NHS Highland

Internal Audit Report

Section 22 Review

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Introduction

Audit Scotland’s 2013/14 external audit of NHS Highland resulted in an unqualified audit opinion. However, Audit Scotland’s annual report highlighted a number of issues relating to financial reporting to the board, timing and use of brokerage from the Scottish Government, and the underlying financial position, particularly at Raigmore Hospital. The Auditor General for Scotland highlighted these issues in a separate report, under Section 22 of the Public Finance and Accountability Act (2000), to the Scottish Parliament’s Public Audit Committee (PAC).

The Section 22 report was discussed by the PAC on 5 November 2014. Following the PAC meeting, and subsequent discussions with the Scottish Government, NHS Highland has commissioned internal audit to provide assurance that the issues raised in the Section 22 report have been objectively assessed, lessons have been learned and action is being taken where appropriate to address the issues and support continuous improvement at NHS Highland in line with the Highland Quality Approach.

Scope

This review considered the following three key issues raised within the Section 22 report:

- Financial management at Raigmore Hospital;
- Financial reporting to the Board during 2013/14; and
- Financial planning, control and reporting to deliver financial balance in 2014/15.

Control Objectives

To address the points identified within the scope for the review, we have identified four control objectives for this review:

- To follow-up the agreed actions from previous internal audit reviews of financial management at Raigmore Hospital;
- To compile a timeline of financial reporting to the board and committees during 2013/14 to establish what information on the financial position was reported and when;
- To review NHS Highland’s on-going and further planned changes to improve board financial reporting and support board scrutiny; and
- To perform a high level review of recovery plans, assumptions and clarity of the risk assessment underpinning these plans.

The findings of our work are reported under four control objectives, addressing the three points within the scope, detailed within the Executive Summary, as well as within relevant appendices.
Interviews held

This audit involved interviews with Non-Executive and Executive Board Members and senior management, together with reviews of documentation. Those interviewed included:

- Garry Coutts, Board Chair;
- Elaine Mead, Chief Executive;
- Sarah Wedgwood, Vice Chair;
- Mike Evans, Chair of Audit Committee;
- Elaine Wilkinson, Non-Executive Board Member;
- Alasdair Lawton, Non-Executive Board Member;
- Nick Kenton, Director of Finance;
- Linda Kirkland, Director of Operations, Raigmore Hospital;
- Brenda Dunthorne, Head of Finance, Raigmore Hospital;
- Kenny Oliver, Board Secretary; and
- Carole Marlin, Finance Manager.

Timing and report format

The fieldwork for this review was undertaken in December 2014 and January 2015, following the Section 22 Report and the PAC meeting. Given the nature of the review and subject matter, it was agreed with NHS Highland that the findings of this audit work would be reported in a consultancy style audit report. The report provides both a retrospective and a forward looking perspective on the area audited.

Once NHS Highland has implemented the recommended actions from this report and from the Audit Scotland report, we will carry out a normal internal audit review to provide assurance on the effectiveness of the new arrangements and controls.

Acknowledgements

We would like to thank all staff and Non-Executive Board members consulted during this review for their assistance and co-operation.
Conclusion

This review has allowed us to gather further information relating to the events and reporting that occurred during 2013/14, as well as the root causes of the issues that were highlighted by Audit Scotland and the Auditor General. While there are opportunities for improving financial reporting to the Board at NHS Highland, some of which management have already implemented, we have not identified any evidence that key financial information has been deliberately withheld from the Board, especially regarding brokerage. Each bi-monthly financial report submitted to the Board detailed the forecast overspend position, targets and non-recurring savings to be achieved. All information was reported at the next relevant Board or governance committee meeting, as well as between meetings. Several Board reports covered the risks involved and concerns over achievability at a high level. However, financial forecasting involves a substantial amount of judgement. Assumptions always have to be made about future activity levels and likely cost pressures and we believe that the reports presented to the Board during 2013/14 could have been clearer about the assumptions made and the related risks.

The latest financial position is a potential projected overspend of £1.98million at Month 9. The Board is still targeting break-even and has many projects on-going to achieve the necessary savings. The brokerage received in 2013/14 requires repayment over the next 3 years, with £0.5million in 2014/15, and £1million in both 2015/16 and 2016/17. This has been factored into the relevant budgets and forecasts.

Whilst achieving financial balance within Raigmore Hospital is still a challenge, with the unit forecasting an £7.8million overspend, considerable progress has been made in implementing the agreed actions from previous internal audit reports in recent months. 25% of the actions have been completed, whilst a further 67% have been well progressed.

From our interviews with Non-Executive Board Members, there is a consistent message that they were never “kept in the dark” and were, in fact, kept well informed of the financial position and any related issues at formal Board and Committee meetings, Board development sessions and between meetings. Board Members receive the routine monthly financial monitoring packs, along with qualitative information, at the same time that it is issued to management, which means they always have access to the latest financial information, regardless of the timing of Board or Committee meetings. There is scope for recording more clearly the extent of communication with Board members, particularly out-with formal Board meetings, so that this can be clearly demonstrated to all stakeholders.

In response to the financial situation last year, as well as the issues raised within the Section 22 report, NHS Highland has already made changes to the content of financial reports, including more detail regarding risks and trajectories of expenditure and savings to year end. Further governance and management monitoring and scrutiny has been introduced in the form of the Delivering Financial Balance Programme Board. We have also made a number of recommendations to further enhance Board reporting and scrutiny going forward.

We have reviewed the financial recovery plan, the individual key project charters and reports/presentations to the Delivering Financial Balance Programme Board. The documentation is detailed and clearly presents the financial position, savings position, progress against targets and milestones, as well as trajectories, actions on-going and targets. We have made recommendations about how the recovery plan, project charters and reports and presentations to the Programme Board could be made even more robust, particularly around the documentation of risks to achieve the savings targets.
Executive Summary

To meet the control objectives for this review, we have carried out an in depth audit, analysing financial reports, Board Development Session notes, financial evidence and other relevant information relating to the period in question within 2013/14, as well as reporting in 2014/15. This includes verifying the validity of the timeline of events prepared by NHS Highland and submitted to Scottish Government. We carried out a detailed follow up of progress against agreed internal audit actions at Raigmore Hospital, as well as interviewing several Non-Executive Board members, determining from them their opinion on the events and actions that led to brokerage being required in 2013/14, what was reported to them and when, and how informed they felt throughout the process.

Poor financial management within Raigmore Hospital was undoubtedly a contributing factor to the financial situation in 2013/14, as identified within our previous reports on Raigmore. Subsequent to this, many changes have been implemented within Raigmore, including management changes and actions to address our audit recommendations. There is now in place a stronger leadership team, led by the Interim Director of Operations, and far more robust financial controls and processes being managed by the Head of Finance. We have obtained evidence, through our bi-annual internal audit follow-ups as well as the testing within this review, that a large number of positive changes have been introduced in relation to budget management, which has required changing the culture within the unit. Previously one of the key areas of weakness at Raigmore related to the accountability and actions of budget holders, along with their engagement in the overall budget management and financial management processes. The changes detailed below have all been taken to directly address these issues and to enforce this accountability and engagement, instilling a different culture with regard to financial management. Progress against these recommendations is detailed within Appendix 1.

