



NHS Fife

Annual Report to Fife Health Board and the Auditor General for Scotland 2010/11

July 2011



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Executive summary

Financial statements

Our audit of the 2010/11 financial statements is complete and our audit opinions are unqualified. NHS Fife achieved all of its financial targets, delivering a saving against the Revenue Resource Limit (RRL) of £0.019m. The Board also achieved its Capital Resource Limit (CRL) and Cash Requirement targets.

Use of resources

The Board has strong arrangements in place for managing its financial position and making effective and efficient use of resources, although achievement of future financial targets will depend on continuing tight control of expenditure and delivery of very challenging savings plans.

NHS Fife managed a very tight financial position in 2010/11, with the £0.019m surplus reflecting just 0.01% of total RRL. This surplus was achieved despite an underlying recurring deficit of £1.2m, showing that the cost of providing core (ie recurring) services continues to exceed the recurring funding received. This recurring deficit is greater than the £0.994m recurring deficit in 2009/10, but less than that reported in 2008/09.

NHS Fife achieved its savings target for the year, delivering total cash savings of £11.220m, £9.213m of which were achieved on a recurring basis. A further £13.5m of savings are planned for 2011/12, which will require continued close monitoring by the Board.

The 2010/11 surplus was achieved after returning £2.8m in revenue funding to SGHD. This funding was released through the review of asset lives undertaken during 2010/11 and has been added to the Board's allocation for 2011/12.

Performance

NHS Fife continues to use and develop the Balanced Scorecard to monitor Board-wide performance. The Board now receives performance reports at every meeting, rather than every second meeting as was previously the case. Regular performance reports are also presented to the Board's Senior Management Team.

At the end of 2010/11, 36% of the Board's targets were reported as not met and not within agreed tolerance levels. The majority of unmet targets related to behaviour change in the Fife population and the Board had reported this level of 'red' performance indicators in its last three performance reports. Throughout 2010/11 the Board has struggled to reduce the number of delayed discharges and to meet the national target of a maximum delayed discharge of six weeks. Following a freedom of information request NHS Fife was subject to intense local media and parliamentary scrutiny on its delayed discharge performance. Finding a sustainable solution to reducing delayed discharges continues to be a priority area for the Board.

Governance

The composition of the Board was significantly changed after the direct elections in June 2010 with 12 new Members appointed, taking the total number to 25. The Board has managed the transition well and we have not noted any adverse impact as a result of the revisions.

We have reviewed the Board's corporate governance arrangements in relation to its systems of internal control, prevention and detection of fraud and irregularity and standards of conduct including the prevention and detection of corruption. In our view corporate governance remains strong at NHS Fife.

Conclusion

This report concludes our audit of NHS Fife for 2010/11. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Chief Executive and Director of Finance. We would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff

July 2011

Introduction

1. This report summarises the findings from the 2010/11 audit of Fife Health Board, commonly known as NHS Fife. The scope of our work was set out in our External Audit Strategy and Plan, which was presented to the Audit Committee in January 2011.
2. The main elements of our work in 2010/11 have been:
 - Audit of the financial statements, including a review of the Statement on Internal Control
 - Review of governance arrangements, internal controls and financial systems
 - Best Value review of Efficiencies
 - Review of the Board's response to Audit Scotland National Study reports
 - Review of the Board's involvement in the National Fraud Initiative (NFI)
3. In addition to this annual report, we have delivered the following outputs during 2010/11:
 - Interim management report
 - Best Value overview report
 - Report on the audit of the financial statements
 - Follow up of Audit Scotland's Improving Public Sector Purchasing national report
 - Letter on application of pay policies – staff earning over £100,000 per annum

The key issues from these outputs are summarised in this annual report.
4. As part of our audit, we have also made use of the work of other inspection bodies including the Board's internal audit service and Audit Scotland.
5. This report is addressed to both the Board and to the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6. The annual financial statements are the principal means of accounting for the stewardship of the resources made available to the Board. In this section we summarise the issues arising from our audit of the 2010/11 financial statements.

Our responsibilities

7. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Board and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - whether the information in the operating and financial review is consistent with the financial statements
 - whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We also review the Statement on Internal Control by:

- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
- assessing whether disclosures in the Statement are consistent with our knowledge of the Board.

Overall conclusion

An unqualified audit opinion

8. The Board approved its annual financial statements on 28 June 2011. Our independent auditors' report expresses an unqualified opinion on the financial statements and on the regularity of transactions.
9. The financial statements were submitted to the Scottish Government Health Directorates (SGHD) and the Auditor General for Scotland prior to the 30 June 2011 deadline.

Issues arising from the audit

10. We are required by auditing standards to report to the Board the main issues arising from our audit of the financial statements. On 24 June 2011, we presented our Report on the Audit of the

Financial Statements to the Audit Committee. Five specific issues were identified within that report, all of which were of medium-to-low risk rating. The two most significant issues were:

- As in previous years, the Board had difficulty in agreeing balances with NHS Lothian. The Board recognised an additional £0.230m in its payables balances and £1.438m in expenditure during the year in relation to transactions with NHS Lothian.
- We identified a number of misclassifications of manual prepayments/accounts receivable and accruals/accounts payable. This was also raised as an issue in our 2009/10 report.

Equal Pay

Further work remains to establish the status of existing claims

11. The National Health Service in Scotland has received in excess of 10,000 claims for equal pay and NHS Fife has 524 claims with the NHS Scotland Equal Pay Unit, which is working with the Central Legal Office (CLO) in coordinating a national response to this issue.
12. Developments over the past few years have slowed the progress of claims and led to a reduction in the number of claims going forward. The CLO has stated that claims still do not provide sufficient detail about the comparator jobs to allow an estimate to be made of the likelihood of the success of the claims or of any financial impact that they may have. The CLO and Equal Pay Unit are monitoring the progress of claims as well as developments relating to NHS equal pay claims elsewhere that may further inform the position.
13. Discussions have been held between Audit Scotland, partner audit firms, the Scottish Government, the CLO and Board representatives to ascertain the appropriate accounting treatment of equal pay claims in previous years. Given CLO advice that, although some liability is probable, it is not possible to estimate the impact of the claims, it has been agreed that disclosure as an unquantified contingent liability remains appropriate for the 2010/11 financial statements of affected NHS Boards.

Statement on Internal Control

14. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the Board's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
15. We are satisfied that the Statement on Internal Control (SIC) complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work.

Regularity and Other Opinions

16. We have issued an unqualified opinion on the regularity of transactions. We have also concluded that the financial statements and the part of the Remuneration Report to be audited have been

properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, and that information which comprises the Annual Report included in the Annual Accounts is consistent with the financial statements.

Use of resources

17. This section of the report sets out our main findings from our review of how the Board manages its key resources in terms of financial performance and management of assets.

