The Scottish Parliament
Pàrlamaid na h-Alba

PUBLIC AUDIT AND POST-LEGISLATIVE SCRUTINY COMMITTEE

AGENDA

24th Meeting, 2018 (Session 5)

Thursday 1 November 2018

The Committee will meet at 9.00 am in the Adam Smith Room (CR5).

1. **Decision on taking business in private:** The Committee will decide whether to take items 4, 5, 6 and 7 in private.

2. **Section 22 reports - The 2017/18 audit of NHS Ayrshire and Arran and the 2017/18 audit of NHS Highland:** The Committee will take evidence on the Auditor General for Scotland's reports entitled "The 2017/18 audit of NHS Ayrshire and Arran" and "The 2017/18 audit of NHS Highland" from—

   Caroline Gardner, Auditor General for Scotland;

   Leigh Johnston, Senior Manager, Performance and Best Value, Audit Scotland;

   Joanne Brown, Director, Grant Thornton UK LLP;

   Pat Kenny, Director, Deloitte LLP.

3. **Section 22 report - The 2017/18 audit of Scottish Government Consolidated Accounts:** The Committee will take evidence on the Auditor General of Scotland's report entitled "The 2017/18 audit of the Scottish Government Consolidated Accounts" from—

   Caroline Gardner, Auditor General for Scotland;

   Stephen Boyle, Assistant Director, and Michael Oliphant, Senior Audit Manager, Audit Scotland.

4. **Section 22 reports - The 2017/18 audit of NHS Ayrshire and Arran and the 2017/18 audit of NHS Highland:** The Committee will consider the evidence heard at agenda item 2 and take further evidence from—

Caroline Gardner, Auditor General for Scotland;

Leigh Johnston, Senior Manager, Performance and Best Value, Audit Scotland;

Joanne Brown, Director, Grant Thornton UK LLP;

Pat Kenny, Director, Deloitte LLP.

5. **Section 22 report - The 2017/18 audit of Scottish Government Consolidated Accounts:** The Committee will consider the evidence heard at agenda item 3 and take further evidence from—

   Caroline Gardner, Auditor General for Scotland;

   Stephen Boyle, Assistant Director, and Michael Oliphant, Senior Audit Manager, Audit Scotland.

6. **Post-legislative Scrutiny - Control of Dogs (Scotland) Act 2010:** The Committee will consider its approach to its post-legislative scrutiny of the Control of Dogs (Scotland) Act 2010.

7. **Work programme:** The Committee will consider its approach to its future scrutiny of the joint report by the Auditor General for Scotland and the Accounts Commission on "Children and young people's mental health".

Lucy Scharbert
Clerk to the Public Audit and Post-legislative Scrutiny Committee
Room T3.60
The Scottish Parliament
Edinburgh
Tel: 0131 348 5451
Email: papls.committee@parliament.scot

PAPLS/S5/18/24/A

The papers for this meeting are as follows—

Agenda item 2

Note by the Clerk	PAPLS/S5/18/24/1
PRIVATE PAPER	PAPLS/S5/18/24/2 (P)

Agenda item 3

Note by the Clerk	PAPLS/S5/18/24/3
PRIVATE PAPER	PAPLS/S5/18/24/4 (P)

Agenda Item 6

PRIVATE PAPER	PAPLS/S5/18/24/5 (P)

Agenda Item 7

PRIVATE PAPER	PAPLS/S5/18/24/6 (P)

Public Audit and Post-legislative Scrutiny Committee

24th Meeting, 2018 (Session 5), Thursday 1 November 2018

Section 22 reports – 2017/18 audits of NHS Ayrshire and Arran and NHS Highland

Introduction

1. At its meeting today, the Public Audit and Post-legislative Scrutiny Committee will take evidence from the Auditor General for Scotland on two section 22 reports—

    - 2017/18 audit of NHS Ayrshire and Arran
    - 2017/18 audit of NHS Highland

2. The Auditor General has prepared a briefing on the key messages from each report and these, along with the relevant report, are attached in the Annexe.

Clerks to the Committee
October 2018

Annexe

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

STATUTORY REPORT ON 2017/18 ACCOUNTS OF NHS AYRSHIRE & ARRAN

---

1. The Auditor General has prepared a report on the 2017/18 accounts of NHS Ayrshire and Arran. This report is made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 and is based on the annual audit report for NHS Ayrshire and Arran. The auditors gave an unqualified opinion on the accounts of NHS Ayrshire and Arran.

2. Key messages from the report are:

   - NHS Ayrshire and Arran faces significant financial and performance challenges. In 2017/18, NHS Ayrshire and Arran received £23 million in the form of brokerage from the Scottish Government. Without this financial support the board would not have met its target of achieving in-year financial balance. At the beginning of 2017/18 the board had initially identified a potential deficit of £13.2 million. However, additional nursing costs associated with the need to keep 100 additional unscheduled care beds open during 2017/18 subsequently increased the deficit to £23 million.
   - Over recent years NHS Ayrshire and Arran has relied on non-recurrent savings, but this situation is not sustainable. In 2017/18, £14.7 million (60 per cent) of savings were achieved on a recurring basis, which is a significant reduction from 2016/17, where £20.2 million (83 per cent) were achieved on a recurring basis.
   - Identifying efficiencies alone will not lead to a balanced budget. To address the challenges, NHS Ayrshire and Arran needs to transform how it delivers services in the medium to long term as cost increases continue to outpace funding increases. The board's Transformation Change Improvement Plan 2017-20 is critical to delivering efficiency savings and to achieve financial balance over the medium term.
   - PwC reviewed the board's approach to efficiency and transformation and concluded that current plans are not substantial enough to achieve long term financial sustainability. This represents a significant leadership challenge and the Scottish Government has provided tailored support to the board and an Improvement Director is now in post.
   - The board is projecting a deficit of £22.4 million in 2018/19. This budget is based on the board achieving £26.1 million of savings in 2018/19, but £9.7 million of these savings have yet to be identified or are high risk. A draft three-year financial plan

submitted by the board to Scottish Government, shows an additional £13 million projected overspend in 2019/20 before achieving a balanced budget in 2020/21.

