convener, can I clarify a point? I think that the paper from 3 March that was referred to went to the improvement committee. It is my memory that, at the end of the paper, it said that there was still £2.9 million to identify and that we were in discussion with colleagues at the Scottish Government about how to manage that. Therefore, at the time, there were discussions, those discussions had not been

concluded and we set out in the paper that we were in discussion with the Scottish Government. I think that we accept that it could have been clearer.

**Mary Scanlon:** Are you talking about improvements to be made to break even being in that paper?

**Nick Kenton:** That is correct.

**Tavish Scott (Shetland Islands) (LD):** Was the possibility of obtaining a loan one of the options presented to board members as a matter of course?

**Elaine Mead:** It was not done as a matter of course. As I said already, we would not seek a loan lightly and we did not wish to do so in that financial year. However, board members would have been aware that the option might be available to us because a number of other boards had secured brokerage in the past.

**Tavish Scott:** But, as Mr Kenton has just said, they were told that you were in discussions with the Government, although they were not told what mechanism could be used to fill the deficit.

**Elaine Mead:** No, and, at that point, we were not clear what options might be available to us. There were a few options.

**Tavish Scott:** As you said earlier, members of the board had never previously used brokerage or, rather, had never previously used a loan facility—brokerage is a misleading word—so they might fairly assume that they would get a bung from the Government, in the form of a grant, that would pay off the deficit, because that is what has happened in other board areas. Is that right?

**Elaine Mead:** They might have assumed that.

**Tavish Scott:** So would it have been a shock to the board members that they were suddenly asked to note a new loan, which they had never been told about before?

**Elaine Mead:** I do not believe that they were shocked.

**Tavish Scott:** They thought that it would be okay to have a loan as opposed to having a grant that they would not have to pay back. Did any of them ask what the repayment characteristics of the loan would be?

**Elaine Mead:** We made clear to the board that there would be a requirement for repayment over a period of three years.

**Tavish Scott:** When you discussed the matter with the Government, did you discuss the possibility of getting a straight grant rather than a loan?

**Elaine Mead:** I cannot recall.

**Nick Kenton:** I do not think that the option was available.

**Tavish Scott:** From whom was it not available? Did you ask for a grant—for a straight, additional amount of money to cover the deficit?

**Nick Kenton:** No, because we know that that is not how the Government operates. The broker system is a fairly well-trodden path. Brokerage is offered only on the understanding that the money will be paid back and that there is a clear plan to enable that to happen.

**Tavish Scott:** In what circumstances would you call a special board meeting?

**Garry Coutts:** We would have to have the time to be able to do it. We have to give board members two clear weeks' notice of a special board meeting. There would have to be a substantial period of time until our next scheduled meeting in order to make having a special meeting worth while. As it was, the period between the agreement of brokerage and the meeting at which it was reported was only a little more than the fortnight anyway, so I would not have deemed it as appropriate or as adding value to call a special meeting.

**Tavish Scott:** If any normal company that I have ever been involved with needs to get the board together, it just gets it together. You do not have that facility.

**Garry Coutts:** I can do it informally by doing a phone-around of members. However, some of the board members live in Argyll, others live on islands and others work part time, so I have the use of their time for only a day a week for a variety of stuff. To get them together for a formal board meeting to make a formal decision without giving them the appropriate notice could have been seen as not giving them the opportunity to—

**Tavish Scott:** I understand the practical issues.

**Garry Coutts:** I contact board members regularly as issues arise so that they are aware of them. However, that is not a formal board meeting, and there certainly will not be an audit trail for it.

**Tavish Scott:** Are you not allowed to have a board meeting in which people use teleconferencing facilities or a telephone on a desk?

**Garry Coutts:** We can do that. In light of the discussion that we are having here and the importance that is being attached to the issue, I should maybe have taken a different view.

This was the first time in the 10 or 11 years in which I had chaired NHS Highland that brokerage was an issue. I was aware of it being an issue for other boards but I was not aware of the requirement for formal board meetings to take

place to enable it to happen. Boards are not allowed to run a deficit. We know that our chief executive and others will look to take any measure to ensure that we break even.

**The Convener:** Have you ever held a special board meeting?

**Garry Coutts:** We held one about proposals for a new-build hospital, but we knew several months in advance that there would be a requirement for such a meeting, so we were able to schedule it. We have the facility to do it, but we will not do it very often.

**The Convener:** You called a special board meeting for a new-build facility.

**Garry Coutts:** Yes.

**The Convener:** How long did that take you to call?

**Garry Coutts:** It would have been the full fortnight.

**The Convener:** Sorry?

**Garry Coutts:** People would have needed the fortnight's notice. A special board meeting was called because it was a complex deal between private sector lenders, the hubco, and so on. It had to be signed off at the same time as other boards, but it did not fit in with our cycle of meetings, so we had to call a special board meeting.

**Tavish Scott:** You said in evidence at Inverness that, at a board development session, one member of your board asked whether it would be sensible to look at brokerage—to look at the lending. What was the date of that board development session?

**Garry Coutts:** I think that it was in November or December.

**Nick Kenton:** It was on 4 March.

**Tavish Scott:** That is very helpful.

**The Convener:** Colin Keir would like to come in on the issue of brokerage.

**Colin Keir (Edinburgh Western) (SNP):** Actually, convener, I would like to ask Ms Mead to clarify something that she said about informal meetings. If somebody was looking for board meetings' decisions and you were talking about things informally, how could that be correct? If decisions were taken in informal meetings, how could they have been reported, so that somebody could check performance or anything else that they might want to check? You have not been taking formal minutes of those meetings and certainly the information that was discussed at them was not made available in full, as it is for full, formal board meetings. I am concerned that the

accountability is not clear to the public or anyone who is looking into this.

Various things have been said, but how can people be sure that the organisation that you lead is reporting clearly, if you are using that type of system?