The Board's financial performance for 2010/11

18. NHS Fife is required to work within the resource limits and cash requirements set by SGHD. As shown in Table 1 below, NHS Fife met all of its financial targets in 2010/11.

Table 1 – Performance against financial targets

Financial Target	Target £000	Actual £000	Underspend £000	Target achieved
Revenue Resource Limit	561,546	561,527	19	Yes
Capital Resource Limit	20,605	20,603	2	Yes
Cash Requirement	609,000	608,308	692	Yes

(Source: Fife Health Board Annual Accounts 2010/11)

19. The Board achieved a surplus against its Revenue Resource Limit (RRL) of £0.019m (2009/10: £0.191m). The surplus represents an underspend of 0.01% and is therefore consistent with the Board's original 2010/11 budget, which projected a year-end break even position. The surplus was achieved after returning £2.8m in revenue funding to SGHD during the year. This funding was released through the review of asset lives undertaken during 2010/11 and has been added to the Board's allocation for 2011/12.

Actual versus budget outturn

20. There were a number of variances across various parts of the Board's budget. The following table (Table 2) shows how the Board achieved its final outturn position.

Table 2 – Reconciliation from Financial Framework Budget Outturn to Actual Outturn

	Underspend / (Overspend) £000
Budget Outturn:	0
In Year Variances:	
Operational Division	(3,921)
Board Admin	1,542
Other Board Services	3,345
CHPs	1,087
Prescribing	(3,375)
Service Level Agreements	(3,718)
Central budget reserve	3,312
Net of other minor variances	1,747
Actual Outturn (Surplus)	19

(Source: 2010/11 Financial Framework and March 2011 Monthly Monitoring Return)

21. The Board's Operational Division overspent by £3.921m, in the main due to nursing and medical staffing and clinical supplies overspends across clinical directorates. The bad weather over the winter and additional costs associated with delayed discharges also impacted upon this area. Prescribing was overspent by £3.375m and Service Level Agreements were overspent by £3.718m, reflecting the upwards cost pressures in these areas.
22. Other Board Services were underspent by £3.345m. This was mainly due to the accounting change for pensions and injury benefit and legal claims in terms of core/non-core allocation. The underspend of £3.312m on the Central Budget Reserve was due to slippage on various projects and developments.

Continued reliance on non-recurring income

23. The Board's ability to achieve future financial targets can be affected by the extent to which it has relied on non-recurring savings to meet current targets. To gain a better understanding of the Board's financial position we have analysed the Board's 2010/11 outturn into recurring and non-

recurring items, as shown in Table 3. This shows that there is a gap between the cost of ongoing Board activities and the core funding received.

Table 3 – Achievement of 2010/11 surplus

	£000
Recurring income	552,979
Recurring expenditure	(563,392)
Recurring savings	<u>9,213</u>
Underlying recurring deficit	(1,200)
Non-recurring income	43,730
Non-recurring expenditure	(44,518)
Non-recurring savings	<u>2,007</u>
Non-recurring surplus	1,219
Total RRL surplus	19
Underlying recurring deficit as a percentage of recurring income	<u>0.22%</u>

(Source: Director of Finance)

24. The £0.019m surplus was made up of a recurring overspend of £1.200m offset by a non-recurring underspend of £1.219m. This is in line with the recurring/non-recurring position the Board budgeted for in its financial framework.
25. The Board has been reliant on non-recurrent funding in the past three years, as shown in Table 4 below, and this is expected to continue in the coming years, with a £4.018m recurring deficit in 2011/12 being offset by a non-recurring surplus of the same amount.

Table 4 – Recurring and non-recurring surplus and deficit analysis: 2006/07 – 2011/12

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000
Recurring surplus/(deficit)	2,400	2,465	(2,619)	(995)	(1,200)	(4018)
Non-recurring surplus	2,600	3,199	5,547	1,186	1,219	4,018
Total surplus	5,000	5,664	2,928	191	19	0

(Source: Previous annual audit reports and Board's 2011/12 budget)

Capital Resource Limit

The Board has returned a small surplus against CRL for 2010/11

26. The Board's total capital expenditure for the year was £20.603m. The Board returned a £2,000 underspend against CRL. During 2010/11, the Board also spent £1.427m in capital grants to other public bodies (2010/11: £1.213m).
27. With the new build element of the General Hospital and Maternity Services (GH&MS) project at Victoria Hospital due to complete and become operational in 2011/12, the Board's CRL will be significantly increased next year as the facility will be fully reflected on the Board's balance sheet.

Financial Plans

The 5 year financial plan reflects the challenging financial climate

28. As part of its Local Delivery Plan (LDP), the Board has prepared a 5 year financial plan covering the period 2011/12 to 2015/16. This includes identifying the risks which may prevent the Board from achieving its forecasts and so looks to give a balanced assessment of the Board's financial operating environment. Table 5 (below) sets out the 2011/12 financial planning position.

Table 5 – Forecast financial outturn 2011/12

	£000
Recurring income	603,796
Recurring expenditure	(617,343)
Recurring savings	9,529
Underlying recurring deficit	<u>(4,018)</u>
Non-recurring income	29,795
Non-recurring expenditure	(29,795)
Non-recurring savings	4,018
Non-recurring surplus	<u>4,018</u>
Financial surplus/(deficit)	0
Underlying recurring deficit as a percentage of recurring income	<u>0.67%</u>

(Source: Director of Finance)

29. The Board expects to breakeven against its RRL target for each of the five years covered by the plan. However, this is subject to continued tight control over expenditure and delivery of what will be increasingly challenging savings plans.
30. The Board is also projecting a breakeven position against its CRL for each of the five years covered by the plan as detailed in Table 6 below.

Table 6 – Capital Expenditure against CRL: 2011/12 – 2015/16

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Total Capital Expenditure	21,880*	7,934	13,746	10,918	7,206
Capital Resource Limit (CRL)	21,880*	7,934	13,746	10,918	7,206
Savings/(Excess) against CRL	0	0	0	0	0

*In addition, GH&MS is due to come on balance sheet in 2011/12.

Funding

Funding levels continue to increase, but implementing NRAC in full would greatly assist the financial position

31. The Scottish Government has reported that 2009/10 was the peak year for public spending for the foreseeable future, after a period of significant annual increases in funding across the NHS.
32. The Board received an initial revenue allocation of £502.9m for 2010/11. This was an uplift of 2.8%, compared to an average of 2.66%, to move the Board closer towards its NRAC share. For 2011/12, the Board's initial allocation is £507.1m. This equates to an uplift of 3.1%, compared to an average of 2.6% across all Scottish Boards, with only NHS Lothian, NHS Grampian and NHS Forth Valley receiving a higher uplift. However this included additional funding for the Change Fund (£4.9m) and loss of income from Prescription Charges (£4.1m). The like for like uplift including NRAC movement was 1.3%.
33. NHS Fife is receiving increases above the minimum due to its funding being below the target level identified by the NHSScotland Resource Allocation Committee (NRAC), established in 2005 to review the Arbutnott formula. The Board believes that it is around £12.2m below its NRAC target allocation. In the Financial Framework submitted to SGHD the Board assumes further movements (of £1.236m) towards NRAC parity each year for the next five years, although an accelerated movement towards parity would help the Board manage the tight financial position.