- The recommendations made by the external review of the board's approach to efficiency and transformation are sound and reflect issues identified through local audit work. Implementing the recommendations will be challenging given the scale of the pressures in NHS Ayrshire and Arran.
- It is important that the NHS board puts in place a realistic action plan accompanied by the capacity and resources required to deliver it, in order to address the issues it faces, while also recognising that some of the changes will take time to fully implement.

3. Since the publication of this report there have been a number of developments from Scottish Government which have implications for NHS Ayrshire and Arran’s financial sustainability going forward:

    - In October 2018, the Scottish Government published its Medium Term Health and Social Care Financial Framework. This Medium Term Financial Framework sets out in more detail the potential approach and type of initiatives required to ensure continued delivery of a financially balanced and sustainable Health and Social Care system.

    a. Alongside the publication of the health and social care financial framework, the Cabinet Secretary for Health and Sport announced that NHS boards will no longer be required to break even at the end of each financial year. Instead, they will be required to break even every three years. This should provide NHS boards and Integration Authorities with greater flexibility in planning and investing over the medium to longer-term to achieve the aim of delivering more community-based care.

    b. The Cabinet Secretary also announced that all outstanding brokerage will be written-off at the end of the 2018/19 financial year.

    c. The committee will want to understand how this will impact on the situation in the short, medium and longer term for NHS Ayrshire and Arran.

The 2017/18 audit of NHS Ayrshire and Arran

Financial sustainability

AUDITOR GENERAL

Prepared by Audit Scotland
October 2018

MENU

Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: www.audit-scotland.gov.uk/about-us/auditor-general

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction

1. I have received audited accounts and the auditor's report for NHS Ayrshire and Arran for the year ended 31 March 2018. I submit these accounts and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report, which I have prepared under section 22(3) of the Act.

2. The purpose of this report is to draw Parliament's attention to the scale of the challenge NHS Ayrshire and Arran faces in meeting its financial targets and to provide an update on the work that is currently under way to address these pressures.

Summary

3. In 2017/18, NHS Ayrshire and Arran received £23 million (2.8 per cent of its baseline revenue resource limit (RRL)) in brokerage from the Scottish Government, to help it achieve in-year financial balance. The Scottish Government can agree to provide an NHS board with additional funding to help manage unexpected changes to planned expenditure. This is a form of loan funding known as brokerage. It is arranged based on assurance from the board that it can repay the brokerage over an agreed period.

4. Key cost pressures for the board in 2017/18 which contributed to the need to seek brokerage were: keeping hospital beds open to manage demand that was not budgeted for; unachieved cash releasing efficiency savings (CRES); and underlying financial pressures carried forward from 2016/17.

5. NHS Ayrshire and Arran has relied on non-recurrent savings in recent years but this situation is not sustainable. In 2017/18, £14.7 million (60 per cent) of savings were achieved on a recurring basis, which is a significant reduction from 2016/17, where £20.2 million (83 per cent) were achieved on a recurring basis.

6. Identifying efficiencies alone will not lead to a balanced budget. Transformational change to services in the medium to long term is needed as cost increases continue to outpace funding increases. The board's Transformation Change Improvement Plan 2017-20 (TCIP) is critical to delivering efficiency savings and to achieve financial balance over the medium term. PwC reviewed the board's approach to efficiency and transformation and concluded that current plans are not substantial enough to achieve long term financial sustainability. This represents a significant leadership challenge and the Scottish Government has provided tailored support to the board and an Improvement Director is now in post.

7. NHS Ayrshire and Arran's performance is variable across the national standards set by NHS Scotland. There has been a decline in performance compared to the previous year, where the number of indicators which were below an acceptable standard increased from seven in 2016/17 to ten in 2017/18. There are significant performance issues to be addressed and the board has identified key actions as part of the 2018/19 Annual Operational Plan.

8. The board faces an extremely challenging financial position, making it difficult to achieve financial balance. In 2018/19, the board is projecting a deficit of £22.4 million which will require additional brokerage from the Scottish Government. This budget is based on the board achieving £26.1 million of savings in 2018/19, but £9.7 million of these savings have yet to be identified or are high risk.

9. A draft three-year financial plan submitted by the board to Scottish Government, shows an additional £13 million projected overspend in 2019/20 before a balanced budget is projected in 2020/21.

Auditor's opinion

10. The auditor issued an unqualified audit opinion on the 2017/18 financial statements. He highlighted the financial pressures on the board in his accompanying report.

Findings

What is the extent of the financial challenge facing NHS Ayrshire and Arran?

11. NHS Ayrshire and Arran continue to experience significant cost pressures in 2017/18 and required financial assistance from the Scottish Government, in the form of brokerage, to breakeven. Net expenditure was £859 million, 3.7 per cent higher than the £828 million reported in 2016/17. Some of the increase in costs is not wholly within the control of the board e.g. pay increases and the apprenticeship levy, but the board's overall operating costs remain too high.

12. NHS Ayrshire and Arran has received £23 million of brokerage from the Scottish Government in 2017/18 to help it achieve in year financial balance (Exhibit 1). A repayment plan is yet to be agreed and brokerage repayment costs are not yet included in the planned savings figures set out in this report. The board anticipates that it will require a further £22.4 million of brokerage in 2018/19.

Exhibit 1

NHS Ayrshire and Arran financial outturn, 2017/18

2017/18	Core revenue resource limit (£ million)	Non-core revenue resource limit (£ million)	Core capital resource allocation (£ million)	Non-core capital resource allocation (£ million)	Savings (£ million)
Final allocation	779.7	34.7	8.6	0	24.8 (target)
Outturn	779.5	34.7	8.6	0	24.8 (100% of savings target achieved)
Brokerage	23	-	-	-	
Reported final outturn	0.2 (surplus)	0	0	0	24.8 (40% of savings achieved are non-recurring)

Source: NHS Ayrshire and Arran Annual Report and Accounts For Year Ended 31 March 2018

What are the main factors that have contributed to the financial challenge facing NHS Ayrshire and Arran?

13. The board's local delivery plan for 2017/18 initially identified a potential deficit of £13.2 million for 2017/18. However, due to additional nursing costs associated with the need to keep 100 additional unscheduled care beds open during 2017/18 increased the deficit to £23 million by March 2018.