Another contributing factor is that there is a perception that Raigmore Hospital is underfunded. NHS Highland as a whole is under-funded in relation to their share of the total government funding provided to the NHS. According to the NRAC (National Resource Allocation Committee) formula, NHS Highland was 2.2% (£11.3million) below its target funding level in 2013/14, as well as being 2.3% (£12.3million) below in 2014/15. Scottish Government recently announced that additional funding of £24.8million would be available for NHS Highland in 2015/16, which includes a movement towards parity of £6.5million. Scottish Government has also agreed that £3million of this can be accelerated into 2014/15, with the remaining £3.5million received in 2015/16. The revisions to the formula show that NHS Highland may have been under-funded for a number of years. This under-funding issue was recognised by the Auditor General in the Section 22 report, which stated that “receiving funding that is below their NRAC allocation may have contributed to financial difficulties in NHS Highland.” The brokerage required to achieve financial breakeven in 2013/14 amounted to £2.5million, or 0.3% of the annual revenue budget. We understand that seven NHS boards in Scotland have on-going commitments to repay brokerage received from Scottish Government within the last few years. In our view, this is a reflection of the financial pressures being experienced by the whole of NHS Scotland and this context is important when considering the financial position at NHS Highland.

The 2013/14 Quarter 4 overspend position was not a unique or extraordinary position for NHS Highland to be in, and is typical of the situation we see in many other health boards. Given funding constraints and ever increasing savings targets, forecasting an overspend but targeting break-even is a common financial position for NHS boards, with high levels of savings to be achieved in Quarter 3 and Quarter 4 each year. Issues have been raised previously linking these high levels of savings remaining in Quarter 3 and Quarter 4 to poor financial management, however an underlying reason is that NHS Boards are experienced in managing overspend positions given the quantity and volume of services provided, increasing associated costs, but decreasing funding. NHS Highland has considerable experience in managing Quarter 4 spend and achieving
target savings, especially recently during the implementation of Health and Social Care Integration with The Highland Council, as well as implementing the Highland Quality Approach.

To add further context on the tight financial environment within which NHS Highland is operating, the 2012/13 Audit Scotland’s NHS Overview Report contained a case study on Highland Health and Social Care Integration, which explained that, although The Highland Council (via NHS Highland), had received a budget increase of 2.8% for children’s services, no similar uplift was provided for adult services. This meant that NHS Highland had to achieve additional savings to cover inflation and demographic cost pressures relating to adult social care. The report also stated that, for all NHS boards, their “future financial position is becoming more challenging. NHS boards face limited funding increases, rising cost pressures and challenging savings and performance targets. Demand for services is also growing.” There have been increased cost pressures resulting from both Adult Social Care and Integration, the consequence of which was well known to NHS Highland management and Board members (as per interview feedback). Feedback from interviews held has indicated that both management and Non-Executives are focussing on particular areas of concern, flagging up areas of potential weakness with the wish to improve and strengthen the control environment.

Within Appendix 3 to the report, we have highlighted several opportunities for improvement, where we feel NHS Highland can enhance current processes and make financial planning and reporting more robust going forward.

**Follow up of agreed actions from previous internal audit reviews of financial management at Raigmore Hospital**

Whilst achieving financial balance within Raigmore is still a challenge, with the unit forecasting an £7.8million overspend in 2014/15, considerable progress has been made against the agreed actions from previous internal audit reviews in recent months. 25% of the actions have been completed, whilst a further 67% have been well progressed. Please refer to Appendix 1 for a detailed update on progress against these actions. We have verified the accuracy of updates from management and allocated a status of implementation against each action.

Following the 2013/14 Raigmore Financial Management & Governance internal audit report, an action plan was drafted by the Head of Finance to ensure implementation of the internal audit recommendations. We have seen evidence of substantial change since we carried out the audit, including implementing additional controls and more stringent scrutiny and monitoring of budgets, vacancies and additional activity. A 3 year Recovery/Operational Delivery Plan was also drafted, with a target of achieving financial break even within the 3 year period. One of the key actions relates to improving the accountability of budget holders. The Raigmore Head of Finance has developed a Budget Holder Register and implemented several new controls, all of which should help improve the accountability at all levels going forward.

There were specific circumstances which contributed to the financial issues in 2013/14, and we have verified the costs and events that led to the board requiring brokerage. These issues were partly due to poor financial management by previous Raigmore Hospital management, as well as a number of unforeseen adverse variances away from forecast. However, when the Quarter 4 issues were identified, central health board management did take appropriate action. While the financial management issues have not all been resolved, evidenced by the current forecast overspend position, significant progress has been made, from which benefits should be achieved in 2015/16. Raigmore now appears to have in place a stronger management team who are slowly, but successfully, changing the culture within the unit. Improvements in communication and engagement include a daily senior manager “huddle”, where key issues for the day are discussed, including clinics, additional activity, use of locums, bank shifts and vacancies.
Timeline of financial reporting to the Board

We have concluded that, whilst additional costs and movements away from the forecast financial position in 2013/14 were only identified in January 2014 and reported in February 2014, this was, in fact, when the issues arose and so the specific issues could not have been reported any earlier. NHS Highland was reporting a forecast break-even position until February 2014. This was the target until the movements away from trajectory occurred in Quarter 4. This information was then reported to the next Improvement Committee and Board Meeting.

We have validated the timeline of events prepared by NHS Highland and deem it to be true and accurate. We have included a diagram of the timeline in Appendix 2 to this report. There is no evidence that key information relevant to the financial position was deliberately withheld from the Board, nor that information should have been identified earlier. Each bi-monthly financial report submitted to the Board detailed the forecast overspend position, targets and non-recurring savings to be achieved. Several Board reports covered the risks involved and concerns over achievability at a high level. However, financial forecasting involves a substantial amount of judgement. Assumptions always have to be made about future activity levels and likely cost pressures and we believe that the reports presented to the Board during 2013/14 could have been clearer about the assumptions made and the related risks. There is still a reliance on non-recurring savings, amounting to 62% of total savings achieved in 2013/14. This was largely due to the in-year struggle to address cost pressures and meet both financial and performance targets. The finance reports do clearly state the non-recurring savings required to achieve break-even. We have also raised a recommendation relating to clarity of language used within the finance reports in relation to the use of the term “forecast”. NHS Highland have made changes to this recently, but in 2013/14 reports referred to both a “forecast break-even” as well as a “forecast overspend position”, which could be confusing to Board members. Feedback from individuals interviewed, including non-executive Board members, has stressed that there was no perceived intent to confuse or mislead.

From our interviews with Non-Executive Board Members there has been a consistent message that they were kept well informed of the financial position and any related issues, as well as being content with the level of detail reported, which was in line with their expectations. The Non-Executives have been very clear in their support of and confidence in the Chief Executive and the Director of Finance. As well as finance reports to committee meetings, Board members also received, and continue to receive, management’s monthly financial monitoring packs, along with qualitative information, as soon as they are issued. This kept Board members updated on the financial position in between Board or Committee meetings. The Non-Executives interviewed all indicated that they were well aware of the financial position, difficulties and issues, and that the need for brokerage was not a surprise to them. The Audit Scotland NHS Financial Performance Report for 2012/13 also stated that “NHS Highland has highlighted financial risks around providing adult services in 2013/14 and the need to make savings”, so risks and concerns were raised early in the process.