Cost pressures

Cost pressures compound the difficult funding position

34. The Board faces very significant financial challenges in the coming years. Local cost pressures include those related to tackling specific areas of deprivation in the Board area and changes to the service provision due to the opening of the new GH&MS building. The Board also faces similar pressures to those being encountered across the NHS in Scotland, including demographic change, drug cost increases and the additional costs associated with meeting HEAT targets.
35. The Board has established an Efficiency and Productivity Group, tasked with identifying methods of delivering services in more efficient ways and managing identified cost pressures, which continues to meet to discuss how the Board can continue to maintain a balanced financial position in the coming years. The identified cost pressures have been included within the assumptions of the 2011/12 Financial Framework, as set out in Table 7 (below). These have also been risk assessed; for example, it is noted that a 1% GP prescribing increase (a “high” rated risk) adds £0.750m to the total operating cost of the Board. In addition, efficient government savings is also noted as a “high” risk, with the LDP submission asserting that “although various plans have been identified to meet some of the cash releasing in-year target, there is a risk that some of these schemes may slip in year.” The Board’s savings are discussed further below.

Table 7 - Price increase assumptions

Assumptions	2011/12
Resources	3.10%
Pay (ie £250 for staff earning < £21,000)	0.25%
Prices – general	1.50%
GP prescribing	4.00%
Hospital drugs	4.00%
Other FHS uplifts	5.00%

(Source: LDP submission)

Savings plans

Savings targets continue to be met but substantial further savings required in 2011/12 and beyond

36. NHS Fife continues to meet its efficiency targets. Table 8 notes the cash efficiency savings achieved by the Board in 2010/11. These savings were identified through a mixture of specific efficiencies highlighted at the start of the financial year and “in-year” programmes identified on an ongoing basis.

Table 8 – Cash savings achieved in 2010/11

Source of savings	Recurring £000	Non- recurring £000	Total £000
Operational Division	1,962	50	2,012
Dunfermline & West Fife CHP	380	164	544
Glenrothes & North East Fife CHP	240	165	405
Kirkcaldy & Levenmouth CHP	984	169	1,153
Board Admin & Other services	4,238	989	5,227
Prescribing/Drugs target	1,200	-	1,200
Procurement Target	209	470	679
Total savings achieved	9,213	2,007	11,220

(Source: Board Returns to SGHD)

37. NHS Fife has a history of consistently achieving substantial efficiency savings in recent years. £30.7m of savings have been delivered in the three years between 2008/09 to 2010/11, £27.71m of which have been recurring savings. This reflects a substantial reduction in the Board’s underlying cost base and has been achieved without impacting on the Board’s performance indicators.
38. Achieving a further cash releasing savings target of £13.547m in 2011/12 will be very challenging; £1.446m (10.7%) of the 2011/12 savings target is regarded by the Board as “high” risk and a further £5.564m (41%) is regarded as “medium” risk. The Efficiency and Productivity Group is tasked with ensuring these savings are delivered at an operational level. Given the importance of these savings in maintaining financial balance, it is vital that this should continue to be a key area of regular reporting and significant challenge and scrutiny by senior management and the Board

during 2011/12. The following table (Table 9) outlines the main areas for delivery of the 2011/12 savings:

Table 9 – 2011/12 Planned Cash Releasing Efficiency Savings

Source of savings	Recurring £000	Non-Recurring £000	Total £000
Delivery Units	5,599	138	5,737
Prescribing	830	-	830
Procurement	1,100	-	1,100
Recurring Corporate Savings	1,000	-	1,000
Service Redesign in Partnership	1,000	-	1,000
Other Non-Recurring Flexibility		2,800	2,800
Additional Non-Recurring Slippage		1,080	1,080
Total In Year Planned Savings	9,529	4,018	13,547

Best Value – Efficiencies

NHS Fife has good underpinning processes in place for efficiency savings

39. In March and April 2011 the Board self-assessed against its arrangements for identifying, monitoring and reporting on efficiency savings. As part of our annual audit work we reviewed the findings of the Board's self-assessment. We also reviewed other audit work carried out at the Board to date on efficiency savings, including by its internal audit function, as part of our assessment. We found that the Board is making continued improvements, and there are some opportunities for further development.
40. The Board has solid underpinning processes in place in relation to identifying, delivering and reporting efficiencies. The Board's Finance and Resources Committee is responsible for monitoring the delivery of efficiency savings. The Committee receives regular reports from management on the delivery of the efficiency programme. The Board also has an Efficiency and Productivity Group chaired by the Director of Finance (a sub-set of the Board's Strategic Management Team) which oversees the management and delivery of the efficiency programme. This includes providing progress reports against the efficiency programme to every meeting of the Finance and Resource Committee.

41. Our audit highlighted some further improvements which could be made to the information provided in reports to enhance comparisons between savings made and targets. For example, the efficiency reports presented to the Finance and Resources Committee are not currently cross referenced to Board performance reports, although this information is contained within the Board's consolidated performance reports. The Board has committed to ensuring that stand alone reports on efficiency savings have appropriate references to performance reports in order to demonstrate that reported financial savings have not resulted in a reduction of quality or level of service provided.

Targeted follow-up – Improving Public Sector Purchasing

NHS Fife has enhanced its arrangements for procurement, with clear improvements made in the most recent Procurement Capability Assessment

42. As part of our audit work we were required by Audit Scotland to review the Board's response to their report on *Improving public sector purchasing*. Our work focussed on reviewing the latest available Procurement Capability Assessment results for the Board and assessing whether improvement plans are in place and whether they sufficiently address the issues identified.
43. We found that the Board continues to enhance its arrangements for procurement. We identified only a small number of action points all of which were graded as being of lower risk exposure. These include implementing effective staff continuity and handover arrangements and establishing a formal process for reporting on actions contained within the Board's procurement strategy.

Assurance on the application of pay policies

44. All health boards were required to undertake a detailed review of their Board's pay policies for all staff earning over £100,000 to ensure they have been properly applied. As external auditors we were required to provide specific reassurance that the Board had complied with national policies and guidance. Our sample testing of staff earning over £100,000 did not identify any matters which suggest that the Board has not complied with the relevant policies and we confirmed this in a letter to the Board Chairman.