14. The main overspends relate to:

- Acute services overspent by £11.5 million, compared to an overspend of £6.9 million in 2016/17. This is mainly as a result of meeting the demand for unscheduled care arising from increasing emergency admissions as well as a high number of patients who are fit for discharge remaining in acute hospital beds.
- Corporate resource and reserves overspent by £13.5 million, compared to an underspend of £5.3 million in 2016/17. This arose due to the underlying financial pressures of £13.2

million carried forward from 2016/17, partly offset by one off benefits such as capital to revenue transfers. The final position was also affected by additional funding provided to the Health and Social Care Partnerships to fund overspends of £2.5 million in primary care prescribing and £0.97 million in mental health and elderly services in the North Partnership.

15. The board delivered £24.8 million efficiency savings in 2017/18 (3 per cent of baseline RRL). Whilst this is in line with the savings achieved in 2016/17, only 60 per cent of the savings (£14.7 million) were achieved on a recurring basis and can therefore be realised on an annual basis going forward. In 2017/18, £10.1 million (40 per cent) of savings were non-recurring. Non-recurring savings are one-off savings that apply only to one financial year, and do not result in recurring savings in future years. While it can be appropriate to have some non-recurring savings, recurring savings are needed to help NHS boards to continue to meet their financial commitments.

Are the financial pressures facing NHS Ayrshire and Arran having an impact on service delivery?

16. NHS Scotland has a series of national standards, known as the Local Delivery Plan (LDP) standards, which contribute towards delivery of the Scottish Government's Purpose and National Outcomes and NHS Scotland's Quality Ambitions. There are 20 non-financial standards and NHS Ayrshire and Arran's performance is variable. Of the total 20 standards, eight were categorised as "achieving standard", with two "requiring improvement" and ten with performance "below acceptable limits". This is a decline in performance compared to the previous year. The number of indicators which were below an acceptable standard increased from seven in 2016/17 to ten in 2017/18.

17. There are significant performance issues to be addressed and the following key actions have been put in place as part of the 2018/19 Annual Operational Plan:

- Reduction in unplanned admissions
- Reduction in admissions from Emergency Department
- Reduction in occupied bed days for unscheduled care
- Reduction in attendance at Emergency Department
- Reduction in delays in discharge from hospital
- Increase in time spent at home or in a community setting in last six months of life.
- Maintain balance of care for all ages

18. The focus of transformational change cannot be solely on achieving financial efficiencies, but that the nature and extent of services must change fundamentally in order to improve standards of care in line with national reporting standards and within the means of the annual budget.

19. Several demand management programmes have been piloted in order to move demand away from acute care. These have been successful on a small scale, but that success is yet to be

translated to more systemic change. Currently the board is focusing on admissions data to determine underlying factors driving demand and how this can be addressed. A key factor is the older age profile and high levels of deprivation in the Ayrshire and Arran population.

What work is currently under way to address the financial pressures facing NHS Ayrshire and Arran?

20. The board is facing an extremely challenging position which will make it difficult to achieve financial balance in the medium term. The financial plan forecasts a deficit of £22.4 million in 2018/19. The draft three-year financial plan shows a further £13 million deficit in 2019/20, with a breakeven position expected from 2020/21.

21. The 2018/19 forecasted deficit position assumes £26.1 million of savings to be achieved and an additional £22.4 million of brokerage to breakeven. Efficiency savings will play a crucial part in bridging the gap, however, £9.7 million of the 2018/19 savings have yet to be identified or are high risk therefore the gap could be larger. Given the difference between the initial budget and final outturn position in 2017/18, auditors have highlighted a potential weaknesses that need to be addressed to give assurance that the projections are accurate.

22. In setting its budget, the board has recognised that a number of risks exist, such as demand and demographic changes, with financial challenges of £70 million identified for 2018/19, which has only been partly offset by additional funding and identified savings, leaving a net funding gap of £22.4 million. The key areas of targeted budget savings are as follows:

- closing unfunded beds - £4 million
- workforce costs - £3 million
- GP prescribing costs - £2.7 million.

23. The 2017/18 annual audit report reported that there is currently a lack of attention being given to detailed medium to long term financial planning by the board.

24. NHS Ayrshire and Arran has been reliant on non-recurrent savings in recent years but this situation is not sustainable as it only buys the board breathing space in the short term. In 2017/18, £14.7 million (60 per cent) of savings were achieved on a recurring basis, which is a significant change from 2016/17, where £20.2 million (83 per cent) were achieved on a recurring basis (Exhibit 2)

Exhibit 2

Savings achieved and forecast 2015/16 to 2018/19 (£million)

	2015/16	2016/17	2017/18	2018/19
Recurring	12.5	20.8	14.7	22.2
Non-recurring	6.6	4.2	10.1	3.9
Total	19.1	25	24.8	26.1
% recurring	65	83	60	87
% of baseline RRL	2.6	3	2.9	2.9

Source: NHS Ayrshire and Arran Annual Report and Accounts For Year Ended 31 March 2018

25. NHS Ayrshire and Arran's Transformation Change Improvement Plan 2017-2020 (TCIP) sets out its vision as "*meeting the health and social care needs of our population by transforming what we do*". The key aims of the plan are to:

- improve the patient experience of care (including quality and satisfaction)
- improve the health of populations
- reduce the per capita cost of health care.

26. Following discussion with the Scottish Government in June 2017, NHS Ayrshire and Arran agreed to work with an external partner to review the board's approach to efficiency and transformation. PwC were appointed and carried out a diagnostic review. Further discussions with the Scottish Government in early 2018 resulted in an offer by the Scottish Government of tailored support to the board and an Improvement Director was engaged by the board. Key findings and recommendations made in the PwC diagnostic review were as follows:

- the funding gap in a 'do nothing' scenario could reach 16 per cent of annual funding available by 2020/21
- there is an urgent need to improve the pace of change, coordination and operational grip through the transformation programmes
- there is an urgent need to measure the planned financial benefits of each transformation programme and to perform robust cost-benefit analyses of any plans going forward
- current transformation plans are unlikely to close the financial gap and greater long term transformation plans are required
- the governance structures, including programme management office, and capacity in place are not adequate to achieve successful scrutiny and delivery of the transformation programme.