We have reviewed in detail the monthly accounting and financial reporting processes, along with the content and timeliness of finance reports to the Board and other committees. We have investigated why the seriousness of the financial position was only identified in January 2014 and reported to the board in February 2014. Movement away from forecast was only identified in January as this was when the issues either occurred or were uncovered. There were a number of factors that led to the need to receive brokerage, the first being when the true nature of the financial position within Raigmore was realised. This happened when management changes were made and costs associated with additional activity were identified. This resulted in a final quarter adverse variance against forecast of £1.7m for Raigmore. This additional activity and related costs had not previously been recorded or accrued for. Questions were also raised over the process for commissioning this work, which led to Internal Audit being commissioned to carry out two Waiting List Initiative
Payment reviews within Raigmore. Since these issues were highlighted, the process and controls around commissioning additional activity at Raigmore have been strengthened, which should prevent a recurrence of these issues. Another movement away from trajectory was caused by an accounting error relating to Children’s Services with The Highland Council, amounting to approximately £0.5m including inflation. This occurred due to differences in adjustments made by the two organisations, in the period before formal reconciliations were carried out. The final impacting factor was the benefit from the valuation of Asset Lives being £0.4m less than expected, which occurred in Month 10.

Our review has identified that there was no deliberate lack of transparency or delay in reporting information. We have investigated the financial reporting timeframe, including the timing of the closure of the financial ledger and the committee schedule. The timing of the two currently mean that there is always a time lag for information, where the Board or other committees are not able to receive the previous month’s financial figures. For example, in December the Finance Report to the Board detailed October figures. The ledger “soft close” is only around the 11th of the following month, with “hard close” being around the 18th. We have discussed the timing of committee meetings, as well as the timeframe for financial ledger close with both Finance staff, the Board Secretary and the Board Chair, and have made a recommendation within Appendix 3 to improve the timeliness of financial reporting going forward. All parties involved have been keen to improve the timeliness of reporting, not just for financial information, but also for performance data as well. There was a question raised within the Audit Scotland report regarding the perceived lack of detail around bridging the gap between the forecast overspend and the break-even position. This has partially been addressed by changes to the content of financial reports within 2014/15, with reports now containing more information relating to the risks involved, as well as a trajectory of expenditure and savings to year end. We have made a recommendation to further enhance the finance reports and plans within Appendix 3.

All Non-Executive Board members interviewed were also consistent in detailing that they were at no stage “kept in the dark”, that they were well aware of the financial position and the risks involved, as well as the potential use of brokerage. Board Development Sessions were regularly used by Finance as a forum to further discuss the financial position and keep members informed. We have made a recommendation within Appendix 3 to improve the evidencing of the engagement between management and the Board, as well as facilitating conversations regarding report content, Board member expectations and also continuous development and financial training.

**Ongoing and further planned changes to improve financial reporting and support Board scrutiny**

We have taken a holistic approach, looking at how we can recommend improvements to the timeliness of reporting, and these have been included within our report. It should be noted that NHS Highland has already made changes to its financial reports following the Section 22 report. They now include more detail on the financial position overview, the risks involved in achieving break-even, as well as a trajectory to year end. We have recommended further options for improvement to make the financial reports more robust and enable further Board scrutiny.

The Executive Leadership Team is developing a 10 year strategic financial plan based on the Care Strategy agreed by the Board in August 2014. This plan will be augmented by a 2-5 year plan which will describe targets and actions in more detail, and will be updated annually. This should hopefully address recommendations raised within the Douglas Griffin and Audit Scotland reports regarding the need for more strategic financial planning. Finance have also committed to the Board that, going forward, should the financial
position move away from trajectory, an in-year financial recovery plan will be developed and presented to the Board with details of actions to balance the position.

In 2013/14 NHS Highland commissioned a mid-year independent review by Douglas Griffin (former Director of Finance at NHS Great Glasgow & Clyde), of their Month 8 position and their plans to achieve financial balance within 2013/14. The review also assessed the assumptions supporting the forecast financial outturn, as well as those within the financial plan for 2014/15. The Douglas Griffin report states that the assumptions made regarding achieving financial balance in 2013/14 were not unreasonable, but were clear that considerable work remained to achieve this. An observation was made within the report around detail contained within plans, something which we have also identified and made a recommendation on. The report did acknowledge that the strategic approach for achieving savings under the Highland Quality Approach was much more capable of delivering sustainable change than methods employed previously. This report was not presented to the Board as it was deemed not the appropriate forum, however management did return a letter to Scottish Government detailing what they were going to implement as a result of the observations.

Finance has attended many of the Board Development Sessions in 2014/15 to keep them informed of the financial position, as well as communicating regularly with Non-Executive members through a range of committees and forums. Currently the financial position is reported to the Board, the Improvement Committee, the Argyll & Bute Community Health Partnership Committee, the Highland Health & Social Care Committee and this committee’s Finance & Performance Sub Committee. In recent months the financial position has also been presented more widely to the Area Clinical Forum and the Area Medical Forum to raise awareness of the position and savings required.

Throughout the past three financial years, NHS Highland management, along with the Audit Committee, have commissioned Internal Audit to carry out various reviews in areas where they have identified risks or issues. This has been to proactively seek assurance that appropriate controls are in place, or if they are not, identify the problems and implement the recommendations to improve. Audits carried out or planned in relation to financial management within the last two years and current year include:

- 2 Financial Management & Governance reviews at Raigmore Hospital;
- A Financial Management & Governance review within the North & West Operational Unit. Further reviews will be rolled out to the South & Mid and Argyll & Bute Operational Units within the next two years;
- Cash Releasing Efficiency Savings;
- Strategic Planning and Service Redesign;
- Workforce Management/Use of Locums; and
- 2 Waiting List Initiative Payments reviews within Raigmore Hospital.

In 2014/15, the Board has been focused on achieving financial balance and has given a clear mandate to Executive Directors to take actions necessary to ensure balance, within the wider context of the Highland Quality Approach and always maintaining patient safety. As noted within our recent Best Value – Cash Releasing Efficiency Savings Report, savings targets are becoming increasingly difficult to achieve, and not just for NHS Highland. With more waste already removed and many services redesigned, the only way to achieve recurring savings going forward is by carrying out a wider strategic review of services, with the need to cease, relocate or at least reduce services in some areas. The Chief Executive has met individually with the Directors
of Operations and several Budget Managers to discuss savings and actions. Several notes have also been issued to budget managers from the Chief Executive detailing the financial position and what is required. One such example of action taken to improve the financial position was a freeze on procurement of non-pay goods in December 2014 and introducing the additional control that purchases must be approved by the relevant Director of Operations.

Review of recovery plans, assumptions and clarity of the risk assessment underpinning these plans

We can confirm that considerable action has been taken following the Section 22 report and in order to deliver financial balance in 2014/15. There is a financial recovery plan in place, and this has been shared with and scrutinised by the Board, Audit Scotland and Scottish Government. NHS Highland has established a Delivering Financial Balance Programme Board, chaired by the Chief Executive, whose purpose is focused on achieving savings targets, by the monitoring and scrutiny of project charters and plans. This group is attended by both management and Non-Executives, allowing Board members to gain additional comfort over the detail and actions being taken by managers to achieve savings and deliver financial balance. Initial feedback from our interviews has indicated that this group is proving very useful and there is sufficient scrutiny of charters and managers. The financial recovery plan was also presented and discussed at the Programme Board prior to Board approval. Whilst the plan clearly details the financial position, trajectories, and planned charter work to support the achievement of financial balance, there is scope to further enhance it by summarising the risk assessments carried out, risks associated with achieving the savings targets and the planned approach for mitigating these risks.