**The Convener:** Please keep questions and answers brief.

**Colin Keir:** I beg your pardon.

**Elaine Mead:** We have accepted the criticism that was highlighted in the section 22 report and people can now be assured on the audit trail and the level of information and detailed minutes that we keep for formal board meetings and the various committees, such as the improvement committee, and, probably more important, the informal discussions that we have with the board. They are now minuted and made available for people to see in the future as part of an audit trail.

**Stuart McMillan (West Scotland) (SNP):** I would like clarification of one point. The brokerage decision was clearly a major financial decision. Is it common practice in NHS Highland for major financial decisions to be discussed informally and without the audit trail that we have heard about? Bear in mind that, a moment ago, Mr Coutts stated that boards are not allowed to run deficits.

**Elaine Mead:** We have never had to make the decision to seek brokerage before—

**Stuart McMillan:** I am focusing on any major financial decision, not just the decision on brokerage.

**Elaine Mead:** We discuss regularly with our board any issues of financial significance. We have such discussions formally and informally at the improvement committee and at partnership meetings that we hold for the northern Highland and Argyll and Bute areas. Where there are revenue consequences, board members scrutinise the financial position quite closely, and we have separate capital groups that look at the capital consequences.

Every month we send a detailed report pack to every board member so that they can see the detail of our financial position. We go through it with them in informal sessions and in our formal board meetings.

**Nick Kenton:** I want to clarify something about how the board operates. NHS Highland is a very large organisation with a budget of £736 million and it works through a system of delegated authorities. Throughout the year, the board delegates to officers the authority to make decisions. It is not feasible for the board to make every decision, so at the beginning of the year we set a financial plan for revenue—day-to-day

budgets—and capital for the big spend, and officers manage that and report back to the board every month. It is worth clarifying that board members do not routinely make financial decisions directly but monitor the overall position, which is delegated to officers.

10:30

**Stuart McMillan:** I am not for a minute suggesting that the board should monitor every financial decision. However, for something as major as the issue that we are discussing today and have discussed in the past, would it be common for the board not to be fully involved or informed when such decisions—and, potentially, others of great significance—are made?

**Garry Coutts:** The board was informed. The issue is that the decision was not made formally at a board meeting. I will speak to colleagues about that and make sure that that cannot happen again. Because of our inability to carry a deficit, we believed that we were under an absolute requirement to break even. We therefore looked at all options, one of which was brokerage, and the board was well sighted of the fact that that was one of the options that were being looked at.

In light of the section 22 report, we will amend the way in which we work. I assure you that, if we require brokerage again—I hope that that will never happen—we will deal with things differently. However, the routine way of making decisions is that every decision is made in public. Informal meetings are for information, briefings and developing our understanding of the complex system that we are managing; they are not about decision making, and no decisions have been made by the board in secret meetings.

**Stuart McMillan:** Okay. Thank you.

**Mary Scanlon:** It would have been helpful, and perhaps you would not have needed to be here, if the decisions that were made in public had also been audited in public. I appreciate what you say about decisions that will be made in the future, which is welcome, but we are talking about what we have in front of us. You said on 3 March that you were going to break even, a loan was confirmed on 6 March and you were asked to note the loan on 1 April. I take on board what you say about decisions being made in public, but what we and Audit Scotland need—and what the general public needs, given the amount of taxpayers' money that you spend—is an audit trail, and that is just not there.

**Garry Coutts:** I agree, and I have given you an assurance that we have learned a lesson from that year. In my experience of more than 10 years, we had never been through the circumstance of getting brokerage and I thought that it was

absolutely transparent, because ensuring that brokerage is available is a routine way of ensuring that you break even. When the decision to ask for brokerage was taken, it was reported to the board. Board members certainly would not have been surprised by it, as was suggested earlier, because they were well aware that it was one of the options that we would inevitably look at.

**Mary Scanlon:** But that is not recorded in the papers that we have.

**Garry Coutts:** I agree with you. I have apologised for that and have said that we will ensure that that circumstance does not arise again.

**The Convener:** You say that your board is made up of non-executive directors and executive directors. I take it that some of those people will be heads of departments.

**Garry Coutts:** They are not really heads of departments.

**The Convener:** Sorry—they are directors.

**Garry Coutts:** Yes, they are executive directors.

**The Convener:** So, some of them would have headed up the organisations that went through an overspend.

**Garry Coutts:** One would have been the chief operating officer, who has responsibility for all the operating divisions, but we did not have the individual operating division managers.

**The Convener:** I am trying to make the point that some of those who were attending the board would have been making spending decisions within their own departments. Is that correct?

**Garry Coutts:** Yes—the chief operating officer, principally, with support from corporate colleagues.

**The Convener:** The fact that they would have been aware that the situation was getting pretty serious and that the board was making a decision about brokerage—in effect, an additional lending facility—could have had an impact on some of their spending decisions, could it not?

**Garry Coutts:** The seriousness of the issue was absolutely crystal clear to everybody around the board table. Brokerage actually relieved the seriousness of the situation because it prevented our having to take actions that might have had more of an impact on patients and the people whom we care for.

**The Convener:** We are well-versed in the seriousness of the situation and we have talked about it before. Information was fed to those who were sitting around that board table that a decision

had been taken on brokerage. That is even more serious.

**Garry Coutts:** They never sat around that board table having heard about a decision about brokerage without its having been reported to them.

**The Convener:** It was reported, but it should have been part of a proper process and followed up. The whole organisation would then have become aware of the seriousness of the situation, but instead it went to red alert because it had to ask the Scottish Government for money.

**Garry Coutts:** I agree with you: we could do that better. That is one of the lessons that we have learned and we will ensure that that does not happen again. I can say categorically that nobody at any operational management level would have been unaware of the seriousness of the situation and the measures that we had to take to secure break-even in our financial balance at the end of the year. They would also have been aware that a number of other discussions were taking place that might have led to solutions, including brokerage.