27. The board has since evaluated the findings and recommendations raised and implemented a number of changes, including:

- a Workforce Scrutiny Group has been established to constructively challenge recruitment processes in place
- transformation decision making is now linked to stronger financial reporting processes
- a cultural change programme is underway to achieve the buy-in of staff and ensure their shared responsibility for the success of the transformation programme
- the pace of closing unfunded beds and shifting demand towards under-utilised sites has increased
- IT solutions implemented to reduce GP referral and outpatient follow-up.

28. Implementation of the TCIP and changing the way services are delivered will be critical in reducing costs and delivering recurring savings.

Conclusion

29. Given the factors outlined above, there is a high risk that NHS Ayrshire and Arran will not achieve its financial plans for 2018/19 and will require more than the anticipated £22.4 million brokerage from the Scottish Government.

30. At this stage, I am not confident that a breakeven position will be achieved by 2020/21 as set out in the boards plan. NHS Ayrshire and Arran have still to agree a repayment plan and brokerage repayment costs are not yet included in the planned savings figures.

31. The recommendations made by the external review of the board's approach to efficiency and transformation are sound and reflect issues identified through local audit work. Implementing the recommendations will be challenging given the scale of the pressures in NHS Ayrshire and Arran. It is important that the NHS board puts in place a realistic action plan accompanied by the capacity and resources required to deliver it, in order to address the issues it faces, while also recognising that some of the changes will take time to fully implement.

Appendix 1 - Performance against non-financial LDP standards

Target/ standard	Performance at March 2018	Comment/ position statement
Detect Cancer Early Percentage of people diagnosed and treated in the first stage of breast, colorectal and lung cancer **Standard - 25%**	**26%** **(16/17 - 25%)** **(Scottish Average - 26%)**	Through the Detect Cancer Early programme, NHS Ayrshire and Arran are ensuring that over a quarter of patients being diagnosed with breast, lung and colorectal cancers are diagnosed at the earliest stage, exceeding the challenge set within the LDP standards. There is no consistent trend across the cancer specialities and drops below standard tend to be as a result of specific issues within individual patient journeys including diagnostic tests at regional centres.
Cancer Treatment Percentage of patients beginning treatment within 31 days of decision to treat **Standard: 95%**	**99%** **(16/17 - 100%)** **(Scottish Average - 94%)**	This standard has been achieved throughout 2017/18. NHS Ayrshire and Arran recognise that by detecting cancer at an early stage, they will give every patient the best chance of a positive outcome.
Cancer Treatment Percentage of patients beginning treatment within 62 days of urgent referral **Standard: 95%**	**86%** **(16/17 - 96%)** **(Scottish Average - 85%)**	Breach analyses are completed for each patient and these are sent to the General Manager and Lead Clinician to ensure learning points are identified and actions.
Dementia Post Diagnostic Support Percentage of people newly diagnosed with a year's worth of post diagnosis support**.** **Standard:** 100%	**93%** **(16/17 - N/A)** **(Scottish Average - 85%)**	NHS Ayrshire and Arran have noted that data has only recently started to be reported and it is understood that improvements will be made in the accuracy of data over the coming months.

Target/ standard	Performance at March 2018	Comment/ position statement
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG **Standard: 100%**	● **74%** **(16/17 - 83%)** **(Scottish Average - 76%)**	During the winter months several hundred orthopaedic elective operations had to be cancelled due to emergency demand. Close scrutiny continues to take place, as well as financial support in recent months by the Scottish Government to help control local waiting list management more effectively.
18 weeks Referral to Treatment (RTT) Percentage of patients seen and treated within 18 weeks from initial referral. **Standard: 90%**	● **79%** **(16/17 - 71%)** **(Scottish Average - 81%)**	Individual specialities continue to implement, monitor and report on their remedial action reports detailing their projected position and outcomes which is monitoring on a weekly basis at both Acute Hospital sites, chaired by the Assistant Directors of Acute Services, and on a monthly basis by the Director of Acute Services. A weekly update on the outpatient stage of treatment situation is also provided to the Scottish Government. Until pressures are alleviated it is unlikely that results will be reversed in the short term. It is hoped that the improving position with outpatient stage of treatment performance will produce a corresponding improvement in the 18 week RTT performance.
12 Weeks First Outpatient Appointment Percentage of patients waiting no more than 12 weeks from referral to first outpatient appointment **Standard: 95%**	● **85%** **(16/17 - 80%)** **(Scottish Average - 75%)**	Individual specialities continue to implement, monitor and report on remedial action reports detailing their projected position and outcomes. This is monitored on a weekly basis through an Access Group at both Acute Hospital sites, chaired by the Assistant Directors of Acute Services, and on a monthly basis by the Director of Acute Services. A weekly update on the outpatient stage of treatment situation is also provided to the Scottish Government. Until pressures are alleviated it is unlikely there will be a significant improvement in results in the short term.

Target/ standard	Performance at March 2018	Comment/ position statement
Antenatal care Percentage of pregnant women in each SIMD quintile will have booked for antenatal care by the 12th week of gestation **Standard: 80%**	**81%** **(1617 - 88%)** **(Scottish Average - 86%)**	This standard has been achieved in 2017/18.
IVF Waiting Times Eligible patients will commence IVF treatment within 12 Months of referral. **Standard: 90%**	**100%** **(16/17 - 100%)** **(Scottish Average - 100%)**	This standard has been achieved in 2017/18.
Child and Adolescent Mental Health Services (CAMHS) Waiting Times Percentage of patients seen within 18 weeks **Standard: 90%**	**98%** **(16/17 - 97%)** **(Scottish Average - 71%)**	This standard has been achieved in 2017/18. This has consistently been above the 90% standard since January 2017.
Psychological therapy Percentage of patients to start treatment within 18 weeks of referral **Standard: 90%**	**87%** **(16/17 - 77%)** **(Scottish Average - 78%)**	A whole system review of psychological services has been carried out, supported with additional Government funding and investment in improving access to Psychological Therapies. This is to ensure compliance with waiting times and improvements towards achieving the required LDP Standard. A number of service improvement initiatives and test of change pilots have been implemented with development of an action plan to ensure targeted improvements of the delivery standard.