The reports and presentations to the Programme Board are very detailed, both regarding the latest NHS Highland position and the progress of key project charters. Along with the current financial position, they detail the savings position, progress on cost pressures, trajectories for each charter and for NHS Highland as a whole, as well as “Plan B” savings opportunities. There are also charter specific updates, detailing progress against savings targets, monitoring of progress against milestones, along with further actions to be taken. The individual charters detail the situation, targets, actions and objectives to achieve savings, as well as progress metrics. Whilst the focus of the Programme Board has been on executing the plans, the charters or plans could be made more robust by detailing risks, further quantifying actions, targets and metrics, as well as by detailing the planned trajectories and milestones that correlate to those being reported against. The report/presentation to the Programme Board could also include additional detail regarding risks to achieving the savings targets, both at NHS Highland level and for each key project charter.

The latest financial position is a potential projected overspend of £1.98million at Month 9. The Board is still targeting break-even and have many projects on-going to achieve the necessary savings. One example of where savings have been achieved is in relation to locum costs, which have reduced by £0.9m from 2013/14. The brokerage received in 2013/14 requires repayment over the next 3 years, with £0.5million in 2014/15, and £1million in both 2015/16 and 2016/17. This has been factored into the relevant budgets and forecasts.

NHS Highland has submitted each of the monthly returns to the Scottish Government and have not received any significant queries to date. There have also been on-going communications with Scottish Government given the financial situation. Scottish Government has carried out the Mid-Year Review at NHS Highland, however the findings and report had not been received by the date of this report.
Appendix 1 – Raigmore Hospital – Progress against agreed actions from previous internal audit reports

We have completed two detailed internal audits of Financial Management within Raigmore Hospital in 2012/13 and 2013/14. The 2013/14 Raigmore Financial Management & Governance review superseded the 2012/13 Raigmore Financial Management review. All of the 2012/13 recommendations were either retained as current issues or superseded by other recommendations within the 2013/14 report, to ensure there was only one set of actions for Raigmore management to address. There were three Red and four Yellow control objectives, with three Priority 4 and eight Priority 3 actions agreed. Progress against these actions is summarised below within Tables A & B, with further detail provided in Table C below.

A) Current status of actions

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<th>Action Status</th>
<th>Count</th>
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<tbody>
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<td>Complete</td>
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</tr>
<tr>
<td>In Progress</td>
<td>8</td>
</tr>
<tr>
<td>Incomplete</td>
<td>1</td>
</tr>
<tr>
<td>Not yet due</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>12</strong></td>
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B) Summary of action status by priority

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<tr>
<th>Priority</th>
<th>Complete</th>
<th>In Progress</th>
<th>Incomplete</th>
<th>Not Yet Due</th>
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<tbody>
<tr>
<td>Very High (5)</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>High (4)</td>
<td>0</td>
<td>3</td>
<td>0</td>
<td>0</td>
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<td>Moderate (3)</td>
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<td>1</td>
<td>0</td>
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<tr>
<td>Limited (2)</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Efficiency (1)</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>3</strong></td>
<td><strong>8</strong></td>
<td><strong>1</strong></td>
<td><strong>0</strong></td>
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</table>
C) Detailed update on progress against agreed actions

<table>
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<tr>
<th>Issue Number &amp; Title</th>
<th>Priority</th>
<th>Original Target Date</th>
<th>Recommendation &amp; Update</th>
<th>Status</th>
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</table>
| 2.1 Vacancy Management     | 3        | 1 May 2014           | The vacancy and locum management processes should be further strengthened. All vacancies and locum requests, including those for long-term overtime, should be presented to the Vacancy Group for approval. In between meetings, any urgent requests can be approved at the Raigmore SMT “daily huddle.”

To reduce costs in the short term, NHS Highland should consider implementing an enforced vacancy gap in conjunction with the 2.2% vacancy factor currently built into budgets. A vacancy gap helps achieve the factor but also forces budget holders to adhere to it and achieve the required savings.

**December 2014 update:** - COMPLETE

Processes for managing vacancies and locum requests are now well embedded within Raigmore. The Vacancy Group meets weekly to scrutinise all requests, now including overtime and excess hour requests, and requests require detail on the financial impact of approving the post. The outcome of the meeting is circulated by email immediately after the meeting. Urgent requests outside of the weekly cycle are presented at the Daily Huddle for consideration.

The vacancy gap recommended is considered with every vacancy request and posts are delayed whenever operationally and clinically safe to do so.

| 3.1 Formal communication of financial decisions | 2        | 1 May 2014           | The financial approvals should be formally documented and actions noted from each relevant meeting. These actions and approvals should be circulated to all budget holders to make them aware of current actions and what expenditure has been approved. This approach could also help raise awareness of the importance of sound financial management, helping to improve the finance and governance culture.                                                                                                                            | Complete |
**December 2014 update: - COMPLETE**

This has been implemented and the formal monthly Raigmore SMT is minuted and financial decisions documented. Financial decisions from key meetings are now circulated via email following the relevant meeting. The overall governance arrangements within Raigmore have been reviewed and revised to clarify roles, with a number of meetings either merged or removed. A ‘Governance Map’ has also been formally documented detailing the structure and reporting lines, and is available on the NHS Highland Intranet. Meetings at which core financial decisions are made are: the SMT Business Meeting, the Access Meeting and the Vacancy Management & Locum Requests Meeting.

<table>
<thead>
<tr>
<th>4.1 Budget management processes and actions</th>
<th>4</th>
<th>31 July 2014</th>
<th>Formal budget management training should be provided to all budget holders and service managers, along with formal guidance. The results of our survey and feedback from budget holders identified that the necessary training should include clear instructions on:</th>
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<tr>
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<td></td>
<td></td>
<td>▪ Budget management processes to follow;</td>
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<td>▪ Monitoring of expenditure;</td>
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<td>▪ Review of over/under-spends;</td>
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<td>▪ Investigation of variances;</td>
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<td>▪ Setting actions to recover overspends;</td>
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<td>▪ Use of forecasts and how they work;</td>
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<td>▪ Content of budget reports; and</td>
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<td>▪ Requirement to meet regularly with their accountant, as appropriate to their budget.</td>
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<td>A review should be carried out to ensure the appropriate allocation of budget holder responsibilities to the correct individuals.</td>
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<td>NHS Highland should also consider carrying out a similar exercise in the other operational units to</td>
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</table>
identify whether the same issues exist.

**December 2014 update: In Progress**

A formal Budget Holder training presentation was developed by the Head of Finance and has been delivered on four occasions to date. Further sessions are being scheduled to ensure all budget holders, service and nurse managers, senior charge nurses and the senior management team all receive the training. eAnalyser (non-pay) training has also been undertaken by the majority of Budget Holders across Rhaigmore and two weeks of training sessions were organised with National Procurement. A log is being maintained of those who have completed the training and those who have not.