**Colin Beattie (Midlothian North and Musselburgh) (SNP):** I will start by making one small positive statement. Audit Scotland's latest financial management review of NHS Highland finds that

"NHS Highland has made good progress during 2014/15 to improve its financial management arrangements."

That said, audit is about looking back at events that have already happened, so I would like to look at the issues around Raigmore hospital. The main issue that was identified was that there was not a strong culture of tight financial management, mainly because the hospital had enough money. I presume that that was because money was being taken from elsewhere. You had a programme that meant your making savings in other areas within NHS Highland. Did diverting money to Raigmore hospital affect the patient experience in other areas?

**Elaine Mead:** There had been an issue with Raigmore's financial position for a number of years. Having enough money refers to the fact that we decided to rebase the budget in Raigmore. In fact, we wiped off its budget deficit with an additional £5 million as we went into the year beginning 2012-13.

**Colin Beattie:** That was because of poor financial management. NHS Highland was subsidising the hospital.

**Elaine Mead:** At that point, we were persuaded that there were increased pressures on the hospital. We had controls in place at that point, which was very early on.

**Colin Beattie:** Does that relate back to poor financial reporting?

**Elaine Mead:** The mention of poor reporting in the report refers back to 2013-14 and 2012-13. We are talking about a period of years. The important point for me is that we rebased the budget to give that part of the organisation the best possible chance of continuing to break even with the pressures that it said it was facing.

At the end of 2012-13, we were disappointed to find that, even though the budget had been rebased for a £2 million overspend, the situation deteriorated during 2013-14. There was poor financial reporting throughout 2012-13 and into 2013-14. There was also a lack of budgetary control, as was outlined in the internal report and, subsequently, in the section 22 report.

**Colin Beattie:** We are talking about poor financial reporting, but surely that reflects poor management of the hospital. Surely that is the bottom line.

**Elaine Mead:** There were challenging circumstances, but we required the hospital to deliver the break-even budget that we asked for and we asked it to develop a recovery plan. The board, the improvement committee and the audit were all examining the outcomes of the internal audit report and the financial recovery plan that was put in place at Raigmore. Early in the financial year 2013-14, the then director of operations and the head of finance reported that there had been positive progress.

**Colin Beattie:** If the management was poor then, has it changed or is it still the same?

**Elaine Mead:** The management has changed. We have a new director of operations and a different arrangement to cover the head of finance position.

**Colin Beattie:** You touched on the 2013 review, which was requested after "a year or two" by the director of finance. Why did it take "a year or two" to notice that there was a problem?

**Elaine Mead:** Although we were taking all the local measures that we could to oversee, support and train individuals within the organisation, we were not seeing the benefits that we expected. As I have described, we had to question then whether we were right and whether there was enough resource in that part of the organisation, given the pressures that had been put on it as a result of the demands of other parts of the organisation. That is why we took the quite unusual decision to rebase the budget. Having done that, we expected the budget to be under control. Clearly, however, over 2013-14 the situation deteriorated even further than it had in 2012-13.

**Colin Beattie:** Why was progress in implementing the recommendations in the 2013-14 internal audit reports slowed down?

**Elaine Mead:** I do not believe that progress was slowed down.

**Colin Beattie:** It did not happen.

**Elaine Mead:** I think that we were pursuing actions with the local team. We were seeking and being given assurances that actions were being taken. Some of the actions that we understood had been taken did not, in fact, materialise and we found further deterioration in the position. As I have described, the scale became apparent to us in month 10 in 2013-14. By that time, we had a new management team looking at the financial position.

**Colin Beattie:** Can you remind me of the overspend at the hospital for 2014-15? I think that it was forecast to be £7.8 million.

**Elaine Mead:** I am sorry—in which year?

**Colin Beattie:** In 2014-15.

**Nick Kenton:** I do not recognise that figure, to be honest. The overspend target for Raigmore in 2014-15 was £6 million.

**Colin Beattie:** How robust are the plans that you have in place for Raigmore hospital?

**Elaine Mead:** We are very confident that the plans are robust. In fact, in the last financial year—2014-15—we have seen an improvement in the hospital's position. We had tasked the hospital to reduce the deficit by £3 million; it managed just short of that and made great inroads into reconfiguring services and taking waste out of the system. It reduced demand and transformed how it delivers services. Its reliance on supplementary staff had reduced and it was making a significant impact on some other pressures that it had experienced in-year.

**Colin Beattie:** We have had a couple of other audit reports that contain recommendations. How many of those recommendations are outstanding and how many have been completed?

**Elaine Mead:** A number of the recommendations have been completed. However, some multifactoral and rather complex issues were identified within the audit reports, which are not complete—

**Colin Beattie:** Can you give an example?

**Elaine Mead:** We have done the straightforward things around training of staff and budgetary control, in which we have been looking at responsibilities for budget managers. Nick Kenton will give more detail.

**Nick Kenton:** Broadly, there are two types of recommendations. There are ones around controls, which I think are either complete or almost complete. One of the recommendations, for example, was to return Raigmore to financial balance. Clearly, that will not happen overnight, so that stands as an incomplete recommendation and will stay that way until Raigmore returns to financial balance, which will be in two years.

Another recommendation was for a complete review of all the services that Raigmore provides. Again, that is not a simple thing that can be done within the hospital. It involves the whole of NHS Highland; in fact it goes beyond NHS Highland's borders.

There was a huge range of recommendations. The ones that are fairly simple are either done or almost done. For the more complicated ones, there is a plan to complete them, but they are not yet complete.

**Colin Beattie:** I talked before about the savings that were made elsewhere in order to compensate for Raigmore hospital. Where were the bulk of those savings made in order to channel money into Raigmore?