Target/ standard	Performance at March 2018	Comment/ position statement
Clostridium Difficile Infections Rate of infections in patients aged 15 and over, per 1,000 total occupied bed days **Standard: 0.32**	**0.3** **(16/17 - 0.3)** **(Scottish Average -0.27)**	The rate (rolling annual rate) of Clostridium Difficile infections remains below the maximum of 0.32 cases per 1000 total occupied bed days in patients aged 15 years and over. The Infection Prevention and Control Team continue to audit each case of CDI and ensure infection control precautions are being properly implemented to minimise the risk of onward transmission.
Staphylococcus Aureus Bacteraemia (SABs) Rate of SABs per 1,000 total occupied bed days **Standard: 0.24**	**0.27** **(16/17 - 0.25)** **(Scottish Average - 0.33)**	There has been an increase in the number of cases with an unknown point of entry. Further reviews are being carried out on the cases with an unknown point of entry to establish the reason for the increase. Renal services undertake root cause analysis of all renal related SABs and the learning from these are shared at multi-disciplinary team meetings
Drug and alcohol treatment Percentage of patients seen within 3 weeks **Standard: 90%**	**99%** **(16/17 - 96%)** **(Scottish Average - 94%)**	The number of clients waiting no longer than 3 weeks from date referral received to appropriate drug or alcohol treatment that supports their recovery continues to be well above the 90% standard throughout the year.
Alcohol Brief Interventions Annual brief interventions in the 3 priority areas of primary care, A&E and antenatal. **Standard: 4,275**	**4,019** **(16/17 - 3,535)** **(Scottish Average - N/A)**	NHS Ayrshire and Arran continues to comfortably exceed the trajectories set to meet this standard.
Smoking cessation Sustain and embed successful smoking quits, at 12 weeks post quit, in the 40%	**349** **(16/17 - 404)**	An information campaign has been implemented to increase awareness of the service which is expected to result in a risk in people having successfully refrained from smoking after 12 weeks. It should be noted however that

Target/ standard	Performance at March 2018	Comment/ position statement
most deprived SIMD areas in the NHS Board area **Standard: 681**	**(Scottish Average - N/A)**	there are fewer cigarette smokers and therefore it will become increasingly difficult to achieve reductions in people smoking, particularly with an increased standard.
48 Hour Access - GP Practice Team Percentage of patients who were able to obtain a consultation with a GP or appropriate healthcare professional within 2 working days of initial contact. **Standard: 90%**	**92%** **(16/17 - 91%)** **(Scottish Average - 93%)**	The standard continues to be met during 2017/18. As a result of the Advance Booking GP LDP measure is linked to the 48 hour access measure, achievement against this target means that overall achievement has been reached, even though the Advanced Booking measure itself is below target.
Advance Booking - GP Percentage of patients who were able to book a consultation with a GP more than 2 working days in advance **Standard: 90%**	**76%** **(16/17 - 76%)** **(Scottish Average - 68%)**	The figures for this standard are taken from GP Access Survey which is conducted every two years. The performance against this target will be reviewed when the Patient Experience Survey is repeated.
Sickness absence rate Maximum sickness absence rate every 12 month period. **Standard: 4%**	**5.3%** **(16/17 - 5.1%)** **(Scottish Average - 5.4%)**	The following actions to improve performance are being undertaken by the board: • monthly hotspot reports continue to be produced with focused resource within those areas identified in order to audit processes and test understanding of the application of the policy • local action plans are put in place to address any issues identified above • monthly training sessions scheduled throughout the year

Target/ standard	Performance at March 2018	Comment/ position statement
		• promoting attendance and wellbeing training also continues to be a focus of the Line Manager Development Programme • monthly case management meetings with Occupational Health are undertaken to ensure consistency in the support being offered to staff absent on a long term basis.
4 hour A&E Percentage of all attendances seen within 4 hours **Standard: 95%**	**91%** **(16/17 - 93%)** **(Scottish Average - 91%)**	Ayr combined assessment unit opened in June 2017 following the opening of Crosshouse a year earlier. This has helped to reduce A&E attendances at both sites. Winter pressures have placed great strain on both A&E departments causing a reduction in performance against the four hour target. ,

Sources:

1. NHS Ayrshire and Arran annual report and accounts and NHS Ayrshire and Arran 2017/18 annual audit

2. LDP Standards Reporting 2017/18 Mid-Year Report

Key

Currently below acceptable limits (more than 5% below standard)

Currently requiring improvement (no more than 5% below standard)

Currently achieving standard

The 2017/18 audit of NHS Ayrshire and Arran

Financial sustainability

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500
or **info@audit-scotland.gov.uk**

For the latest news, reports and updates, follow us on:

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk

ISBN 978 1 911494 77 5

Annexe

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

STATUTORY REPORT ON 2017/18 ACCOUNTS OF NHS HIGHLAND

---

1. The Auditor General has prepared a report on the 2017/18 accounts of NHS Highland. This report is made under Section 22 of the Public Finance and Accountability (Scotland) Act 2000 and is based on the annual audit report for NHS Highland. The auditors gave an unqualified opinion on the accounts of NHS Highland.

2. NHS Highland was subject to a previous section 22 report in 2013/14 which highlighted financial pressures and weaknesses in financial management. The board required brokerage of £2.5 million mainly due to an overspend on the operating costs for Raigmore Hospital. The brokerage was repaid in full by the board in 2016/17. The Public Audit Committee carried out an inquiry into the board's financial management and produced its own report in June 2015.

3. Key messages from the current report are:

   - The board faces an extremely challenging position in 2018/19 and beyond. It will be increasingly difficult for the board to achieve financial balance in the medium term. NHS Highland has historically found it difficult to achieve savings on a recurring basis while identifying new service models and maintaining the required workforce to deliver services.

   - In 2017/18, NHS Highland received £15 million in the form of brokerage from the Scottish Government. Without this financial support the board would not have met its target of achieving in-year financial balance.

   - The board identified that £50 million of savings were required to be delivered in order to achieve a balanced financial position. Actual savings of £35 million were delivered in 2017/18, although only £10million of this was achieved on a recurring basis.

   - Key cost pressures for the board in 2017/18, which contributed to the need to seek brokerage were: increasing costs associated with prescribing; adult social care; and failure to achieve a more sustainable workforce model, alongside an inability to deliver on the planned savings in these areas.

- To achieve financial balance in 2018/19, the board needs to deliver £52 million in savings. As at August 2018, the board had plans to achieve savings of £30 million, which leaves a funding of NHS Highland to meet this gap and the board was forecasting a requirement of brokerage of £19 million to £22 million.