People management

Arrangements are in place to support efficient and effective workforce management

45. The Agenda for Change accrual was £0.647m as at 31 March 2011, reflective of the Board successfully working through its reviews and revisits.
46. The Board recognises that effective workforce planning is vital to both continuous improvement in services and in securing the efficiencies required to achieve financial targets. This will be particularly important with the move to providing acute hospital in-patient services at the GH&MS facility, on course to open in December 2011.

47. During 2010/11 the Board reviewed and updated its Workforce Modernisation and Development Strategic Plan, with the revised plan approved by the Board on 22 February 2011. The plan sets out the infrastructure and processes needed to meet expected future demand as well as education and training requirements to support efficient and effective deployment of the workforce.
48. Annex 5 of the Local Delivery Plan, agreed with SGHD in April 2011, highlights some of the key workforce issues facing NHS Fife, which have been incorporated into the Board's strategies and plans. This is summarised in Table 10, below.

Table 10 – Workforce planning initiatives

Area	Workforce Planning Details (per NHS Fife LDP submission)
Medical	The Board continues its involvement in the Medical Workforce Group which was formed within the South East and Tayside (SEAT) Group to provide co-ordination in dealing with the longer term implication of the wider medical workforce agenda. Short Life Specialty Working Groups continue to carry out detailed workforce planning, bringing forward proposals for future workforce models and highlighting the implications of the medical workforce planning on other professional/staff groups.
Other Clinical	Skill mix reviews continue to be undertaken in Nursing and Midwifery, Allied Health Professionals and Other Therapies to ensure that these are appropriate to current needs. The National Workload Measurement and management tools will help inform this process. The role of Assistant Practitioners will also continue to be explored.
Other Areas	The Board continues to consider the impact on workforce management of the increased number of temporary beds being used to ease the effects of occupation by patients awaiting discharge.

49. An internal audit review of workforce planning arrangements was undertaken at the end of 2010/11. The review highlighted a number of areas where the Board had positive arrangements in place including:
- An established, strategic approach to workforce management, which is incorporated into the governance framework and based on national standards.
 - A staff governance standing committee with a remit including people management and membership including representatives from area and local partnership forums and an employee director.
 - A staff governance action plan supported by the Workforce Modernisation and Development Strategic Plan (WM&D) which details the long term organisational changes being undertaken to achieve the Boards priorities, goals and plans for its staff.

50. Some opportunities for development were also identified, including that the Board should incorporate more measurable outcomes and key performance indicators within its staff governance and WM&D strategic plan. Further, although there is evidence of efficiency schemes being pursued it has been recommended that more specific detail is provided in the WM&D strategic plan on the targets and actions being planned. Developing more formal standards and measures for comparison with other Boards was also highlighted as a way to share best practice.
51. We endorse the recommendations from the internal auditors and believe they will help further develop the good arrangements already in place within the Board.

Overall conclusion on financial management and use of resources

Good financial management arrangements are in place

52. Our overall conclusion from our review of the Board's financial performance, underlying financial position, planning, reporting and achievement of savings targets is that the Board has strong financial management arrangements in place. In particular, we have again found that the Board's finance staff work closely with services to provide robust reporting information and effective financial support.
53. In our opinion, NHS Fife is in a good position to manage its financial pressures. However, future financial targets will depend on continuing tight control of expenditure, delivery of very challenging savings plans and may require some difficult decisions in relation to workforce planning. This will be a key area which the Board will have to monitor very closely.

Performance

54. This section of the report looks at performance management arrangements within NHS Fife.

The Board has recently approved a new performance management strategy and is continuing to develop more robust performance monitoring arrangements

55. NHS Fife uses three specific performance management models; the balanced scorecard, performance improvement reports and a FifeSTAT statistical approach. The scorecard reflects local and national targets and requirements, including Local Delivery Plan and Health Improvement, Efficiency, Access and Treatment (HEAT) targets. It includes specific measurable, achievable, realistic and time focussed (SMART) targets and is used to monitor progress against the Board's strategic targets. Progress against the balanced scorecard is reported to the Board at every meeting. Performance improvement papers, on specific performance targets and local priorities, are discussed on a monthly basis by the Board's Senior Management Team (SMT). The reports set out the context, performance information, risk assessment and recommended actions.
56. The introduction and roll out of FifeSTAT has helped increase accountability for performance. FifeSTAT sets out performance indicators and identifies lead officers for each indicator. This enables greater challenge and scrutiny by Board members and senior management. Relevant staff now have electronic access to performance information and can provide clear updates and information on progress. The rollout of FifeSTAT has also increased the interaction and engagement between accountable officers and NHS Fife's performance staff. This has led to a greater understanding of what information is needed for performance reports and how this can support the work of accountable officers.
57. A FifeSTAT report goes to the SMT on a monthly basis and additional performance reports are presented to the Board's Operational Division and Community Health Partnerships (CHPs). Reporting arrangements are tailored to meet the needs of each committee and are led by the Divisional Chief Executive / CHP General Managers. The FifeSTAT performance information system is able to provide reports by CHP areas for some indicators. This information can then be reported to an individual CHP as required. Although CHPs have access to FifeSTAT data the extent to which individual CHPs access and use the data varies considerably. The Board should consider providing further training on FifeSTAT for CHP staff and Heads of Service. This should focus on encouraging the most effective use of the performance information.

Action plan point 1

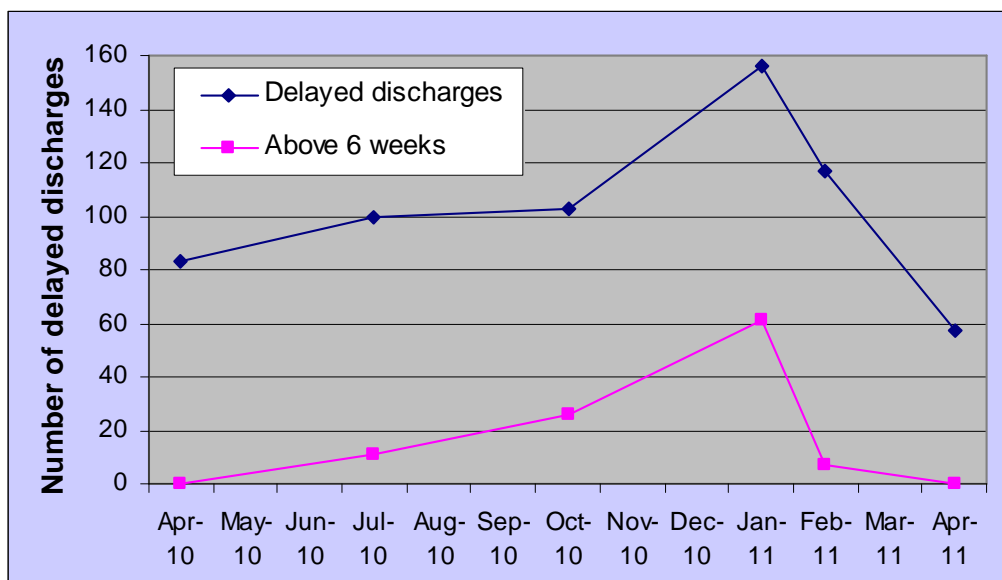
Through additional funding and a programme of increased scrutiny with Fife Council, NHS Fife has brought about significant reductions in its delayed discharge levels

58. In January 2011 NHS Fife's delayed discharges were the focus of a high level of local and national media attention. The Health Secretary stated that "the level of delayed discharges in Fife towards

the end of last year [2010] was unacceptably high.” As at January 2011 there were 156 delayed discharge patients, 61 of whom were above the 6 week national standard. A separate Freedom of Information request highlighted that 93 patients had died in hospital after being assessed as fit for discharge.