10:45

**Elaine Mead:** We looked across the whole organisation and tried to reduce costs where we could, ensuring that any additional resources were targeted at where the biggest pressures were. For example, we looked to reduce overall costs for supplementary staffing across the organisation, and some of those savings would have benefited the overall position across NHS Highland, but we tried to do that by focusing wherever we could on quality and without detriment to our other services.

**Garry Coutts:** We have always examined central services and have exceeded the target for making savings in the central core every year. We will also look at things such as smarter procurement and buying things cheaper. We consider a wide range of things; savings are not made only around direct services but in any area that is looking to achieve underspends, and that would be applied to Raigmore.

**Colin Beattie:** How satisfied are you, and can you give a guarantee, that any future increases and overspending at Raigmore hospital will be quickly identified and addressed? Clearly, the issue is not going to go away over the next year or two.

**Elaine Mead:** I can give an assurance that we are comfortable with the management arrangements in Raigmore at the moment. We have arrangements in place for regular reporting, both locally and to the Highland health and social

care partnership and to the board. Problems would be quickly identified and we could take timely remedial action.

**Nigel Don (Angus North and Mearns) (SNP):** I want to go back to the point that was made about your senior management being well aware, at the end of the previous financial year, of the implications. I shall quote to you what we were told in Inverness by Chris Brown, who said:

"A bit of additional activity was commissioned internally in the hospital right at the end of the year without a recognition of the financial implication of that decision. The financial implication came through the following month".—*[Official Report, Public Audit Committee, 2 February 2015; c 39.]*

Is that right, and are you confident that that would not now happen again?

**Elaine Mead:** I believe that Mr Brown was quite right. The point that I have alluded to already is that additional waiting list initiative work, which would have been paid at premium rate, had been commissioned by the local management team. The costs for that were not clear to us until January, when there was a £400,000 adverse movement in month 10 due to those waiting list initiative payments. That was of concern to us and it contributed to our need to secure brokerage at year end.

**Nick Kenton:** Could I clarify something? At the time, those decisions were made by individual managers within Raigmore, whereas now they are made by the Raigmore senior management team, so there is more control and visibility around decisions on waiting list initiative payments.

**Nigel Don:** I am sure that everybody will be comforted by that thought. The idea that you can just make a decision that runs to hundreds of thousands of pounds without people understanding the implication worries us a great deal as parliamentarians, never mind what committee we sit on, so it is good to know that that would not happen again.

**Tavish Scott:** I will ask a couple of supplementary questions to Colin Beattie's questions about Raigmore. The director of finance said that Raigmore is going to overspend by £6 million in the financial year 2014-15. Is that correct?

**Nick Kenton:** That is the target.

**Tavish Scott:** Is it going to hit the target, or is it too early to say?

**Nick Kenton:** No, it is £6.9 million overspent.

**Tavish Scott:** Is it routine for Raigmore hospital to overspend?

**Nick Kenton:** As Ms Mead said, we rebased Raigmore for 2012-13 and overspent in that year

by £1.9 million, and it has overspent since that year.

**Tavish Scott:** It has overspent the budget that you have given it every year.

**Nick Kenton:** That is correct—for the past three or four years.

**Tavish Scott:** As you had to rebase it in 2012-13, I am assuming that there was an overspend in previous years, as well.

**Nick Kenton:** Yes. It was rebased because the overspend in the previous year was over £4 million, I think.

**Tavish Scott:** That is fair. When you benchmark against other hospitals, is that a routine thing that happens in NHS audit and budgeting? Do hospitals such as Raigmore routinely overspend their budget?

**Nick Kenton:** When we have done benchmarking on costs with Raigmore, it has been comparable with other acute hospitals. If you look at other NHS organisations' financial reports, you will find that the acute sector always bears the brunt of the cost pressures.

**Tavish Scott:** By the acute sector, do you mean hospitals?

**Nick Kenton:** Yes.

**Tavish Scott:** Should we just accept that? Do you accept that as a management team and as a board? Is it just part of running the NHS that hospitals routinely overspend by £1 million or so—or, as you have said this morning, by £6 million or so in the case of Raigmore?

**Nick Kenton:** No—we do not accept that. That is why we have a three-year target to return Raigmore to balance, but it is hard work. It is a very difficult and complex matter to return it to balance.

**Garry Coutts:** We probably spend more time discussing how we can relieve pressure on the acute sector than we do on anything else. It is about making sure that admissions are appropriate, that people are discharged in a timely way, and that we are freeing up capacity in the hospital to deal with the people who require acute care. That is a huge focus not just for NHS Highland, but across the NHS.

**Tavish Scott:** I am sure that that is true. In the context of running the budget for NHS Highland as a whole, do you make an allowance—and have you done so in the past—for the working financial assumption that Raigmore will go over its budget by some amount?

**Elaine Mead:** We did that in the previous financial year, as Mr Kenton has described. That

expectation of a £6 million overspend was lower than the £9.6 million overspend in Raigmore in the previous year. We expected Raigmore to improve and we budgeted for that across the organisation. We are expecting an additional recovery in the next financial year and a return to balance the year after that.

**Tavish Scott:** That is fine, but I presume—my colleagues have asked about this—that the logic of that means that there are implications for other areas of spending. If you have to make an assumption about an overspend in one part of the operation, you cannot spend as much money in other areas of activity, as you are no doubt under pressure to do.

**Elaine Mead:** Indeed. It is a case of looking at the whole system, as we were attempting to describe. Raigmore is in this position as a result of the demand that is placed upon it by other parts of the sector.

**Mary Scanlon:** To follow up on Colin Beattie's point about Raigmore, I have a question for Garry Coutts, the chairman. You said that you found savings at Raigmore of £3 million, which is half the overspend. You know that I am one of the local members here and I know that you are fully aware of the concerns elsewhere in the Highlands—not taking into account Argyll and Bute—in Skye, in particular, as well as in Fort William and Caithness. In Skye, with the redesign of services, people around Portree and elsewhere in the Highlands are concerned that the savings at Raigmore will be to the detriment of local staff and services. I would be failing in my duty if I did not raise that point.