- Recognising the board's current capacity, it is difficult to foresee the board achieving a breakeven financial position within the three years planned. In particular, service redesign and new models of care will be required which will take time to consult on, and then implement.

- Stability in the future leadership of the board will be required to deliver the financial plans and strengthen wider governance and it is anticipated the financial challenges the board faces will deteriorate before improvement can be achieved.

- Fostering an organisational culture that is open and ready to address the challenges ahead will be important.

4. Since the publication of this report there have been a number of developments from Scottish Government which have implications for NHS Highland's financial sustainability going forward:

    - In October 2018, the Scottish Government published its Medium Term Health and Social Care Financial Framework. This Medium Term Financial Framework sets out in more detail the potential approach and type of initiatives required to ensure continued delivery of a financially balanced and sustainable Health and Social Care system.

    a. Alongside the publication of the health and social care financial framework, the Cabinet Secretary for Health and Sport announced that NHS boards will no longer be required to break even at the end of each financial year. Instead, they will be required to break even every three years. This should provide NHS boards and Integration Authorities with greater flexibility in planning and investing over the medium to longer-term to achieve the aim of delivering more community-based care.

    b. The Cabinet Secretary also announced that all outstanding brokerage will be written-off at the end of the 2018/19 financial year.

    c. The committee will want to consider the implications for these changes to the situation in NHS Highland.

The 2017/18 audit of NHS Highland

Financial sustainability

AUDITOR GENERAL

Prepared by Audit Scotland
October 2018

MENU

Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: www.audit-scotland.gov.uk/about-us/auditor-general

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction

1. I have received audited accounts and the auditor's report for NHS Highland for the year ended 31 March 2018. I submit these accounts and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report, which I have prepared under section 22(3) of the Act.

2. The purpose of this report is to draw Parliament's attention to the scale of the challenge NHS Highland faces in meeting its financial targets and to provide an update on the work that is currently under way to address these pressures.

Summary

3. In 2013/14, I produced a section 22 report highlighting financial pressures and weaknesses in financial management in HNS Highland.[1] The board required brokerage of £2.5 million mainly due to an overspend on the operating costs for Raigmore Hospital. The brokerage was repaid in full by the board in 2016/17.

4. After considering my report on the 2013/14 audit of NHS Highland, the Public Audit Committee (PAC) carried out an inquiry into the board's financial management and produced its own report[2] in June 2015. The PAC made a number of recommendations for NHS Highland and the Scottish Government. Then in October 2015, I provided an update to Parliament on NHS Highland's progress in addressing the issues raised in my 2014 report[3].

5. In 2017/18 NHS Highland received £15 million in the form of brokerage from the Scottish Government. Without this financial support the board would not have met its target of achieving in-year financial balance. The board were formally notified of the need for brokerage in October 2017 and were kept informed of the financial position throughout the financial year.

6. The board identified at the outset of the financial year that £48 million of savings were required to be delivered in order to achieve a balanced financial position. During the year, additional cost pressures of £1.5 million, primarily in adult social care operating costs and cost of drugs in short supply, led to an increase in the savings required. Actual savings of £35 million were delivered in 2017/18, although only £10million of this was achieved on a recurring basis. The shortfall of £15 million was sought from the Scottish Government.

7. Key cost pressures for the board in 2017/18, which contributed to the need to seek brokerage were: increasing costs associated with prescribing; adult social care; and failure to achieve a more sustainable workforce model, alongside an inability to deliver on the planned savings in these areas.

[1] The 2013/14 audit of NHS Highland: Financial management, Audit Scotland, October 2014.
[2] Report on NHS Highland 2013-14: Financial management, Public Audit Committee, June 2015
[3] The 2014/15 audit of NHS Highland: Update on 2013/14 financial management issues, Audit Scotland, October 2015.

8. To achieve financial balance in 2018/19, the board needs to deliver £52 million in savings. As at August 2018, the board had plans to achieve savings of £30 million, which leaves a funding of NHS Highlandto meet this gap and the board was forecasting a requirement of brokerage of £19 million to £22 million.

9. The board faces an extremely challenging position in 2018/19 and beyond. It will be increasingly difficult to achieve financial balance in the medium term. The board has historically found it difficult to achieve savings on a recurring basis while identifying new service models and maintaining the required workforce to deliver services.

10. The board is discussing brokerage requirements for 2018/19 with the Scottish Government and is producing a longer term financial recovery plan. Within the plan, it intends to demonstrate how it will achieve in-year financial balance without requiring brokerage from 2021/22 at the earliest.

11. The Chief Executive leaves the board at the end of December 2018 and the Director of Finance is acting on an interim basis. This creates risks around the future leadership of the board alongside the need to improve governance as a result of an external governance review, published in July 2018. Fostering an organisational culture that is open and ready to address the challenges ahead will be important.

12. It is important that the board puts in place an action plan accompanied by the necessary capacity and resources to deliver it, in order to address the issues the board are facing, whilst recognising that the necessary change will take time to implement.

Auditor's opinion

13. The auditor issued an unqualified audit opinion on the 2017/18 financial statements. She highlighted the financial pressures on the board in her accompanying report.

Findings

What is the extent of the financial challenge facing NHS Highland?

14. The Scottish Government can agree to provide an NHS board with additional funding to help manage unexpected changes to planned expenditure. This is a form of loan funding known as brokerage. It is arranged based on assurance from the board that it can repay the brokerage over an agreed period. In 2017/18, NHS Highland received £15 million in the form of brokerage from the Scottish Government. The board was notified of the need for brokerage in October 2017 and was kept informed of the financial position throughout the financial year.

15. As at 31 March 2018, NHS Highland's net expenditure was £750 million, 3 per cent higher than the £728 million reported in 2016/17. NHS Highland reported a small surplus of £0.4 million in 2017/18 (Exhibit 1). However, this outturn position was only achieved through the receipt of the £15 million brokerage from the Scottish Government. If brokerage had not been provided the board would have reported an overall deficit position of £14.6 million.