59. Since January 2011 NHS Fife and Fife Council have provided joint funding of £500,000, to purchase more care places and to accelerate the number of assessments to reduce the backlog. The Health Board and Council committed to providing an increased focus on getting patients back to their own homes as quickly as possible. The Board’s Chair and the Leader of the Council have been meeting on a weekly basis to review the latest performance information.
60. Figures for the end of April 2011 showed a significant reduction in the level of delayed discharges. The total had reduced from 156 in January to 57 in April. Delayed discharges above the six week national standard had fallen from 61 in January to zero by April 2011 (Diagram 1).

Diagram 1 – Delayed Discharges in NHS Fife



(Source: NHS Fife Balance Scorecard Update, April 2011)

61. The Board recognises however that a fundamental shift in the joint approach is required to ensure that the January 2011 situation is not repeated. The Board should also review its performance reporting arrangements on delayed discharges. In addition to reporting those exceeding the national standard, reports should be provided on the number of patients greater than four weeks and those expected to go beyond the six weeks target.

Action plan point 2

NHS Fife is establishing effective systems for delivering and demonstrating best value

62. NHS Fife has recognised that it must be able to demonstrate best value. The Board has therefore established a framework for monitoring the delivery of best value. This framework sets out who is responsible for overseeing each aspect of best value and the timescales for monitoring best value work. This framework has only recently been approved and the Board must monitor its implementation to ensure that it is embedded within management and reporting arrangements.
63. In May 2011 we presented a summary best value overview report to NHS Fife. This report pulled together the findings of all best value work carried out since we were appointed as external auditors in 2006, including financial management, information technology and community engagement. The report also covered the best value assurance framework developed by the Board, with the support of its internal audit function, and the Board self-assessment against the asset management and governance and accountability toolkits.
64. This summary review of best value arrangements, together with the detailed reports, provides only a snapshot of the Board's performance. It is important that the Board uses the findings within the summary best value report to monitor progress and development in the areas reviewed. The report can also be used to identify areas for additional work or further review.
65. NHS Fife is pioneering the application of best value toolkits within the NHS, in terms of the number of toolkits applied to date. It is important that the Board continues to develop and improve its arrangements for monitoring and delivering best value to ensure that it remains at the fore of the best value agenda. Best value is about continuous improvement. The Board must ensure that it takes a proportionate response to the best value characteristics. The Board's delivery of best value principles should be linked to its strategic objectives and the Board has a strategic role in ensuring this is maintained. The Board can only demonstrate that it is delivering best value if it continues to maintain, develop and improve its services in line with its strategic objectives and economic conditions. The report sets out a range of recommendations for each of the areas of Best Value assessed. An action plan to address the points raised in the report is being developed by the Board, and will be in place by September 2011.
66. In March 2011, the Scottish Government published new best value guidance. This new guidance sets out five core themes of Best Value and two cross cutting themes which should be considered in all services and activities. While this new guidance may require the Board to make some adjustments to its best value framework to ensure alignment, it will not fundamentally change the Board's approach to best value or the action plans being developed.

NHS Fife must respond to Audit Scotland's national report on CHPs which stated that arrangements were complex

67. In 2010 we carried out a review of the Board's community engagement arrangements. NHS Fife has three separate CHPs, but works with only one Local Authority, Fife Council, with whom it shares coterminous boundaries. These CHPs cover three geographical areas but each CHP also

has a remit for co-ordinating specific services across Fife. Our review found that there is a clear commitment to community engagement within NHS Fife and the Board has good underpinning processes in place. We also identified that work was required to improve the linkage between community engagement activities, strategic plans and outcomes.

68. In June 2011 Audit Scotland published its national review of CHPs. The review considered CHPs' governance arrangements and whether CHPs were achieving what they had been set up to deliver. The review found that governance and accountability arrangements for CHPs are not always clear and needed to be improved. The review also found limited evidence of CHPs delivering sustained improvements.
69. NHS Fife was selected as a sample body for the Audit Scotland national review. Audit Scotland reported that the CHP arrangements at the Board are complex and stated there is a risk of an overlap of roles and responsibilities. The Board should review its CHP arrangements in light of the national CHP report. The Board should ensure that it address each of the national recommendations made by the report.

Action plan point 3

Effective training programmes have been delivered for Board members and this programme will continue to be developed and adapted

70. In June 2010 NHS Fife became one of only two health boards in Scotland to pilot board member elections. The elections followed the Health Boards (Membership and Elections) (Scotland) Act passed by Parliament in 2009.
71. On 15 June 2010, the Scottish Government and NHS Scotland hosted a training event for the board members of NHS Fife and NHS Dumfries and Galloway. This training was specifically targeted for the health boards with elected board members and gave an overview of the health framework in Scotland as well as providing practical advice and guidance on issues such as scrutiny, service redesign and standards of behaviour. NHS Fife followed this up with its own board member development days in late June 2010. They were specifically focussed on issues relevant to NHS Fife and sought to provide guidance on Board strategy and how the Board works.
72. Formal development sessions are held with the board members every second month. A programme of training and development for these sessions has been set out and reports on the outcomes of these training sessions are presented at the following Board meeting. A consistent message from Board members is the need for time to be set aside to enable the members to get to know each other and develop as a unit.
73. Performance management training was given to all new board members. This was carried out as part of the new board members' induction training and comprised a one hour slot in a two day training programme. It is recognised that new board members will require further training on the Board's performance reporting arrangements and on how they can provide effective performance management and scrutiny. NHS Fife should ensure that training is provided to all board members which reflects the new reporting arrangements and the role that effective performance

management must play in identifying efficiency savings and prioritising resource allocation. This is being taken forward via Board development sessions and individual committee training.

The Board must identify its key priorities and minimum levels of service quality within existing HEAT targets

74. The Board’s performance report in April 2011 showed that 14 out of 44 indicators (32%) were “not on track and not within agreed tolerance levels” (Table 11). This represented a slight improvement on the performance reports presented to the Board in December 2010 (34%) and February 2011 (36%).

