

The 2020/21 audit of NHS Highland



AUDITOR GENERAL 

Prepared for the Public Audit Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000

December 2021

Introduction

1. I have received the audited annual report and accounts and the independent auditor's report for NHS Highland for the year ended 31 March 2021. I submit these financial statements and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.

2. The purpose of this report is to draw Parliament's attention to the progress NHS Highland is making in meeting its financial targets and improving its operational delivery and governance.

Auditor's opinion

3. The auditor issued an unmodified audit opinion on NHS Highland's 2020/21 financial statements. They highlighted that the board operated within its financial resource targets, achieving this while operating in a period of considerable uncertainty and responding to the operational and financial challenges in managing the impact of Covid-19 on service delivery.

Summary

4. This is the fifth report on issues of financial sustainability in NHS Highland in eight years.¹ Previous reports highlighted a series of concerns covering financial, performance and governance issues. This report comments on the progress that the board has made in these areas over the last two years.

5. In November 2018, in recognition of the challenging financial position and wider organisational and governance issues within NHS Highland, the board was escalated to Level 4 within Scottish Government's NHS Scotland Performance Escalation Framework.² Following a review by the Scottish Government in June 2021, NHS Highland moved down to Level 3 in the Escalation Framework, reflecting certain improvements in finance, governance, leadership, culture and mental health.

6. NHS Highland's financial position has been challenging in recent years. It has required additional financial support in each of the last three financial years from the Scottish Government to achieve in-year financial balance.

7. In 2020/21, NHS Highland delivered a break-even position and achieved a surplus of £0.7 million against its Revenue Resource Limit (RRL). However, the Scottish Government provided additional funding to health boards to support financial gaps and also provide resource to implement the services required by each board in response to the Covid-19 pandemic.

8. For 2021/22, the Scottish Government asked boards to produce a one-year financial plan, taking into consideration the impact of Covid-19 on service delivery and finances. NHS Highland's financial plan requires £32.9 million of savings to be delivered through its Cost Improvement Programme. The board has acknowledged that its 2021/22 Cost Improvement Plan is challenging. NHS Highland is not currently budgeting for a financial brokerage requirement from the Scottish Government for the 2021/22 financial year, as it has done in previous years.

9. NHS Highland has made some progress in reducing its reliance on locum and agency staff. It has also reached agreement with Highland Council in relation to funding of the 2021/22 adult social care financial gap of £11.3 million. The board's Programme Management Office (PMO), set up in 2018/19 to oversee a programme of service transformation and financial recovery plans, has been significant in bringing about the financial recovery that the board needed to ensure sustainability and performance improvement in the future.

¹ [The 2018/19 audit of NHS Highland](#), Audit Scotland, 2019.

² [NHS healthcare standards: Board performance escalation framework – gov.scot \(www.gov.scot\)](#)

10. The culture of NHS Highland has been a focus of public and Parliamentary attention and an independent review was commissioned following allegations of bullying and harassment in NHS Highland. Two of the critical actions within the Sturrock review, published in May 2019, were the completion of a culture survey in Argyll and Bute; and the development and approval of a healing process to support current and former colleagues.³ Both of these actions have been progressed.

11. NHS Highland is making progress under a more stable Leadership Team and financial management has strengthened alongside some improvements in governance and service delivery. However, it does continue to operate within a challenging financial environment. In common with all NHS boards, the Covid-19 global pandemic has had a significant impact on the focus and priorities of NHS Highland and the effect of this on its longer-term financial position and savings targets is still uncertain.

³ www.gov.scot/publications/report-cultural-issues-related-allegations-bullying-harassment-nhs-highland/

Findings

NHS performance escalation framework

12. In November 2018, in recognition of the challenging financial position and wider organisational and governance issues within NHS Highland, the board was escalated to Level 4 within Scottish Government's NHS Scotland Performance Escalation Framework.⁴ Additional support measures and initiatives were put in place to assist the board in returning to financial balance.

13. During March 2021, as part of the assessment of the latest Remobilisation Plans submitted by NHS boards, the Scottish Government undertook a review of boards' escalated positions. This review drew upon information from Remobilisation Plans as well as other relevant data to assess boards' strength in the following areas of performance: financial management; operational delivery; and governance and leadership. The review also considered any specific issues which were of particular concern at the time of escalation.

14. Following consideration of the outcome of that review, in June 2021, the Scottish Government moved NHS Highland from Level 4 down to Level 3 in the Escalation Framework, reflecting certain improvements in finance, governance, leadership, culture and mental health. The Scottish Government will monitor these areas to ensure that progress continues and the board is focused on these priorities.