Exhibit 1
NHS Highland financial outturn for 2017/18

2017/18	Core revenue resource limit (£ million)	Non-core revenue resource limit (£ million)	Core capital resource allocation (£ million)	Non-core capital resource allocation	Savings (£ million)
Final allocation	693.63	28.20	21.94	-	48.00 (target)
Outturn	(693.15)	(28.20)	(21.94)	-	35.30 (74% of savings target achieved)
Brokerage	15.00	-	-		
Reported final outturn	0.487 (surplus)	-	-	-	35.30 (30% of savings achieved are non-recurring)

Source: Highland Health Board Annual Report and Accounts For Year Ended 31 March 2018

16. At the beginning of 2017/18, the board recognised it needed to identify and deliver £48 million in savings (5 per cent of baseline Resource Revenue Limits (RRL)) to meet its financial target of achieving in-year financial balance. Additionally, during the year, cost pressures of £1.5 million, primarily through adult social care operating costs and cost of drugs in short supply led to an increase in required savings. During 2017/18 the board delivered savings of £35 million (73 per cent of planned savings). However, only £10 million of the savings delivered (29%) were considered recurring savings.

What are the main factors that have contributed to the financial challenge facing NHS Highland?

17. The 2017/18 financial plan was approved by the board at the start of the financial year recognised in the region of £13 million of savings that had yet to be identified. Throughout 2017/18, the board's forecast outturn position continued to deteriorate as it failed to identify and deliver the savings required, alongside continued increasing cost pressures. In my 2013/14 section 22 report[4] I highlighted a number of financial pressures facing the board and a number of the same cost pressures remain. Key themes contributing to the need to seek brokerage are set out in Exhibit 2.

Exhibit 2

Analysis of the reasons £15million in brokerage was required in 2017/18

Source of financial pressure	Overspend (£million)	Commentary
Acute services including Raigmore Hospital	9.2	Year on year acute services, in particular Raigmore Hospital, has struggled to deliver against agreed savings plans coupled with increased cost pressures and increasing demand for services.
Adult social care services	6.0	A failure to deliver savings plans agreed alongside higher demand which was not forecast.
Prescribing	2.8	During 2017/18 the cost of drugs increased creating cost pressures
Medical pay including locums	3.6	The board has struggled to recruit sufficiently skilled staff and this has resulted in an increased use of medical locums and agency staff alongsidethe service delivery model inHighland and the ability to sufficiently cover remote and rural areas.

Note: Some of these overspends were offset by savings in other areas across the board's budget including corporate savings.

18. The board has a lead agency partnership model with Highland Council to deliver adult social care services. Adult social care was an area of increased financial pressure for the board

[4] The 2013/14 audit of NHS Highland: Financial management, Audit Scotland, October 2014.

over the last five years. In particular, in 2017/18, due to the increasing demands of an aging population, rising costs which were not fully funded in the budget set by the board at the start of the year and a history of being unable to achieve identified savings within adult social care. Cumulatively the board has invested £32.7 million in adult social care, in addition to the £26.7million which is funded via Scottish Government baseline allocations.

19. Under the lead agency agreement, Highland Council is not required to provide additional financial support to NHS Highland, to support the increasing pressures or identified budget gap. These costs need to be identified, funded and delivered by the board. Under the agreement, all social care and healthcare risks, including financial risks, rest with the board and are not shared with the council.

20. The board covers a large geographical area, including remote and rural locations. The board continues to explore alternative service delivery models for example future services within Caithness and Skye. During 2017/18, the board experienced increased staffing costs, with greater than forecast expenditure on medical locums and agency staff, and a high number of vacancies which the board is struggling to fill.

21. Higher medical costs are also reflected in the board's remuneration report, within the annual report and accounts, where the number of clinical staff earning a salary of greater than £200,000 per annum has risen to eight individuals (previously four) and of these eight, two are earning in excess of £400,000. Identifying and delivering a longer term sustainable staffing model will be key to supporting the board achieve financial balance.

22. The Chief Executive of NHS Highland leaves the board in December 2018, and the Director of Finance is currently acting on an interim basis until end of June 2019. Securing a suitably experienced leadership team for NHS Highland will be critical to delivering on the wider recovery plan. Fostering an organisational culture that is open and ready to address the challenges ahead will also be important.

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

23. NHS Scotland has a series of national standards known as the Local Delivery Plan (LDP) standards, which contribute towards the delivery of the Scottish Government's Purpose and National Outcomes and NHS Scotland's Quality ambitions.

24. NHS Highland reports performance against 20 non-financial standards, and performance is mixed. As at March 2018, of the 20 indicators 7 were categorised as being met or exceeded, 3 classed as not met but improving and 9 not achieved. One standard has no target set (Appendix 1). Where the board has failed to meet targets, in 6 cases it still achieved better performance than the Scottish average. Although performance for certain standards is better than the Scottish average, over time performance is declining.

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

25. During 2017/18, the board commissioned an external independent review of governance arrangements, working with Scottish Government. The report was published in July 2018 and identified areas where the board could improve its current governance structures. Taking forward these actions in 2018/19 will help to support the board in strengthening its decision making, recognising the difficult period ahead.

26. Of the £52 million savings required in 2018/19, only £30 million had been identified by August 2018. The £30 million includes £7.7million through service redesign and £7.0 million in adult health and social care. However, there is still a degree of risk and uncertainty around actual delivery of the savings planned, particularly given the board's inability to deliver savings in these areas in prior years alongside recurring savings (Exhibit 3). Based on the financial information as at August 2018 the board would require brokerage of £22 million.

Exhibit 3

Trend in savings required year on year, comparing recurring and non-recurring savings 2015/16 to 2019/20 (£ million)

	2015/16	2016/17	2017/18	2018/19	2019/20
Recurring	9.0	12.4	22.1	25.0	25.7
Non-recurring	7.0	11.8	13.1	5.0	5.0
Shortfall	0	4.6	12.7	21.5	16.0
Total	16.0	28.8	47.9	51.5	46.7
% recurring	56%	43%	46%	49%	55%

Source: NHS Highland initial financial savings forecasted as at August 2018

27. The board is looking to produce a longer term recovery plan, underpinned by a more detailed operational plan setting out planned models of care over a three year period within the Highlands. The intention is to overlay this plan with a supporting financial plan, workforce plan and property strategy.

28. In July 2018, the board appointed KPMG to support it in understanding the board's underlying cost base, and various scenarios using financial models. The outcome of this work is intended to support the board's financial recovery plan (three-year financial strategy and service redesign programme). Brokerage will only start to be repaid by the board when the board achieves a recurring breakeven position and this will be agreed between the board and Scottish Government in the recovery plan.