Table 11 – Overall progress against balanced scorecard targets

Progress	Number
Target achieved early	3
On track	20
Not on track but within agreed tolerance levels	7
Not on track and not within agreed tolerance levels	14

(Source: NHS Fife Board Report April 2011)

75. The Scottish Government’s national HEAT targets have changed for 2011/12. As a result of these changes the performance data presented to the Board will include three new targets and exclude 14 targets which had been reported during 2010/11. Of these 14 indicators, eight (57%) were not on track and not within agreed tolerance levels. The Board will therefore no longer receive performance reports on all of these areas, despite some of them being areas of significant poor performance.

76. In these times of financial pressures and limited resources the Board may not be able to afford to treat all targets as a priority or deliver all indicators to the same standard. The Board must therefore identify the key priorities for NHS Fife and ensure that it allocates its resources to reflect these priorities. For those indicators not identified as priorities the Board must decide on what is an acceptable level of performance. The Board can then use its performance reporting arrangements to demonstrate the improvements made against its priorities. It will also be able to demonstrate that it has delivered sustained levels of service provision in non-priority areas.

Action plan point 4

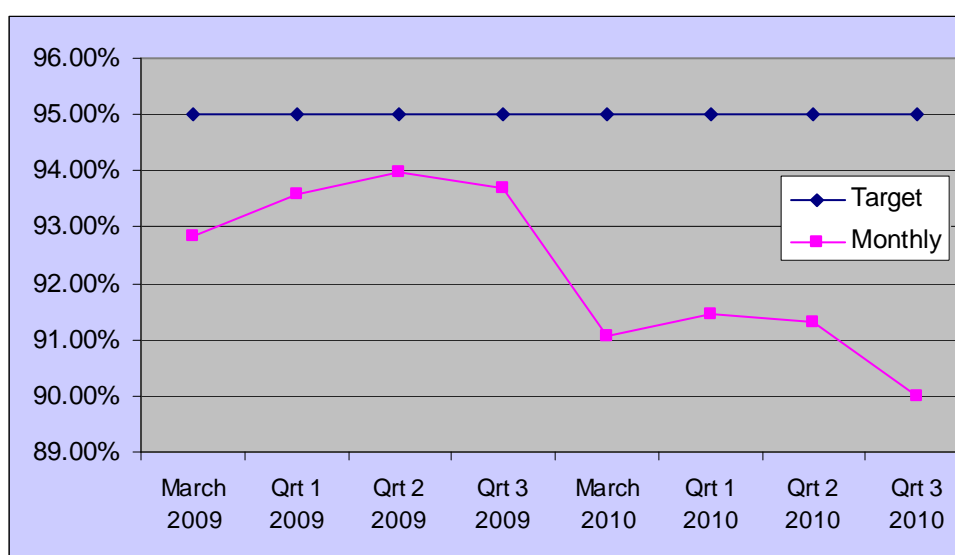
Some performance targets not on track for delivery

77. Some of the indicators reported as being not on track and not within agreed tolerance levels are discussed in more detail below.

Immunisation

78. NHS Fife is currently failing to meet the national target of 95% of children taking the MMR immunisation jag. Since June 2007 the Board has been consistently below the average of mainland health boards. In March 2010 the Board reported a take up of 91.3% and current performance rates are falling (Diagram 2). The Board's performance on immunisation levels is currently an outlier when compared with other mainland health boards in Scotland. NHS Highland is the only mainland health board reporting a lower take up rate.

Diagram 2 – Levels of childhood immunisation take up



(Source: Scott-Moncrieff from NHS Fife data)

79. A paper on performance against this target was reported to the Board in December 2010. The paper highlighted that the Board's performance has been consistently worse than other mainland health boards since September 2007. However, the paper did not identify the causes of this poor performance nor did it set out clear actions and targets for improvement. The Board has established a group to review the position and develop the necessary action plan, which should be reported to the Board when finalised.

Action plan point 5

Smoking Cessation

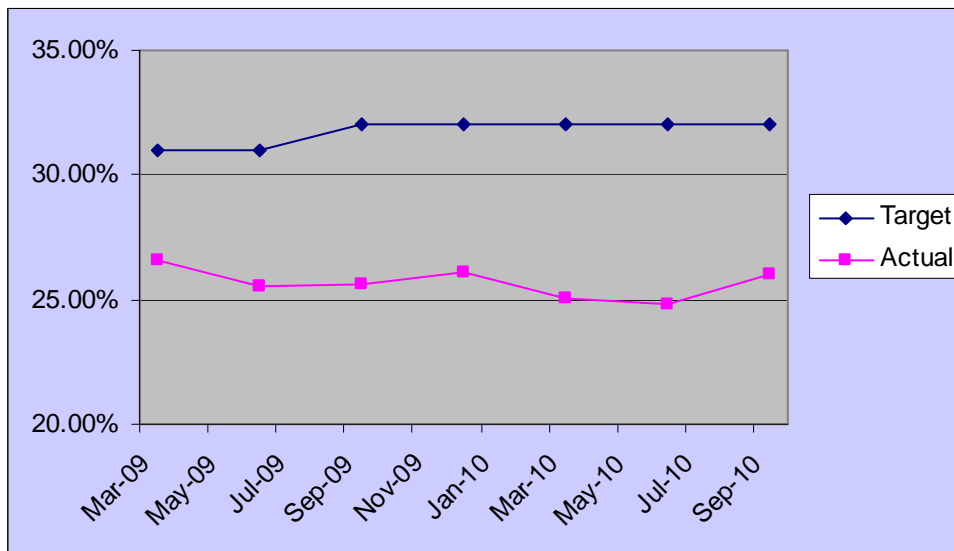
80. Since December 2008, smoking cessation has been an area where the Board is failing to achieve its target. The Board has developed an operational plan to address this area and set up an implementation group to drive the plan forward. The Board however has recognised that achieving its target will be very challenging. As at September 2010 the Board reported 3,711

successful cessations and the number of successful cessations has grown steadily from the 1,388 reported in December 2008.

Breastfeeding

81. The Board had set the target to increase the proportion of newborn children exclusively breast fed to 34.8% by March 2011. As part of our 2009/10 audit we reported that the rate had actually declined. We reported that a key issue in this was the six hour discharge target for mothers at Forth Park Hospital; the Board estimated that 55% of mothers are discharged before breast feeding is fully established. We recommended that the Board should identify the priority between its breastfeeding target and six hour discharge target and take appropriate action.
82. Since our 2010 report, the Board has established a breastfeeding peer support project. The project offers early telephone support to 80% of women discharged from Forth Park Hospital within three days of discharge. The project also operates a drop-in service offering support for acute breastfeeding problems or support for women being discharged. The most recent figures available are for September 2010. These show that the Board continues to report levels below its target (Diagram 3). In September 2010 NHS Fife reported 26% of newborns were exclusively breast fed. This was against a target of 32% and but is in line with the Scotland wide average of 25.9%. The breastfeeding target is no longer a HEAT target. Performance against the breast feeding target is therefore no longer being reported in the Board's performance report.