The Head of Finance at Rhaigmore has developed a Budget Holder Register, which details:

- Names of all budget holders;
- Their management structure (DGM, SM, BH etc);
- Record of budget holder training, as well as EAnalyser training;
- Record of budget holder sign off accepting budget;
- Detail re who gets what level of report, all dependent on level of individual and detail required;
- Delegated Levels of Authority (DLAs);
- Record of budget holder engagement with accountant, including dates of meetings and a rating of their level of engagement in the process. This helps reinforce the accountability and each budget holder will be assessed in this way;
- Record of evidence of people actually reviewing the budget reports;
- Training needs; and
- Dates of any updates to spreadsheet.

The register is already in use for the training log, and is currently being updated to reflect the DLAs and budget holders. This process has required engagement with DGMs, Service Managers and
Budget Holders, and has been used as a way to clarify the accountability, roles and responsibilities of budget holding. The development is on-going but is helping to clearly identify who the budget holders really are and their roles. Improved clarity on the roles and responsibilities is making communication with individuals involved in the financial management process more effective.

All budget holders were emailed directly by the Director of Operations on a number of occasions during the summer and autumn of 2014 to emphasise their role as a budget holder and the importance of sound financial management. Budget holders were asked to provide details of any savings measures they had or could implement to help improve the forecast position. The structure of the management accounting team within Raigmore has also been revised to be more responsive to the demands of the Operational Unit and provide more focused support to Budget holders.

<table>
<thead>
<tr>
<th>5.1 Budget Reports</th>
<th>3</th>
<th>30 June 2014</th>
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The system functionality should be investigated to determine whether the system can generate budget reports containing forecast information. In the interim, the Raigmore Finance Department should consider other methods of providing forecast information to budget holders.

The Raigmore Finance team should consider the budget holder feedback and take appropriate action including the following:

- Review the report structure to ensure budget holders understand the content. (This can be carried out in conjunction with the training detailed within MAP4.1).
- Review all budgets to ensure they are fully defined and reflect allocations, activities, team structure and cost centres. To enable this they should engage with budget holders to ensure the reports meet their specific needs; and
- Consider including detail on what makes up the figures, as well as the value of committed spend (PECOS orders placed but not yet invoiced).

**December 2014 update: COMPLETE**

The budget reports are now being issued automatically and much more promptly than before. For the last 2 months, the reports have been issued 2 days after the ledger closes and therefore is very timely. This will also improve the effectiveness of the meetings with accountants as budget holders can meet with their accountant having already received and reviewed the budget reports, rather than...
previously when they had no sight of the figures in advance.

With the development and automation of the budget reports, the freed up time is being used to develop a manual reporting mechanism to inform individual budget holders of their year-end forecast position. The forecast spreadsheet is now being sent to each budget holder, with a covering letter detailing their position. The relevant Service Manager and Director of Operations are also copied into these emails. This is high level, but that is all that is needed to make budget holders aware of their expected position to inform affordability decisions etc. and once again force budget holders to take notice of it.

Report content and structure has also been taken forward as part of the training detailed previously. The training is also an opportunity for budget holders to feedback on what additional/different information should be provided. The changes made to the engagement between accountants and budget holders will also ensure any comments regarding reports or content are addressed. The work carried out on DLAs has also enabled the team to address cost centre related issues and ensure budgets are correctly allocated and defined.

Budget holders are also now receiving Staff In Post reports from Payroll. These only include “monthly” staff so far, but work is ongoing to add weekly staff to these reports as well. These reports detail staff in teams and WTE, allowing budget holders to identify any variances between WTE and Actual, as well as what staff costs they have incurred compared with contracted hours. The Finance Team are currently investigating how this function can be further developed to provide more payroll details in a similar report which will detail travel, subsistence, excess hours, overtime etc. It is envisaged that this report will be in place for Quarter 4 2014/15. This information will be vital in the financial management of Raigmore budgets as nearly 80% of costs are staff related.

| 6.1 | Accountability for managing budgets | 4 | 30 June 2014 | The on-going work to build formal accountability for budget management into the PDPs and KSF for Service Managers should be completed. We support the work carried out so far, and recommend that, once this is completed, it should also be rolled out to Service Leads. Thereafter, objectives should be built into the PDPs of all budget holders. This part of the process and the implementation of the action should be the responsibility of the Service Managers. | In Progress |
December 2014 update: - IN PROGRESS

A number of senior management meetings with Service Managers have concentrated on accountability and this, together with stricter management of forecasting and the sign off, is in place. At the time of the audit, the building of formal accountability for budget management into the PDPs and KSF for Service Managers’ PDPs was being rolled out. This has been completed. The KSF outlines for Service Managers were reviewed, which identified that they were working at varying levels against the core standards. As a result of this, workshops have been rolled out to provide training and develop skills in HR management etc. With regard to the financial management responsibilities, additional dimensions have been added to KSF, along with the core 5, to ensure their responsibilities for financial management and project management, amongst other areas, can be measured. Objectives have been set in line with NHS Highland objectives, which include financial governance. Personnel are rolling out various training courses to address any skill weaknesses identified as part of the process, maintaining a training log of those that have completed the training. This has been non-financial based as financial and budget management training is being addressed by the Raigmore Finance team.

To date, budget management objectives have not been built into the PDPs of budget holders, given that the exercise being carried out by the Raigmore Finance team to identify exactly who the budget holders are and to determine correct levels of authority is still on-going. Once this exercise is completed, building accountability into the PDPs and KSF for budget holders will be rolled out. However, as budget holders are confirmed or identified, it is being verified that their job description contains detail regarding their budget management responsibilities. For all new members of staff who will be budget holders, they are receiving objectives relating to budget management.

This has not yet been rolled out to Service/Clinical Leads either due to movements in posts and staff vacancies. Personnel have confirmed that is within their HR plan for 2015/16 and they have an objective to develop close working relationships between Service Managers and Service Leads. They also plan to hold a training workshop where roles and responsibilities for Service Leads and Service Managers will be discussed.

The formal budget holder training being rolled out includes roles, responsibilities and accountability for managing budgets. The follow-on from the training is an important aspect to ensure that the
messages within the training presentation are utilised and embedded with the financial management practices. A number of actions are well underway, including the development of the Budget Holder Register. This register will enable engagement with DGMs, Service Managers and budget holders in a way which reinforces the messages about accountability, roles and responsibilities of budget holding. For all individuals on the Register, their engagement with the financial management process is being recorded and assessed. Its development is challenging DGMs’ & Service Managers in particular to clearly identify who the budget holder really is and what the other roles are. Improved clarity on the roles and responsibilities is making communication with individuals involved in the financial management process much more focused. This Register and the assessment of engagement within the process, along with budget holders having to confirm acceptance of their budget, will help enforce accountability at the appropriate levels.

The structure of the management accounting team within Raigmore has been revised to be more responsive to the demands of the Operational Unit and provide more focused support to Budget holders. Through individuals reducing their contracted hours, improved efficiency and reallocation of tasks, new roles have been added to the team, which has created capacity as well as providing greater level of support and encouraging greater engagement with Budget Holders.

### 6.2 Clarification of roles and responsibilities

| 3 | 30 June 2014 |

The roles and responsibilities of Service Managers and Service Leads in relation to budget management should be clarified, detailing who is accountable for what areas.

The communication and engagement between Service Managers and Service Leads should also be formalised to ensure clinical input is maintained and consistent across different service areas.