I know that it is a huge challenge—you are the most rural health board in Scotland—but Raigmore has to be the centre of excellence and the centre of specialism and I know how valued it is in the Highlands. However, nobody would want that to be to the detriment of provision in Portree, Caithness or Fort William. Can you take the opportunity to assure us on the record that you will be looking at the efficiencies within Raigmore, that we will still have that centre of excellence, and that it will not be detrimental to areas such as Portree, or Skye as a whole?

**Garry Coutts:** Of course Raigmore is a centre of excellence and it will remain a centre of excellence. It is a centre of excellence for people in Skye and in Caithness as well as the folk who live around Inverness.

We are working through the redesign proposals in relation to north Skye. There is still a lot of work to be done with local people and local clinicians to finally decide on exactly how those services will be configured, but it will not be a cost saving. The redesign will improve the quality of the service that

we give, and it will change how that service works. The proposals are being driven by a desire to improve the quality of provision, to provide the correct facilities for our staff to work in and to enable patients to get the care that they need. It is not a cost-driven exercise.

**Mary Scanlon:** You said in your response to Colin Beattie that half the savings to tackle the £6 million deficit came from Raigmore. Can you give a guarantee that none of the rural services or the rural hospitals will be detrimentally affected in order to reduce the deficit at Raigmore?

**Garry Coutts:** When NHS Highland looks at savings and efficiencies, we work to a set of principles. Safety is at the top of the list—we will not compromise safety. Below that on the list is access and patient experience. We want to enhance all those things. As Mary Scanlon knows well, we manage a complicated system. Somebody might want to have a service very locally, but it is safer and better to provide the service elsewhere. We must strike that balance all the time, and we need to work that through with clinicians and communities.

I can give you an absolute assurance that NHS Highland is committed to its quality approach and that we will use that as the benchmark when we look at savings and at redesign of services. Patients and the people who rely on our services will always be at the centre of what we do.

**Mary Scanlon:** I am glad that you appreciate the concerns of people on Skye, which are not unreasonable ones.

My next question is for Nick Kenton. What level of non-recurring savings is expected in 2014-15 and how does that compare with the level that is predicted in the board's delivery plan?

**Nick Kenton:** We should look back at the trend. In 2012-13, our non-recurring savings were 55 per cent of the total and, in 2013-14, they were 62 per cent of the total. In 2014-15, we reduced the figure to 60 per cent, so we are heading in the right direction by reducing our reliance on non-recurring savings. We have also reduced our underlying deficit, which is—in simple terms—the gap between on-going income and on-going spend. We have reduced that from £7.8 million in 2013-14 to £5.6 million heading into the new financial year.

**Mary Scanlon:** I am sorry, but you spoke rather quickly, you are a wee bit far away from the microphone and maybe my hearing is not as good as it used to be. What is the non-recurring deficit now?

**Nick Kenton:** Heading into 2015-16, it is £5.6 million against a target of £6 million, so it is lower than our target position.

**Mary Scanlon:** Did you meet your target for reducing the non-recurring deficit in 2014-15?

**Nick Kenton:** Yes.

**Mary Scanlon:** Colin Beattie was generous enough to mention the news from the most recent year. I take what you say about transparency and keeping board members in the loop. However, despite having read the papers before me, I am still a wee bit confused. I am sure that, if I am confused, others are too.

The first paper to which I will refer is from Elaine Mead and is dated 20 April. It states:

“Subject to audit, NHS Highland has delivered a break-even for 2014/15”.

So you have delivered a break-even position. However, the Audit Scotland report from yesterday states that

“the Board anticipated an underlying deficit of £6 million”.

Page 14 of the same report states that the

“underlying deficit ... is £5.6 million.”

So we have figures of £5.6 million and £6 million and a break-even position. Are we talking about a break-even position or an underlying non-recurring deficit? It is not clear.

**Nick Kenton:** We are talking about both. It is entirely possible to break even but have an underlying deficit. For example, if a body's income is £100 million a year and its expenditure is £110 million a year, it has an underlying deficit of £10 million. If it made one-off savings of £10 million in that year, it would break even but have an underlying deficit. Our position at the end of 2014-15 is a break-even position, subject to audit.

**Mary Scanlon:** You have managed to break even through non-recurring savings.

**Nick Kenton:** Yes—that is correct.

**Mary Scanlon:** Where do the savings of £6 million come from? Have you sold off hospitals or something? Will you give me an example of where the non-recurring savings of £6 million that have allowed NHS Highland to break even this year came from? You will not have that money in future years.

**Nick Kenton:** The vast majority of the savings are achieved through holding posts vacant. Such savings are always available.

**Mary Scanlon:** So there is £6 million in savings from vacancy management.

**Nick Kenton:** Yes—that is entirely possible in our budget.

**Mary Scanlon:** You can still deliver a quality service to patients with £6 million of savings from vacancy management.

**Nick Kenton:** Yes. Vacancy management is not the only element of the savings of £6 million, but it is a fairly large part of the figure. Another example is that delaying the start of a new development creates a non-recurring saving. There is a package of things.

We have tried to bring the underlying deficit down. When we have held vacancies for the long term, we have asked managers to convert them into recurring savings. If we have managed without a given post for a year, we can take that post out and call it a recurring saving. We have asked people not to make non-recurring savings, but to make them recurring now, which will help with the underlying position.

11:00

**Mary Scanlon:** If you have managed to take out £6 million, which seems to include a considerable amount of vacancy management, were you overstaffed? If you are still delivering the same service at the same quality and you have managed to take £6 million out with vacancies, does that mean that you were grossly overstaffed?

**Nick Kenton:** I do not think so. The situation applies when managers are managing to hold posts vacant for a while. They know the financial position and are living with it. It has been possible to take out some posts through a redesign. That does not mean that there has been overstaffing; a redesign of services might have taken place.