Diagram 3 – Percentage of newborns exclusively breastfed at 6-8 weeks



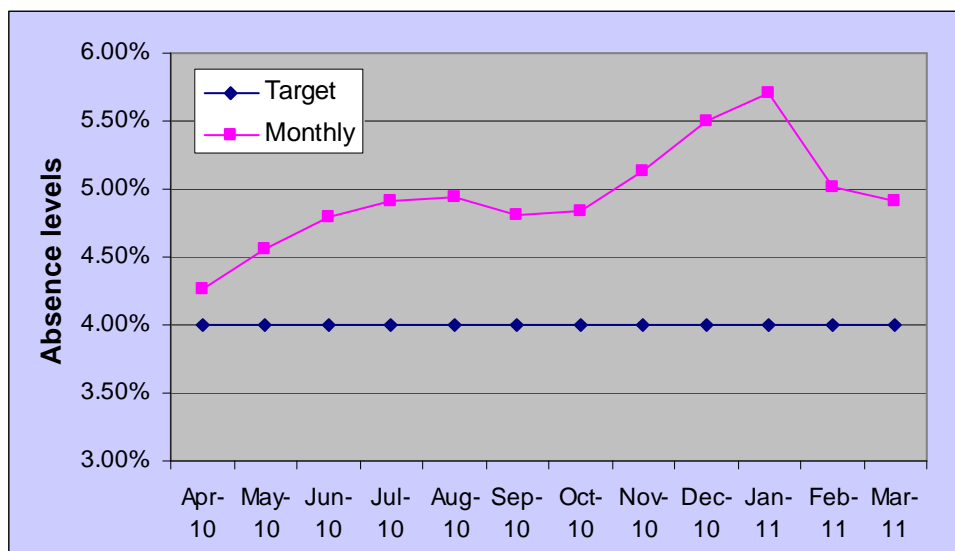
(Source: NHS Fife Balanced Scorecard Update)

Sickness Absence

83. NHS Fife continues to exceed the national sickness absence target of 4%. The Board considers absence management a priority and has stated its commitment to continuing to work towards meeting this target. Since April 2010 however, and broadly following the pattern of previous years,

the Board's absence level has risen from 4.3% to 5.7% as at January 2011 before falling to 4.9% in March 2011 (Diagram 4).

Diagram 4 – Sickness Absence Levels within NHS Fife



(Source: Fife Balance Scorecard Update, April 2011)

84. The Board should continue to identify the main reasons for sickness absence and the areas with the highest absence levels. The Board can then develop targeted programmes for addressing absence management issues within different areas of the Board. Through reducing sickness absence levels the Board could potentially deliver significant levels of efficiency savings.

Action plan point 6

Governance

85. This section sets out the main findings from our review of NHS Fife's governance arrangements as they relate to:

- Corporate governance
- Risk management
- Internal audit
- Prevention and detection of fraud and irregularity and the National Fraud Initiative (NFI)

Corporate governance

Effective arrangements in place through a period of transition

86. Our work on corporate governance focussed on reviewing of the Board's arrangements for internal control, prevention and detection of fraud and irregularity and standards of conduct and prevention and detection of corruption.

87. In our view, governance arrangements at the Board are strong. The composition of the Board was significantly changed after the direct elections in June 2010, with 12 new Board Members appointed to take the total number of Board members to 25. The Board has managed the transition effectively.

88. New Board members were required to attend an induction programme and various training sessions setting out roles and responsibilities in terms of strategic direction, oversight and challenge.

Risk management

A good risk management framework is in place

89. The Board's Risk Management Strategy was revised during 2010/11, receiving Board approval in August 2010 and incorporating changes to address previous audit recommendations. The strategy sets out the remit and reporting lines for the various risk management groups within the Board, as well as identifying NHS Fife's risk categories and the risk identification process.

90. The Corporate Risk Register (CRR) is used by the Strategic Management Team to monitor strategic risks on an ongoing basis. In addition to the 6 monthly corporate risk report which is presented to the Board detailing any changes to the risks previously reported, an annual risk management report is produced which reports on performance against the risk management objectives detailed in the risk management strategy.

91. In 2009/10, NHS Quality Improvement Scotland (NHS QIS) reviewed the Board's clinical governance and risk management arrangements. That report rated the Board as being at the

“reviewing” stage in relation to risk management (which is the highest of the four stages of the rating criteria). Overall, the NHS QIS review findings are consistent with the findings from our audit work from the last few years, and it is our view that effective overall risk management arrangements are in place within NHS Fife.

92. Risk management arrangements continue to develop. Work has been ongoing to establish clearer links between operational and business plans and the risk management processes. The Local Delivery Plan includes links to the strategic risk register, supporting the Board in monitoring the risks which may impede the achievement of the strategic objectives.

Internal audit

93. The Board’s internal audit service is provided by FTF Audit and Management Services (FTF).
94. In accordance with International Standard on Auditing (ISA) 610 – Considering the work of internal audit, “the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor’s risk assessment.” Overall, we concluded that FTF provides a service which complies with Government Internal Audit Standards and which we can rely upon. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work where appropriate and we are grateful to the FTF internal audit team for their assistance during the course of our audit work.

Prevention and detection of fraud and irregularity

95. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. As part of our governance work we reviewed the Board’s arrangements in place to prevent and detect fraud and irregularity. We did not find any indication of fraud and irregularity and concluded that the Board’s internal controls and financial procedures were adequate to prevent and detect material fraud and irregularity.

The Board has generally adequate arrangements in place to enable it to take part in the National Fraud Initiative

96. The National Fraud Initiative (NFI) is a counter-fraud exercise undertaken by Audit Scotland in conjunction with the Audit Commission, external auditors and a number of public sector bodies, including NHS Fife. Data was uploaded for the 2010/11 exercise in October 2010. Reports for each type of NFI match are released through a secure website which participating organisations and auditors have access to. 2010/11 matches were released in January 2011.
97. Participating organisations are required to investigate matches and record outcomes on the NFI website. These matches are filtered to separately identify high risk matches, shown as recommended matches on the NFI website.
98. We have reviewed the Board’s participation in the NFI including an assessment of the Board’s overall approach to NFI and a consideration of whether matches have been investigated appropriately. The Board’s arrangements have been generally adequate in the year. However,

the Board has not fully updated the NFI website to reflect the work it has performed in relation to the NFI matches.