Financial management

15. The auditor reported that they did not identify any significant audit risks in relation to the board's financial management arrangements. NHS Highland delivered a break-even position in 2020/21, achieving a surplus of £0.7 million against its Revenue Resource Limit (RRL). A break-even position was also achieved against the Capital Resource Limit (CRL) set. The board achieved this while operating in a period of considerable uncertainty and while responding to the considerable operational and financial challenges in managing the impact of Covid-19 on service delivery.

16. Despite realising a break-even position, NHS Highland continues to operate within a challenging financial environment. NHS Highland had forecast a financial gap of £37.7 million in 2020/21. The board had planned to meet this through efficiency savings of £28.9 million and brokerage of £8.8 million. However, the Scottish Government provided additional funding to health

⁴ [NHS healthcare standards: Board performance escalation framework – gov.scot \(www.gov.scot\)](https://www.gov.scot/publications/nhs-healthcare-standards-2018-2020/pages/10-12-board-performance-escalation-framework.aspx)

boards in 2020/21 to support financial gaps and also provide resource to implement the services required by each board in response to Covid-19.

17. In total NHS Highland received £57.3 million from the Scottish Government in 2020/21 to fund all costs associated with Covid-19. This included funding to cover the remobilisation of certain identified services, slippage on the Cost Improvement Programme during the year and the funding gap within Adult Social Care. Instead of brokerage, the Scottish Government provided additional funding of £8.8 million, equivalent to the original brokerage requirement that the board had identified for 2020/21.

18. The board delivered total efficiency savings of £20.7 million in 2020/21, £5.4 million (26%) of which were recurring savings. The £8.2 million of savings which were not delivered were covered by the Scottish Government as part of the Covid-19 funding package received (paragraph 17).

Financial sustainability

19. For 2021/22, the Scottish Government asked NHS boards to produce a one-year financial plan, taking into consideration the impact of Covid-19 on service delivery and finances.

20. NHS Highland's financial plan has been built on the basis of a baseline uplift of 1.5% (£10.0 million) and a budgeted uplift of £16.4 million, resulting in a total baseline uplift of £26.4 million ([Exhibit 1, page 7](#)). The budgeted uplift of £16.4 million is NHS Highland's share of the £30.2 million being provided nationally to maintain NHS boards within 0.8% of NRAC parity.⁵

⁵ Certain factors, such as demographic changes, rurality and deprivation, can affect demand for services and can make it more costly for boards to deliver services. The Scottish Government uses a formula developed by the NHS Scotland Resource Allocation Committee (NRAC) to assess how much funding each board should be allocated. The NRAC formula considers the demographics of each board area, including population size, deprivation levels and unavoidable geographical variations in the cost of providing services.

Exhibit 1**Key assumptions and cost pressures in NHS Highland's 2021/22 financial plan**

2021/22	£ million
Baseline uplift	26.4
Anticipated additional allocations	26.1
Additional Resource	52.5
Pressures brought forward from earlier years	(34.3)
Pay uplifts 2021/22	(13.0)
Inflation uplifts 2021/22	(15.7)
Non-Covid-19 cost pressures	(0.7)
Additional pressure associated with remobilisation	(21.7)
Total Pressures	(85.4)
Required savings	(32.9)

Source: NHS Highland Annual Audit Report 2020/21

21. An estimate of Covid-19 costs for 2021/22 and beyond has been included within the financial plan, with these costs being identified separately from other pressures. The board has assumed that separate funding will be provided in relation to Covid-19 costs in addition to its baseline allocation in 2021/22. The board has recognised that elements of costs included within the financial plan may potentially become part of core services in the future, but the longer-term funding position is currently unclear.

22. Total planned Covid-19 costs for 2021/22, and which will be fully funded by the Scottish Government, is £29.0 million which includes key costs such as:

- the vaccination programme (£5.4 million)
- test and protect (£1.2 million)
- hospital scale-up costs (£3.4 million)
- remobilisation costs (£2.3 million).

23. The financial plan requires £32.9 million of savings to be delivered through the board's Cost Improvement Programme. The associated savings plan is being developed through the Programme Management Office (PMO) and is being monitored by the Financial Recovery Board.

24. The board anticipates that the savings will be delivered via the following workstreams ([Exhibit 2](#)):

Exhibit 2

Anticipated savings workstreams 2021/22

2021/22	£ million
Managed via Programme Management Office	25.1
Adult Social Care – delivered in partnership with Highland Council	3.3
Non-recurring savings	4.5
Total	32.9

Source: NHS Highland Annual Audit Report 2020/21

25. The board has acknowledged that its 2021/22 Cost Improvement Plan is challenging and that the risk around delivery should be recognised. NHS Highland is not currently budgeting for a financial brokerage requirement from Scottish Government for the 2021/22 financial year.