In some cases, managers have said, “No, we can't hold that vacancy for ever,” and they will fill the posts concerned. I do not want you to think that we have been overstaffed to the tune of £6 million.

**Mary Scanlon:** It is interesting to know that you can hold posts vacant with no detrimental impact.

My final question at this point is to Garry Coutts or Elaine Mead and concerns the NHS Scotland resource allocation committee—NRAC—formula funding. You have been given a total of £14 million, but £5.5 million was for the past financial year. If you had not had that £5.5 million—forgetting the underlying deficit—would you have been seeking brokerage again?

**Garry Coutts:** We would have looked at a range of other actions, which we would have taken during the year. Elaine Mead has explained those in detail at board meetings and covered the things that we might have to do. We are glad that we have been able to get our fair share of funding, which has allowed us to manage the year-end position a lot more comfortably without making some decisions that might have inconvenienced some of our patients. We would not have put safety at risk, but we would certainly have had to

consider things that some people would have found inconvenient and that we would not have wanted to do. Getting our fair share in the year has been good news for Highland.

**Mary Scanlon:** To return to Nick Kenton's question, do some of the savings that you had on stream allow you to relax and think that you do not need to bother with some things? You have an extra £5.5 million, so you do not need to consider efficiency savings. Is that the case?

**Garry Coutts:** Absolutely not. We are focused on improving our services. We in NHS Highland are convinced that there are numerous places in every part of our operation where we can still achieve efficiencies, which will always be to patients' benefit.

We run a programme, which we have previously discussed with our local MSPs, to redesign things where we want to eliminate waste through reducing unnecessary procedures or unnecessary admissions. That offers huge scope. Every penny that we can get out of those processes will be reinvested in the quality of care that we deliver. That is what we will do.

**Mary Scanlon:** I have no further questions, but it is worth putting it on record that it is not only NHS Highland that has not received its full funding formula allocation; NHS Grampian and NHS Lothian have faced the same constraints.

**Garry Coutts:** Absolutely.

**Colin Keir:** My question is for Mr Coutts, I suppose. Are you confident that the board's non-executive directors are aware of their legal responsibilities?

**Garry Coutts:** Yes—absolutely. Every single non-executive who joins my board undertakes a training programme, which we refresh as a group. We not only want to know that people have been through the training but want them to do it as a group, so that other colleagues around the table know that everyone else has understood and knows their role and responsibilities.

**Colin Keir:** Given that there is a training programme, how do you undertake evaluation?

**Garry Coutts:** Every non-executive is evaluated every year. There is a formal evaluation, which I conduct with all the board members. We discuss areas where they have contributed well in each of the main aspects of governance and we discuss the areas of governance where we believe that they still need support to improve their performance. Additional support and training are identified when necessary.

That approach includes looking at what other boards do and what other non-departmental public bodies do—at best practice. Audit Scotland

provides an awful lot of support to non-executives in directing them to areas of questioning and so on that they should look at. It is a tough job and they do not get an awful lot of time to do it. We recruit the best people with the skills that they have, but we want to develop them when they are in post.

**Tavish Scott:** I understand that the profiling of the additional NRAC funding was originally to be £3.5 million in 2014-15 and then £11.5 million in 2015-16. As you just indicated to Mary Scanlon, it changed to £5.5 million and £8.5 million. Why did it change?

**Elaine Mead:** There was a change to the calculations under the formula in year. Mr Kenton might be able to give you a bit more detail.

**Tavish Scott:** So there was a Government change to the formula, rather than a request from you for front loading, shall we say?

**Nick Kenton:** There was not a change in the formula. Are you referring to 2014-15?

**Tavish Scott:** Yes.

**Nick Kenton:** We began 2014-15 with an NRAC allocation of £2.5 million, which represented a movement to target. Towards the end of the year, the Government received some additional Barnett consequential funding and decided to use some of it to move boards that were under target towards target. That allowed another £3 million to be allocated to NHS Highland to move us towards target. That money became available to the Government towards the end of the year. It was the Government's decision. There was a change not in the formula but in the profile.

**Tavish Scott:** That is fair enough. How late in the financial year did that arrive? Did you know about it? The money was a budget consequential from London.

**Nick Kenton:** We were notified of it in January 2015.

**Tavish Scott:** After the autumn statement in December.

**Nick Kenton:** Yes.

**Tavish Scott:** You had from January to the end of the financial year to spend that additional resource or to use it to offset the deficit.

**Nick Kenton:** Yes—to mitigate the effect of the savings programme.

**The Convener:** I want to return to vacancy management, which you touched on, Mr Kenton. Would such proposals be submitted to the board in a paper or be part of a discussion that took place? I take it that vacancy management is a strategy to save money.

**Nick Kenton:** No—

**Garry Coutts:** It is a governance issue. Our staff governance committee looks at vacancy rates and such issues constantly. What is really important to note—

**The Convener:** I actually asked Mr Kenton the question. I said that in this session we would direct questions to specific witnesses.

I return to your statement, Mr Kenton. You stated that a way of managing recurring and non-recurring savings was through vacancy management—in effect, not filling posts. I take it that that strategy is in place. Is that correct?

**Nick Kenton:** It is routine management to hold posts vacant if that is feasible.

**The Convener:** Is there a board paper that has been submitted, to which we could refer, that confirms that approach?

**Nick Kenton:** As I said, it is routine management. Part of our savings programme, which the board approved, would have assumed some level of vacancy management.

**The Convener:** Do you regard it as best practice for us not to fill posts as a way of saving money? I know that that happens across the sector—I am not claiming that it does not—and I have seen it happen in local government, but is it an example of best practice as a way of saving money?

**Nick Kenton:** It is more complicated than that. There could be a range of reasons why vacancies are not filled. Sometimes they cannot be filled because the posts are hard to fill. It depends on the circumstances.