99. It is important that the Board updates the website to show details of all matches investigated, the outcome of the investigation and confirms the action taken in response to comments raised for the Board on the website. This is a requirement of the NFI exercise and supports central management and coordination of the process.

Action plan point 7

Looking forward

Finance

100. The Board is projecting a breakeven position in 2011/12, and across the remainder of the five year financial plan. Recognising the challenging funding environment, the Board has identified that large increases in savings are required over the next 5 years. The Board must ensure that these savings are achievable through identified and managed plans. Any under-delivery of recurring savings would have a significant adverse impact on the Board's financial position going forward. It is therefore vital that the Board monitors this position closely.

101. The new building being provided as part of GH&MS will become operational in 2011/12. This should allow NHS Fife to build on the significant progress already made in service redesign and to deliver further operating efficiencies.

Performance

102. HEAT targets will come under increasing pressure in the current financial operating environment. The time for 'difficult decisions' is very much here, particularly given the significant savings the Board will have to deliver. The challenge will be to operate sustainably whilst minimising impact on performance and the quality of services delivered to users.

103. Audit Scotland is committed to extending best value across the public sector it is expected that further best value toolkits will be applied at NHS Fife in 2011/12.

Governance

104. It is important that the Board continues with its training programme for new Board members to ensure they are given sufficient support to undertake their role and discharge their responsibilities.

105. In order for the Board to successfully manage the pressures and challenges it faces, both as a result of local and national issues, it is more important than ever that sufficient and appropriate leadership, scrutiny and challenge is in place to deliver the best outcomes for the public. Maintaining an effective governance framework will be key to the future success of NHS Fife.

Action Plan

Our annual report action plan details the more significant control weaknesses and opportunities for improvement that we have identified during our final audit visit in addition to any reportable matters arising from our review of performance and governance systems.

The action plans detail the officers responsible for implementing the recommendations and implementation dates. The Board should assess these recommendations for their wider implications before approving the action plan.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Grading

To assist the Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been graded. The grading structure is summarised as follows:

- Grade 5 Very high risk exposure - Major concerns requiring Board attention.
- Grade 4 High risk exposure - Material observations requiring management attention.
- Grade 3 Moderate risk exposure - Significant observations requiring management attention.
- Grade 2 Limited risk exposure - Minor observations requiring management attention
- Grade 1 Efficiency / housekeeping point.

Issues arising from our 2010/11 audit

No	Title	Issue identified	Risk and recommendation	Management comments
1	FifeSTAT Training (Para 57)	<p>Although Division and CHPs have access to FifeSTAT data the extent to which each accesses and uses the data varies considerably.</p>	<p>The Board should consider providing further training on FifeSTAT for CHP staff and Heads of Service. This should focus on encouraging the most effective use of the performance information.</p> <p>Grade 2</p>	<p>Further training and awareness sessions will be considered to encourage optimum use of the performance information available.</p> <p>Responsible officer: Chief Executive – Operational Division</p> <p>Implementation date: Ongoing</p>
2	Delayed Discharges (Para 61)	<p>In January 2011 NHS Fife's delayed discharges were the focus of a high level of local and national media attention. Figures for the end of February 2011 showed a significant reduction in the level of delayed discharges.</p> <p>The Board recognises that a fundamental shift in the joint approach is required to ensure that the January 2011 situation is not repeated.</p>	<p>The Board should review its performance reporting arrangements on delayed discharges. In addition to reporting those exceeding the national standard, reports should be provided on the number of patients greater than four weeks and those expected to go beyond the six weeks target.</p> <p>Grade 3</p>	<p>Agreed.</p> <p>Responsible officer: General Manager, Kirkcaldy and Levenmouth CHP</p> <p>Implementation date: Ongoing</p>

No	Title	Issue identified	Risk and recommendation	Management comments
3	Community Health Partnerships (Para 69)	<p>In June 2011 Audit Scotland published its national review of CHPs. The review found that governance and accountability arrangements for CHPs are not always clear and needed to be improved. The review also found limited evidence of CHPs delivering sustained improvements.</p> <p>Audit Scotland reported that the CHP arrangements at NHS Fife are complex and stated there is a risk of an overlapping of roles and responsibilities.</p>	<p>The Board should review its CHP arrangements in light of the national CHP report. The Board should ensure that it address each of the recommendations made and issues raised by the report.</p> <p>Grade 3</p>	<p>The Audit Scotland report is being reviewed and appropriate actions will be taken in response.</p> <p>Responsible officer: General Manager, Dunfermline and West Fife CHP</p> <p>Implementation date: Currently being reviewed</p>
4	Effective Prioritisation (Para 76)	<p>The Board may not be able to afford to treat all targets as a priority or deliver all indicators to the same standard.</p>	<p>The Board must identify the key priorities for NHS Fife and ensure that the allocation of its resources reflects this.</p> <p>Grade 3</p>	<p>Agreed.</p> <p>Responsible officer: Director of Finance and Chief Executive</p> <p>Implementation date: Ongoing</p>

No	Title	Issue identified	Risk and recommendation	Management comments
5	Immunisation (Para 79)	<p>NHS Fife is currently failing to meet the national target for children taking the MMR immunisation jag.</p> <p>A paper on performance against this target was reported to the Board in December 2010. The paper highlighted that the Board's performance has been consistently worse than other mainland health boards since September 2007. However, the paper did not identify the causes of this poor performance nor did it set out clear actions and targets for improvement.</p>	<p>The Board has established a group to review the position and develop the necessary action plan, which should be reported to the Board when finalised.</p> <p>Grade 2</p>	<p>Agreed.</p> <p>Responsible officer: Director of Public Health</p> <p>Implementation date: by December 2011</p>
6	Sickness Absence (Para 84)	<p>NHS Fife continues to exceed the national sickness absence target of 4%. Since April 2010 the Board's absence level has risen from 4.3% to 5.7% as at January 2011, although it has declined since then (in line with the pattern in previous years).</p>	<p>The Board should identify the main reasons for sickness absence and the areas with the highest absence levels. The Board can then continue to develop targeted programmes for addressing absence management issues within different areas of the Board.</p> <p>Grade 3</p>	<p>Agreed.</p> <p>Responsible officer: SMT members</p> <p>Implementation date: Ongoing</p>

No	Title	Issue identified	Risk and recommendation	Management comments
7	NFI records (Para 99)	The Board has not fully updated the NFI website to reflect the work it has performed in relation to the NFI matches.	<p>It is important that the Board updates the website to show details of all matches investigated, the outcome of the investigation and confirms the action taken in response to comments raised for the Board on the website. This is a requirement of the NFI exercise and supports central management and coordination of the process.</p> <p>Grade 2</p>	<p>Agreed.</p> <p>Responsible officer: Director of Finance</p> <p>Implementation date: Immediately</p>



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