**December 2014 update: - In Progress**

With regard to medical clinicians’ roles and responsibilities, the Associate Medical Director and the Head of Finance have discussed what communication, budget reports and level of engagement with the medical staff is appropriate regarding budgetary information. The engagement historically has been ad hoc, not always appropriately directed and largely dependent on the clinicians’ engagement. There has been an agreement of the budget reports that should be sent to clinicians who hold the position of either Service Lead or Clinical Lead. These reports will also be generated and emailed automatically in the same manner and on the same timescale as those issued to...
budget holders. The level of detail of the reports is tailored specifically to their needs and will detail the responsibilities for the lead. The process of identifying budget holders and leads for each cost centre is on-going and the communications and responsibilities are being clarified with each lead. These details will also be held within the Register and updated. Following the audit, all clinicians were removed as being budget holders.

Addressing and standardising the communication and engagement between Service Managers and Service Leads has not yet taken place due to movements in posts and staff vacancies. Personnel have confirmed that is within their HR plan for 2015/16 and they have an objective to develop close working relationships between Service Managers and Service Leads. They also plan to hold a training workshop where roles and responsibilities for Service Leads and Service Managers will be discussed.

### 7.1 Delegated Levels of Authority (DLAs)

| 3 | 31 May 2014 | We support review of DLAs within Raigmore. The DLAs should be logical and consistent, with increasing levels of authority for more senior staff. The limits for Consultants should be removed so that the DLA is consistent with NHS Highland policy.

The DLAs should also be clarified to detail that the limits apply to all expenditure, not just PECOS. Once updated, the DLA should be circulated to all relevant individuals to inform them of their limit. This needs to be carried out in conjunction with the review of who the budget holders should be (see 4.1) and then the DLA delegated appropriately following this.

(These recommendations should be considered by wider NHS Highland as the same issues apply to each Organisational Unit).

**December 2014 update: IN PROGRESS**

The DLA has now been updated to reflect the previously proposed structure and is in the process of being implemented. The new structure details the positions that can approve pays, timesheets, contracts and supplies etc. The limits have also been standardised across the different service areas and departments. The structure was approved by the Raigmore Senior Management Team.

A lot of work has also been carried out in “cleansing” the previous DLA and list of budget holders. As the Budget Holder Register has been developed, the new DLA protocol has been implemented.
increased clarity around who is actually the budget holder has allowed a full review of the DLA currently in place for Raigmore. The Finance team have been working around the units, clarifying who the budget holders actually are and who should be on the DLA, and removing those who should not have authority. This has included the removal of medical clinicians from the DLA. There has been engagement between Raigmore Finance and both Service Managers and Budget Holders to ensure the DLA is accurate and reflects current staffing and unit structures.

<table>
<thead>
<tr>
<th>Revised</th>
<th>3</th>
<th>31 May 2014</th>
<th>Raigmore Finance Department should continue to issue the individual budgets in a timely manner (prior to the start of the financial year if possible).</th>
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<tbody>
<tr>
<td>1.1</td>
<td></td>
<td></td>
<td>A Corporate budget setting timetable should be produced annually, including timeframes for the issuing and sign-off of budgets.</td>
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<tr>
<td>Timing and agreement of budgets</td>
<td></td>
<td></td>
<td>When budgets are issued to the budget holders, they should be requested to email their acceptance of their budget. Within the emails issuing the budgets, there should be clear instructions regarding the accountability and responsibilities for the budgets.</td>
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**December 2014 update: - In Progress**

The 2014/15 budgets were issued to Budget Holders on 21 April, 6 weeks earlier than previous practice, with a requirement for the Budget Holders to “accept” their budgets by email return. Several email reminders were needed to obtain the acceptances from some budget holders. The process for 2015/16 will move to an automated report being issued in a similar way to the monthly budget reports. The increased engagement with individual budget holders and the use of the Budget Holder Register to record acceptances being returned will improve the efficiency of this process. The Budget Holder Training presentation also emphasised the importance of this function and the budget holders’ responsibilities in this regard.

<table>
<thead>
<tr>
<th>Revised</th>
<th>4</th>
<th>Recovery / Operational Plan – 31 May 2014</th>
<th>The identification of recurring savings remains a problem area and therefore remains a recommendation that all staff with budget or financial responsibility should consider options to help achieve financial stability. Responsibility for identifying and achieving savings does not lie solely with Management, DGMs or Service Managers, but with all budget holders.</th>
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<tr>
<td>4.1</td>
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<td>In Progress</td>
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<tr>
<td>financial balance</td>
<td>Review of services (initial stage) – 30 September 2014</td>
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As part of the draft Raigmore Recovery/Operational Plan, Raigmore should develop a clear action plan, laying out what needs to be done, setting targets and objectives and timeframes to achieve financial break-even within 3 years. This needs to be closely monitored and performance again this reported to Raigmore and NHS Highland Management, as well as the NHS Highland Board, providing assurance over the progress and actions being taken.

Going forward, especially over the next few years until Raigmore achieves financial break-even, NHS Highland may need to continue supporting the over-sPENDs of the hospital. We recommend that a high level review of services is carried out to assess if there are any services currently provided within Raigmore which could be provided elsewhere, or otherwise streamlined.

**December 2014 update: - In Progress**

As at Month 08, Raigmore are forecasting to overspend compared to the Recovery Plan. The underlying reasons for this are:

- **Slippage in implementing the Recovery Plan actions.** The majority of actions are well progressed and the financial benefits will be achieved in year 2 and 3 of the Recovery Plan;
- **Additional cost pressures resulting from new drugs for the treatment of Hepatitis C;**
- **Continued high level of delayed discharges and patients waiting for community hospital beds;**
- **Cancelled elective activity due to bed shortages increasing the difficulty in meeting the TTG, outpatient and other targets;**
- **Staffing shortages mainly due to recruitment difficulties and some teams experiencing high sickness levels; and**
- **Continued high patient inflows.**

Raigmore Senior Management Team produced a detailed three year Recovery Plan, with the first year being 2014/15. The Plan detailed the work-streams and estimated benefits over the three year period to result in a balanced budget. The Plan had major work-streams around Theatre redesign, Patient Flow and Transforming Outpatients with clinical engagement a vital element in the development of the work-streams and their implementation.
Clinical engagement has also been encouraged and enhanced through a series of initiatives across Raigmore, with the focus on quality and patient safety in achieving financial balance. The Quality & Safety Daily Huddle was introduced in December 2013 and has become a mainstay for daily clinical engagement. The Huddle is widely attended by clinicians and all other staff groups, where any patient quality and safety issue or concern can be raised, including bed positions, delayed discharges and patient movements. The Huddle has also enhanced the "wider picture" understanding across the hospital.

As part of the Recovery Plan, the Raigmore SMT approved a fixed term, one year Analyst post within the Service Planning Team. The increased capacity has been essential in progressing the discussions and changes needed in the work-streams of Theatre Redesign and Patient Flow. The production of robust service planning data has provided a factual platform on which to engage with clinicians regarding the changes that were needed to make quality improvements within the hospital. The data has also demonstrated through the Demand, Capacity, Activity and Queue (DCAQ) work that certain specialities have capacity shortfalls based on current demands; these outcomes will need to be considered as part of the updated Recovery Plan.