**The Convener:** To be fair, in response to a question from Mary Scanlon, you confirmed that a quite helpful way of saving the £6 million to which you referred was not filling certain posts for a certain period. Is that correct?

**Nick Kenton:** That is correct.

**The Convener:** I heard that properly.

**Nick Kenton:** Yes—that is one way of making savings.

**The Convener:** We return to the way in which the board goes about its business. To ensure that the approach is taken forward, surely there is some paperwork or an audit trail for how to go about the business. People do not just say, “I tell you what—I just won’t bother filling that vacancy; that’s what I’ve decided.” In fact, I would guess that a number of your department heads are desperate to fill some of those posts, but they are being advised at another level not to fill them in order to save money. All that I am asking is whether you can provide us with the audit trail for

that. As part of the work that we are doing, we need that information. Is there an audit trail?

**Nick Kenton:** As I said, it is routine business.

**The Convener:** You are the director of finance, so I would expect you to confirm the approach that you are making savings as a result of not filling vacancies. I take it that there must be some trail to confirm that approach. Does Ms Mead want to come in?

**Elaine Mead:** There is a process, but this is practice—

**The Convener:** I have not said that it is not; I have just asked a question.

**Elaine Mead:** We would not have taken a paper to the board in that financial year to say, “We are doing this,” because we would have held vacancies as a matter of routine. There would not be a paper other than the papers that we put to the staff governance committee, where we monitor staff vacancies. That committee is very aware of our needing to hold vacancies or being unable to fill some vacancies. An example of that is that our working practice is for vacancies in corporate services—that is, non-front-line services—to be held for up to six months, which would generate some non-recurring savings for us.

**The Convener:** Even if the vacancies that you referred to were not in front-line services, they could still impact on elements of front-line services, which is important. The theme for us today is confirming that you are moving forward and are confident about your financial position. However, an element of that is—as Mr Kenton confirmed to us—that you will have vacancies that you are not filling as a way of saving the money.

I am not saying that that does not happen as a practice; all that I am saying is that, as part of the process that we are following, we want to see an audit trail that confirms the approach that has been taken. That is all that I am asking about. If you tell me that there is no such audit trail, that is another part of the picture that we have to consider. I would be really surprised if people were taking decisions not to fill vacancies and they had not received information on the approach. I would also be surprised if the matter had not been discussed at the board in any context, but you might know better than me about that.

**Elaine Mead:** Any vacancy control or management has been discussed at the staff governance committee, which is a sub-committee of the board.

**The Convener:** So the overall committee of board members would never discuss human resources at any board paper level.

**Elaine Mead:** The staff governance committee would discuss the issue, and clearly there are members of the board—

**The Convener:** Does that committee report to the board when decisions are taken?

**Elaine Mead:** It does—absolutely.

**The Convener:** So when somebody says, “I need to make these savings,” part of the presentation is, “Here are vacancies that we’re not going to fill, because that’s how we’re going to save money.”

**Elaine Mead:** Indeed—that would be part of the discussion.

**The Convener:** So there may be board papers that we can get access to that confirm that.

**Elaine Mead:** On that discussion, the staff governance committee papers are available—absolutely.

**The Convener:** So we could get them—okay. Colin Beattie has a question.

**Colin Beattie:** Thank you, convener. Actually, I have two questions, one of which follows on from what the convener has just asked about. Somewhere in the papers before us it says that you are recruiting three deputy directors—presumably those are not cheap posts to fill—in order, presumably, to be able to drive through the savings. Adding to the number of bureaucrats does not seem the right way to effect savings, especially if you have jobs open elsewhere; I do not know what those jobs are but they might be for consultants, nurses or whatever. What is the rationale?

**Garry Coutts:** Who is that directed to?

**Colin Beattie:** Sorry?

**Garry Coutts:** I am sorry. Who do you want to answer that?

**Colin Beattie:** Possibly Elaine Mead.

**Elaine Mead:** I am happy to answer that, Mr Beattie.

On the references that are made in the updated audit report to the three deputy directors of operations, we have in the past taken out a significant number of our senior management. We were required to take out 25 per cent of our senior management capacity over time, and we delivered that. We have found that, in order to transform services rather than just make small step changes, we need to engage the expertise of the whole senior management team to create an environment in which people are happy to change what they are doing right at the front line.

We have three directors of operations in the north of Highland, and our view is that they are fully stretched—of course, for two of those areas they are now covering both health and social care—and are not able to provide some of the guidance, support and leadership to the local teams to allow them to make the changes that they may wish to make. We have discussed that widely with our union colleagues, our senior managers and our clinical colleagues, and the view is that the three new posts are additional capacity that is required in order to unlock the savings and enable the transformation of services across the rest of Highland.

11:15

**Colin Beattie:** Are they permanent posts?

**Elaine Mead:** We have made them permanent posts because we want to attract high-calibre individuals, but we also see them as transitional arrangements. Should there be any changes to the current organisational structure, those may well be transitional posts.

**Colin Beattie:** So, beyond the present cycle of changes and so on that you have got in your budget, these people will continue on into the future and there will be a cost going forward.

**Elaine Mead:** There would be, but every time that there is a vacancy we will reconsider the structure and the positions. At the moment, those posts are identified as three permanent additional posts that are, in our view, vital to the transformation of the services in NHS Highland.

**Colin Beattie:** My second question leads on from what Mary Scanlon said about NRAC. In Audit Scotland’s financial management review, which came out in May 2015, there is a slightly alarming statement in paragraph 34. It relates to NHS Highland being one of the boards that has not received parity in terms of NRAC funding and says that NHS Highland

“will receive an increase in NRAC funding in 2015/16 of £11.5 million.”

The review then says:

“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.”

The bit that I am concerned about—I would like your comment on it—is the statement that follows:

“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.”

Has that £3 million gone to compensate for savings that you would have had to make, or has it incrementally improved your situation? You should have made savings anyway and the £3 million

should have been something extra that you could have used to deliver something additional. The review seems to be saying that you had the option not to do that.