Cost pressures

Reliance on locum and agency staff

26. Previous Section 22 reports have highlighted that NHS Highland needed to address its reliance on locum and agency staff in order to achieve long-term financial sustainability.

27. Covid-19 pressures have increased the board's requirements for locum and supplementary staffing, and delayed plans for the development of an Attraction, Recruitment and Retention Strategy. Nonetheless, the board has made progress in recruiting permanent medical and nursing staff, despite the impact of Covid-19. It has filled 21 hard-to-fill consultant positions in the last year, including in the Rural General Hospitals (Caithness General, Belford, and Lorn and Islands), as well as 62 newly qualified nurses and midwives. The board also took the management of locums back in-house in October 2020 to better control spending and rates. Turnover has reduced consistently from 10.3 per cent in April 2019 to 7.9 per cent in Feb 2021.

28. NHS Highland has established a Workforce Board, with workstreams established to take forward development of the Attraction, Recruitment and Retention Strategy as well as succession plans. The board hopes that establishment reviews and a major nursing and midwifery recruitment campaign will further build on the progress made and capitalise on the increase in applications to work at NHS Highland which have been seen during 2020/21.

Adult social care

29. Since 1 April 2012, health and social care in the Highland region have been formally integrated through the lead agency model rather than the Integration Joint Board model adopted by other NHS boards and councils. As noted in previous Section 22 reports, the pressures arising from increasing demand from an ageing population and continued difficulty in achieving identified savings in adult social care have led to overspends in this area. Servicing a remote and rural population in the Highlands remains a factor in this underlying cost pressure. Under the current lead agency model, all risks in terms of increasing demand and costs lie with NHS Highland.

30. The Integration Scheme and Partnership Agreement was due for renewal at the end of June 2020. Given the challenges around dealing with the pandemic, the Scottish Government agreed to an initial review by the original June 2020 deadline and a later submission of a revised Integration Scheme by 1 April 2021.

31. A draft revised Integration Scheme is now in place and NHS Highland and Highland Council have agreed to meet the funding of the 2021/22 financial gap of £11.3 million as follows:

- £4.0 million – funding held by Highland Council for 2020/21 that was not required in 2020/21 will be provided in 2021/22 instead.
- £2.0 million – contribution from NHS Highland.
- £2.0 million – contribution from Highland Council.
- £3.3 million – savings target for Adult Social Care, delivered in partnership by NHS Highland and Highland Council.

Cost model

32. Apart from these specific financial pressures, one of the main underlying issues was that the way in which services are delivered in NHS Highland is expensive compared to other areas, and the board needed to develop a more sustainable approach. The 2018/19 Section 22 report stated that as part of the board's recovery plans a Programme Management Office (PMO) had been set up to oversee a programme of service transformation and financial recovery plans. A recruitment exercise was run to appoint a permanent PMO director. This was unsuccessful so the board sought an external consultant to take on this work.

33. It was noted that external support had been valuable in providing NHS Highland with much needed capacity and momentum in putting in place its financial recovery programme. The report went on to highlight the importance of the board having a clear strategy for what it is seeking to achieve and how; and that the board should have a central role in leading and owning the recovery programme, ensuring clear lines of responsibility and accountability in the decisions that are taken.

34. The role and the remit of the PMO has been significant in bringing about the financial recovery that the board needed to ensure sustainability and performance improvement in the future. During 2019/20, NHS Highland made progress in developing the PMO operation. To support the board's financial recovery programme, the board secured an extension to the interim PMO director's contract to the end of the financial year. However, in 2020/21 a substantive PMO director is now in place with short-term mentoring support being provided by the previous appointee. Recruitment to other vacancies within the team has also been successful and the PMO will be fully staffed for the majority of 2021/22.

35. The PMO is responsible for supporting the development of cost improvement plans and providing project and programme management support in their delivery.

Leadership and governance

Leadership

36. NHS Highland's financial difficulties coincided with a time of significant organisational challenge and leadership team instability.

37. NHS Highland now has a stable leadership team in place. In October 2020, NHS Highland appointed a permanent chief executive who had been interim deputy chief executive since April 2020.

38. The board has initiated a succession planning workstream as part of its Workforce Board, and the Director of Human Resources attends a national group which has been recently established to look at succession planning across the health and social care system. NHS Highland intends to have its first round of succession plans in place by December 2021.