There have been a number of Rapid Process Improvement workshops (RPIW) undertaken in Raigmore, all of which have been supported by Service Planning, and have resulted in service improvements which are suggested, tried and implemented by the clinical teams.

| Revised 2012/13 | 3 | Dependent on discussions in May 2014 | Service plans need to be developed for services delivered within Raigmore. These should include an analysis of demand and capacity going forward to predict activity levels and also assess whether current capacity is appropriate. In turn, this forward planning should further aid resourcing, meeting capacity needs, reducing costs and achieving savings. This should all be carried out in conjunction with the Raigmore Recovery/Operational Plan. | In Progress |
| Revised 2012/13 | 5.1 | Service planning | | |

**December 2014 update:** - In Progress

As detailed above, as part of the Recovery Plan, the Raigmore SMT approved a fixed term, one year Analyst post within the Service Planning Team. The increased capacity has been essential in progressing the discussions and changes needed in the work-streams of Theatre Redesign and Patient Flow. The production of robust service planning data has provided a factual platform on
which to engage with clinicians regarding the changes that were needed to make quality improvements within the hospital. The data has also demonstrated through DCAQ work that certain specialities have capacity shortfalls based on current demands; these outcomes will need to be considered as part of the updated Recovery Plan. The data obtained has been used to inform discussions in these relevant areas.

Specific service plans for particular areas have not yet been developed, with recent focus being on obtaining service planning data for areas of issue to fulfil that specific need. This will be progressed going forward with the help of the Analyst.

There have also been a number of Rapid Process Improvement Workshops (RPIWs) undertaken in Raigmore, all of which have been supported by Service Planning, and have resulted in service improvements which are suggested, tried and implemented by the clinical teams.

| Revised 2012/13 | Date dependent on completion of 5.1 above. | The use of a more realistic budgeting methodology, such as activity based costing, should still be considered going forward. The implementation of Patient Management System (PMS) and Theatre Management System (TheatreMan) should enable access to relevant information to assist with this, such as usage, capacity, frequency and cost of activity etc. This can be analysed to enable more accurate budgeting. |
| Revised 2012/13 | 3 | December 2014 update: Incomplete |

This is not yet implemented as it is dependent on the service plans and service planning data detailed in the update for 5.1 above. The activity data is needed to support any realignment of budgets. Many budgets were revised going into 2014/15, and pay budgets are zero based each year, but a specific exercise to realign all budgets again has not taken place. The drugs budget however has been realigned due to changes in assumptions, and Raigmore Finance will be engaging with budget holders in advance of 2015/16 to explain their budget. The delays in PMS implementation and obtaining the necessary information have also impacted the implementation of the recommendation.
| Revised 2012/13 | 3 | 31 May 2014 | The Workforce Plan should be further developed, and should form part of the 3 year Raigmore Recovery/Operational Plan. The payment protection, organisational change and re-deployment policies should be reviewed to ensure they are fit for purpose and applied consistently. These policies should also be applied more rigorously, offering those employees on protected salaries posts at their protected bands or hours, and if they refuse, they lose their protection. This approach will help to reduce costs in a period where the policy cannot be removed and compulsory severance/redundancy is not an option.

**December 2014 update: - IN PROGRESS**

A lot of work has been carried out with regard to workforce planning, including the removal of many unfunded posts and acting on results from the workforce tool. Whilst a workforce plan has not been developed, there has been a review of nursing establishment using the nursing workforce tool. The results of this have enabled NHS Highland to address staffing imbalances within wards and convert some bank hours to substantive staff.

With regard to updating the organisational change and redeployment policies, these are national policies which required to be reviewed on an NHS Scotland basis and so they will reviewed as and when the national review takes place. In the interim, the policies have been presented to the Terms & Conditions Group for discussion and this work is on-going. Work has been on-going to ensure that employees on pay band protection are utilised and good rota management is exercised.

As part of the Vacancy Group, staff on re-deployment or on pay-band protection are considered for vacancies at the appropriate band as they arise. There is sufficient challenge within this group to scrutinise requests. | In Progress |
Appendix 2 – Timeline of events & financial reporting in 2013/14

As part of this review we have audited the timeline of events and financial reporting that the NHS Highland board received within Quarter 3 and Quarter 4 of 2013/14. This timeline was presented to the Board and shared with Scottish Government following the Section 22 report, and we have verified that it is a true and accurate representation of the information that was reported to the Board and when it was reported. The information reported and detailed within the timeline was in addition to the monthly financial monitoring packs that all Board members receive. The timeline is set out on the next page. For further detail on reporting arrangements and recommendations for improvement, please refer to the Executive Summary and the Action Plan in Appendix 3.
Finance report to Board (on Oct figures). This forecast break-even but made it clear there was a requirement for £8.5m improvement to deliver. The plan for delivering break-even is described at a high level in this report.

Mid-year review with SG & summary letter issued. Review with SG & discussion around the risks to break-even forecast, based on Month 8 forecast overspend of £6.4m. Subsequent SG summary letter acknowledges the Board's break-even forecast but recognises the risks.

Douglas Griffin Report received (based on the Nov/Month 8 forecast overspend position of £5.5m). Report states that some of the measures require more detail but overall conclusion is that break-even seems deliverable and assumptions are reasonable.

Finance presentation at Board Development Session. Director of Finance gave a presentation stating that the final £1m required to break even had been identified. A number of the risks to delivering break-even were stated and discussed.

January figures available. They show a significant unanticipated movement away from final quarter trajectory, including costs relating to additional activity. (See Executive Summary for further details). Discussion with SG about the possibility of brokerage.

Finance presentation at Board Development Session. (based on January figures), informed Board members of discussions with SG.

Confirmed brokerage figure in principle with SG.

Discussions with SG and Audit Scotland regarding wording re brokerage for Month 11 Board report. Agreed wording with SG and shared with Audit Scotland for comment.

Discussion at Board meeting on £2.5m brokerage. Board expressed the need for this to be seen in the context of a £700m organisation (i.e. 0.3%).

Raigmore Update Report to Audit Committee. Update on Raigmore in-year financial position. Recovery Plan presented. Detail on progress against internal audit recommendations.

Finance report to Improvement Committee (on Nov figures). Shows a break-even forecast but clearly states a need to improve the projected position by £6.5m to deliver this. A plan is set out, but states £1m still to be identified.

Scottish Government visits NHSN and a revised forecast summary is issued. This still shows forecast break-even (without brokerage). It emphasised the key risk was the final quarter improvements.

Finance report to Board (on Dec figures). Detailed forecast break-even and a potential forecast overspend of £5.5m. This was a £2.9m improvement on Oct figures, therefore trajectory was deemed reasonable. Report detailed what was required to break even, incl. £2m final quarter improvements, £0.6m procurement savings, £2m from asset lives and £1m contribution to ASC pressures from The Highland Council.

Finance report to Improvement Committee (on Jan figures). Forecast states £5.5m still to find (compared to £5.6m at December). The paper described the need to find a further £2.9m in final 2 months and that the board is in dialogue with SG regarding options for managing the position.

Final efforts to identify savings. This involved the Heads of Finance.

Further unanticipated movement away from trajectory, relating to Children's Services and The Highland Council.

SG confirms £2.5m brokerage and CEO informs Chair.

Board papers and media briefing issued – stating £2.5m brokerage requirement.
Appendix 3 – Action Plan - Opportunities for Improvement

NHS Highland commissioned this review because both management and Non-Executives saw it as an opportunity to improve the efficiency and effectiveness of processes, and to learn from experiences to date. We have examined the financial reporting to the board and its committees and the engagement between management and the Board to identify opportunities for improvement. The action plan agreed with management is set out below.