**Elaine Mead:** It gave us the option, in that year, not to make some of the more challenging decisions that we may have had to make in order to meet our statutory requirement to break even. We had a plan that was being executed and we were on track to deliver that plan—that is an important point. We were likely to break even without the assistance, but the additional NRAC share that came to us late in the year helped to alleviate some of the pressure on us and ensured that we did not have to take resources from front-line services. One benefit of that has been the creation of the additional posts from the NRAC allocation.

**Colin Beattie:** So, the £3 million compensated for savings that you then did not have to make.

**Elaine Mead:** Some of it did, but not all of it. We were on target to break even in spite of the tight financial constraints that we were experiencing.

**Colin Keir:** Perhaps you can clarify something for me. This follows on from the convener's line of questioning about the non-filling of posts and the committee that dealt with that. You said that some board members were attached to that committee. I assume that a report was given to the full board in formal session about the decisions that were made by that committee on that issue. If we looked for such a report in the board minutes, would we find it?

**Elaine Mead:** Yes, you would. That is a formal sub-committee that is chaired by a non-executive director. Its reports are available and are presented to the board at board meetings.

**Colin Keir:** They are minuted along with the full formal board meetings.

**Elaine Mead:** They are reported to the board meetings. We have action points from some of those meetings, but we give the board the full report and the non-executive director presents any issues by exception at board meetings.

**Colin Keir:** I am trying to understand who makes the policy decision to formalise the actions that are taken.

**Elaine Mead:** Those are management decisions. We report the actions and any consequences arising from them to the staff governance committee.

**The Convener:** In its most recent report, Audit Scotland has made it clear that non-recurring savings need to be challenged. The issue is a challenge for your organisation. That is correct, is it not?

**Elaine Mead:** It is.

**The Convener:** Audit Scotland knows that not filling vacancies is something that happens, but it does not encourage it.

**Elaine Mead:** No, it does not encourage it, but we would take an opportunity to hold a position if it was available to us.

It is important to make the point that we look at every vacancy, and front-line, clinical and critical staffing vacancies are not held.

**The Convener:** Not filling vacancies affects staff morale, does it not?

**Elaine Mead:** Our staff partnership is part of our staff governance arrangements. It sits alongside us at the staff governance committee, so people are very aware of the decisions that are made.

**The Convener:** Do you never receive any representations from shop stewards or union representatives asking you to start filling the vacancies, because they are having an impact on how the service is delivered?

**Elaine Mead:** We meet them on a monthly basis. They do not raise that as a significant—

**The Convener:** So they are happy with the practice.

**Elaine Mead:** They understand the situation. For example, we continually attempt to employ and recruit nursing staff. We try to secure and protect front-line staff. If we have vacancies in other staffing areas, we will take the opportunity to hold those posts whenever we can.

**The Convener:** In your view, not filling vacancies does not affect staff morale—staff are happy with it. In fact, they have such a good partnership with you that they never raise it as an issue.

**Elaine Mead:** The staff partnership has not raised that with me as an issue.

**The Convener:** So, in your experience, staff morale is good, because you do not fill vacancies.

**Elaine Mead:** I do not think that that link can immediately be made.

**The Convener:** I cannot think of many organisations in which staff would say that, although there is a vacancy alongside them that has not been filled for the past six months, it does not matter. Most people who are part of a workforce would quite like vacancies to be filled in order to make the service more effective. That speaks for itself, does it not?

**Elaine Mead:** Of course, and we attempt to do that, but in some circumstances and in some

specialties we have, on occasion, not been able to do that.

**Mary Scanlon:** The report that we got from Audit Scotland late yesterday talks about sickness absence at NHS Highland. The Scottish Government's target is to have a sickness absence level of 4 per cent, but the level at NHS Highland has gone up to 4.9 per cent, so you are almost 25 per cent above the Government's target.

The convener asked about morale. The Government's target for the national health service throughout Scotland is to have an average sickness level of 4 per cent. We understand that sickness is unavoidable, but is it possible that the use of vacancy management to deliver savings is having an impact on the sickness level? If two people are missing out of a team of 10 because vacancies are not being filled, surely that has an impact on the workload of the staff who are still there. Have you done any evaluation of the increase in your sickness absence level, which is 20 per cent above the Government's target, to find out whether staff are under pressure because of the policy of keeping vacancies open for lengths of time?

**Elaine Mead:** We continually assess and report back to local management the staff vacancy and sickness rates, and they take action locally to manage that, as required. That information is also reported to the staff governance committee, which looks at any increases in the staff absence rate in partnership with staff. We look at that most carefully and try to reduce absence whenever we can.

**Mary Scanlon:** Is there added pressure on the staff who are there to work twice as hard to make up for the vacancies, which you are managing in order to make savings? Is there additional pressure on them to keep providing the same quality of service, despite the reduction in staff numbers?

**Elaine Mead:** I have certainly seen that in corporate services, which is an area in which we have put pressure on non-front-line staff to continue to provide the same level of service. However, as I have said, we try to alleviate pressure on front-line staff whenever we can. If there are posts that we cannot fill, we sometimes have to use costly supplementary staff.

**Mary Scanlon:** That is the point—there is an impact on cost savings. Are you concerned about the fact that NHS Highland's sickness absence level is 25 per cent above the Government's target?

**Elaine Mead:** We are looking at a number of areas that are of concern to us, and it is certainly the case that we saw a sickness rate that was

higher than the NHS average in some of the staff groups that came across to us as part of the integration process.

**Mary Scanlon:** But you do not think that it is anything to do with your policy of leaving posts unfilled for several months.

**Elaine Mead:** No—not directly.

**The Convener:** We have no further questions.

I thank the witnesses for their time and for the evidence that they gave previously.

11:25

*Meeting continued in private until 12:04.*



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