Sturrock review

39. The culture of NHS Highland has been a focus of public and Parliamentary attention after the previous Cabinet Secretary for Health commissioned an independent review following allegations of bullying and harassment in NHS Highland. The Sturrock Report was published in May 2019 and found that bullying or inappropriate behaviour had occurred.⁶

40. Two of the critical actions within the Sturrock review were the completion of a culture survey in Argyll and Bute; and the development and approval of a healing process to support current and former colleagues. Both of these actions have been progressed.

41. The survey within Argyll and Bute sought to understand the experience of bullying and harassment of NHS Highland colleagues within the Argyll and Bute Health and Social Care Partnership (HSCP). This review has concluded and highlighted that a significant number of NHS Highland colleagues have reported experiences of bullying. The main themes from the survey were in line with the

⁶ <https://www.gov.scot/publications/report-cultural-issues-related-allegations-bullying-harassment-nhs-highland/>

findings from the Sturrock Report and form part of the ongoing programme and action plan to transform the board's culture.

42. The Healing Process was co-produced with members of the whistleblowing group and staff and approved by the board in March 2020. This aimed to help both current and former employees deal with past experiences and gain resolution and support in a fair and non-judgemental setting. The launch of the Healing Process was postponed due to Covid-19.

43. The Healing Process opened for registration in May 2020 and closed to new registrants on 31 March 2021, with 309 registrations having been received in total. As of May 2021, 136 Independent Review Panel outcomes had been approved by the NHS Highland Remuneration Committee, which included 118 recommendations for financial payment and 18 with no payment requested or recommended. All panel recommendations have been accepted to date. The 118 financial payment recommendations made totalled £1.7 million.⁷

44. The costs of setting up, running and administering the process, including all elements other than the healing payments which have been incurred in this financial year, were £1.1 million. The costs of healing payments and the costs of setting up, running and administering the process have been funded by the Scottish Government in 2020/21. Further costs of running the process until all cases are concluded in early 2022 will also be funded by Scottish Government and will be recorded in the 2021/2022 accounts.

Governance

45. The auditor had previously identified weaknesses in the operation of the Board's Audit Committee. The Audit Committee, and its role in supporting effective scrutiny and challenge, was not as effective as it should be. Committee membership was revised during 2019/20 and again in 2020/21. The Committee now has a full complement of members and has co-opted an individual with specific audit experience during 2020/21. The Committee has also established greater rigour around implementation of Internal Audit recommendations.

46. The auditor also previously highlighted that risk management arrangements needed to be strengthened, including identification of strategic risks and mitigation actions, and ensuring a risk management culture exists across the organisation.

47. In 2020, the board held development sessions to revise the existing Corporate Risk Register and to create a Board Risk Assurance Framework (BRAAF). Each risk on the BRAAF is owned by an Executive Director and is aligned to a Governance Group. The BRAAF was adopted by the board in

⁷ Access to the Independent Review Panel is one of the options available to those who seek help through the Healing Process. The other options are: being heard, an apology and access to psychological therapies. The focus of the panel, which was held remotely in light of Covid-19, was on listening to, and understanding, each individual's experiences and circumstances and finding the resolution that is most likely to aid healing.

September 2020. Governance Groups now receive a report on the BRAF's relevant risks, along with associated operational risks for discussion.

48. NHS Highland revised its Risk Management Strategy and Policy during the year in line with the Board Risk Assurance Methodology. The board consulted on these during December 2020 with the final strategy and policy submitted for ratification by the Audit Committee. Risk management and associated risk registers have been considered at governance committee meetings throughout 2020/21 including the Finance, Resources and Performance Committee, the Clinical Governance Committee, and the Staff Governance Committee.

49. The auditor notes that further work is required to review and redefine some of the risks and the escalation process within the BRAF, however the auditor is satisfied that this is being managed by the Risk Management Steering Group, the Executive Directors Group and the Governance Groups aligned to the risks identified in the BRAF.

Conclusion

50. NHS Highland is making progress under a more stable Leadership Team, and financial management has strengthened alongside some improvements in governance and service delivery. However, the board continues to operate within a challenging financial environment. In common with all NHS bodies, the Covid-19 global pandemic has had a significant impact on the focus and priorities of NHS Highland and the effect of this on its longer-term financial position and savings targets is still uncertain.

51. It is essential that NHS Highland works to retain the new ways of working that have taken place as a result of Covid-19, as the board balances the ongoing demands of coronavirus with re-introducing the full range of NHS services that were interrupted. Achieving a balanced financial position depends on the successful delivery of the Cost Improvement Plan. The board has acknowledged that the Plan developed for 2021/22 is challenging.

52. Some of the challenges the board faces are not unique to NHS Highland and are being felt by boards across Scotland. The auditor will continue to monitor the board's performance and will report progress in the 2021/22 annual audit report to be published next year.

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