<table>
<thead>
<tr>
<th>Ref</th>
<th>Improvement action</th>
<th>Management Response</th>
<th>Action owner</th>
<th>Target Date for implementation</th>
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<tr>
<td>1</td>
<td>Clarity of language used within Financial Reports</td>
<td>Throughout the current and preceding financial years, NHS Highland Finance reports, have referred to both “forecast break-even” and the “forecast overspend position.” The discussion of two “forecasts” could be confusing and therefore we recommend that the language used when reporting the target of break-even and any potential overspend, is clarified and differentiated. We do note that NHS Highland has changed the language used when detailing the over-spend position in 2014/15. We recommend that NHS Highland should discuss with the board and the Scottish Government the most appropriate language to use in relation to the break-even target.</td>
<td>Agreed to review wording in discussion with Scottish Government.</td>
<td>Director of Finance</td>
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<td>2</td>
<td>Timeliness of financial information reported</td>
<td>As part of the audit, we investigated the timing of financial information reported to the Board and other committees. Currently there is a delay in reporting due to the timeframes for financial ledger close (“hard close” is around the 18th of the following month) and the timing of committee meetings. As a result, December’s financial information is not reported until the February Board meeting. This could impact the timeliness of</td>
<td>We will investigate the feasibility of bringing forward the timing of the final forecast position.</td>
<td>Head of Financial Planning</td>
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<td>Board Secretary</td>
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<td>We will investigate the possibility of adjusting Board meeting and Committee dates in</td>
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<td>decision making if issues arise, especially in Quarter 4. This is, however, mitigated by the fact that all Board members receive the financial monitoring packs each month, which keeps them informed of the financial position between meetings. Discussions with management, finance and Board members have indicated that all parties are willing to make adjustments to their timeframes or calendars to facilitate more timely information being reported. We recommend that the timeframe for closing the financial ledger each month is pulled forward to allow forecast information to be available earlier (other NHS Boards have been able to obtain the same information from the 7th of the following month). This adjustment, along with rescheduling the Board and committee meetings for later in the relevant months, should allow for more timely financial reporting. The specifics regarding these changes should be investigated and implemented for the 2015/16 financial year.</td>
<td>2015/16. In practice this will probably not be possible until around September as diaries will already be set. However, we will also investigate the possibility of issuing finance papers to Board / committees later than the main set of papers in order to ensure the most recent available finance information is considered.</td>
<td>Director of Finance</td>
<td>Consider by February 2015. Implement as appropriate from June 2015.</td>
</tr>
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<td>3</td>
<td><strong>Enhancing the clarity of financial reports to the Board</strong></td>
<td>Agreed that all these issues should be considered. As noted, some are already being implemented.</td>
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<td>As part of the testing for this audit, we have reviewed all of the finance reports to the Board in 2013/14 and 2014/15 to date. We have reviewed the content, information reported, clarity of detail, as well as various other factors. Whilst Board members have indicated they were content with the detail reported, which was consistent with previous years and in line with many other NHS Boards, we have identified some recommendations that could make the reporting clearer going forward. NHS Highland has already made some adjustments to their reporting following the</td>
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Section 22 report. These include providing more detail of the risks involved in achieving savings or reducing the overspend position, along with a table of trajectories. Our review of the reports, as well as discussions with various Non-Executive Board members, has identified types of information which should be considered for inclusion:

- More detail on the key assumptions underpinning the financial plans and forecasts and the risks related to these assumptions;
- Further detail on the risks associated with particular savings targets or charters;
- Enhanced information on the actions/plans in place relating to savings, much of which could be extracted from the documented project charters;
- Analysis of expenditure by type (such as supplementary staffing, drugs etc.), as well as the current format by operational unit;
- Detail on trajectories of savings targets and milestones, information which would also make financial plans more detailed and robust, addressing an issue raised within the Douglas Griffin report; and
- Forecast profile of expenditure over the remaining months of the year, not just the year to date and year end forecast position. This has been reported to the January Improvement Committee and we support this being rolled out to finance reports to other...
<table>
<thead>
<tr>
<th>Ref</th>
<th>Improvement action</th>
<th>Management Response</th>
<th>Action owner</th>
<th>Target Date for implementation</th>
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<tbody>
<tr>
<td>4</td>
<td><strong>Enhancing the robustness of financial plans and charters</strong></td>
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<td>Whilst the financial recovery plan clearly details the financial position, trajectories, and planned charter work to support the achievement of financial balance, there is scope to further enhance it by summarising the risk assessments carried out, risks associated with achieving the savings targets and the planned approach to mitigating these risks. Financial plans should also be reviewed to ensure they are consistent with financial reporting, particularly with regard to the assumptions and related risks. While the focus of the Programme Board has been on executing the plans, going forward the charters or plans could be made more robust by detailing risks, further quantifying actions, targets and metrics, as well as by detailing the planned trajectories and milestones that correlate to those being reported against. The report/presentation to the Programme Board could also include additional detail regarding risks to achieving the savings targets, both at NHS Highland level and for each key project charter.</td>
<td>Agreed in principle, but the risk assessment in relation to the in-year recovery plan will need to be proportionate to the sums involved.</td>
<td>Director of Finance</td>
<td>February 2015</td>
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<td>Agreed, but again risk assessments will need to be proportionate</td>
<td>Charter Owners</td>
<td>April 2015</td>
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<td>Ref</td>
<td>Improvement action</td>
<td>Management Response</td>
<td>Action owner</td>
<td>Target Date for Implementation</td>
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<td><strong>Formalising financial Board Development Sessions</strong></td>
<td>During the course of 2013/14 and 2014/15 to date, Finance have presented and discussed the NHS Highland financial position at several Board Development Sessions. Feedback from Non-Executives has been that this has been very useful in keeping them informed and allows an additional forum for discussion. We recommend that this informal engagement between Finance and Non-Executives should be formalised, with two Board Development Sessions a year dedicated to finance. This will further enhance communication and engagement, as well as allowing a formal opportunity for Finance to explain report content, provide on-going training and development, as well as allowing Non-Executives to set their expectations with regard to information, reporting and communication. There is also scope for recording more clearly the extent of communication with Board members, particularly out-with formal Board meetings, so that this can be clearly demonstrated to all stakeholders.</td>
<td>Director of Finance / Board Secretary</td>
<td>Consider by February 2015.</td>
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<td>6</td>
<td><strong>Retaining the Delivering Financial Balance Programme Board</strong></td>
<td>An important action NHS Highland has implemented following the Section 22 report, is the creation of the Delivering Financial Balance Programme Board. This group is chaired by the Chief Executive and attended by the Executive Leadership Team, wider SMT members and two Non-Executive Directors. Its role has been to monitor and scrutinise savings within the units, agreed to retain the DFPB into 2015/16 and consider it in the wider context of the overall governance review.</td>
<td>Chief Executive / Board Secretary</td>
<td>Review during 2015/16</td>
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<td>Improvement action</td>
<td>Management Response</td>
<td>Action owner</td>
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- scrutinise project charters, and challenge the various managers on action plans and targets being achieved.

- Given that achieving savings targets is proving increasingly difficult for NHS Highland and other NHS Boards, we recommend that the Delivering Financial Balance Programme Board is retained in 2015/16. The Board Chair has previously indicated that there will be a formal review of the governance and committee structure within NHS Highland, and the existence and scope of this group in the future could be assessed as part of this review.