29. The board are also working with Red Pole Consulting. Their work is focused on the governance, culture and leadership including capacity and capability at the board to deliver

the agreed savings plans. Both strands of work have been commissioned with approval and support from the Scottish Government.

Conclusion

30. The board estimates it will require brokerage of between £19 million and £22 million in 2018/19, and it is increasingly likely that it will need further brokerage beyond 2018/19 to support the board to achieve in-year financial balance over the next three financial years.

31. Given the factors outlined above, there is a significant risk that NHS Highland will not achieve all planned savings in 2018/19. The board faces continuing challenges that the savings identified and delivered will be one off in nature contributing to the long term difficulties in ensuring financial sustainability.

32. The agreement of the financial recovery plan with the Scottish Government will be critical given the scale of the pressures facing the board alongside longer term service redesign. Recognising the board's current capacity, it is difficult to foresee the board achieving a breakeven financial position within the three years planned. In particular, service redesign and new models of care will be required which will take time to consult on, and then implement.

33. It is important that the board puts in place an action plan accompanied by the necessary capacity and resources to deliver it, in order to address the issues the board are facing, whilst recognising that the necessary change will take time to implement.

34. Stability in the future leadership of the board will be required to deliver the financial plans and strengthen wider governance and it is anticipated the financial challenges the board faces will deteriorate before improvement can be achieved.

Appendix 1 - Performance against non-financial LDP standards

Target/ standard	Performance at March 2018	Commentary
Antenatal care Percentage of pregnant women in each SIMD quintile will have booked for antenatal care by the 12th week of gestation **Standard: 80%**	**89%** **(1617 - 89%)** **(Scottish Average - 86%)**	This shows an improving trend for the Board, and is measured quarterly and collated by ISD.
IVF Waiting Times Eligible patients will commence IVF treatment within 12 Months of referral. **Standard: 90%**	**100%** **(16/17 - 100%)** **(Scottish Average - 100%)**	NHS Highland commission this service for NHS Highland patients from NHS Grampian and NHS Greater Glasgow and Clyde and NHS Highland continue to achieve 100% in this standard.
Clostridium Difficile Infections Rate of infections in patients aged 15 and over, per 1,000 total occupied bed days **Standard: 0.32**	**0.32** **(16/17 - 0.40)** **(Scottish Average - 0.27)**	Performance in this area year on year is stable and achieves the standard set by the Scottish Government.
Alcohol Brief Interventions Annual brief interventions in the 3 priority areas of primary care, A&E and antenatal.	**4,838** **(16/17 - 4,847)** **(Scottish Average -**	NHS Highland has surpassed the standard agreed and the Scottish average with 4838 interventions, which is the equivalent of 131%.

Target/ standard	Performance at March 2018	Commentary
Standard: 3,688	**N/A)**	
4 hour A&E Percentage of all attendances seen within 4 hours **Standard: 95%**	**96%** **(16/17 - 96.8%)** **(Scottish Average - 91%)**	Performance at 96% is slightly higher than the Scottish Government target and performance in this standard is consistent with prior year and achieved.
Staphylococcus Aureus Bacteraemia (SABs) Rate of SABs per 1,000 total occupied bed days **Standard: 0.24**	**0.24** **(16/17 - 0.31)** **(Scottish Average - 0.33)**	The aim was to achieve a performance of 0.30 and in 2017/18 the Board achieved 0.24. This is lower than prior year and meets the required standards set.
48 Hour Access - GP Practice Team Percentage of patients who were able to obtain a consultation with a GP or appropriate healthcare professional within 2 working days of initial contact. **Standard: 90%**	**95%** **(16/17 – N/A)** **(Scottish Average - 93%)**	Standard met.
Advance Booking - GP Percentage of patients who	**82%**	The latest published performance is for the financial year 2017/18 where NHS Highland achieved 82% for advanced booking. The national performance for the same period

Target/ standard	Performance at March 2018	Commentary
were able to book a consultation with a GP more than 2 working days in advance. **Standard: 90%**	**(16/17 - N/A)** **(Scottish Average - 68%)**	was 68%.
12 Weeks First Outpatient Appointment Percentage of patients waiting no more than 12 weeks from referral to first outpatient appointment **Standard: 95%**	**81%** **(16/17 - 75%)** **(Scottish Average - 75%)**	On 31st March 2018 81% of NHS Highland outpatients had waited less than 12 weeks, compared with a national position of 75%. NHS Highland as a whole agreed a forecast of 2,559 patients breaching 12 weeks by 31st March; end of year position was 1,989 (570 ahead of forecast). For those longest waiting patients who are over 26 weeks, the agreed forecast was 610 and Highland delivered an end of year position of 494 (116 ahead of forecast). The four specialities with the greatest number of patients waiting over 12 weeks were Ophthalmology, Orthopaedics, Dermatology and Paediatric Medicine. Forecast has now been agreed for the 2018/19 financial year with further transformation plans being agreed to focus on achieving the forecasts set.
Drug and alcohol treatment Percentage of patients seen within 3 weeks **Standard: 90%**	**87%** **(16/17 - 80%)** **(Scottish Average - 94%)**	During the quarter ending 31st March 2018, 87% of patients who started drug and alcohol treatment had waited no longer than 3 weeks from referral. This is below the national standard of 90%. The national performance for the same period was 94%. Challenges in meeting the standard have been as a result of geographical issues particularly when vacancies occur or long-term absence and teams are small. Recruitment can be difficult. There are limited alternative options. Improvement work has redesigned some parts of the service with a positive impact and this work is currently being rolled out.
Child and Adolescent Mental Health Services (CAMHS)	**83%**	83% of patients treated by NHS Highland during January to March 2018 had not waited longer than 18 weeks from referral to specialist Child and Adolescent Mental Health

Target/ standard	Performance at March 2018	Commentary
Waiting Times Percentage of patients seen within 18 weeks **Standard: 90%**	**(16/17 - 88%)** **(Scottish Average - 71%)**	Services. Although performance is improving the Scottish Government target of 90% has not been met, although NHS Highland perform better than the Scottish average. There continues to be data quality issues and a lack of consistency in recording data nationally.
Psychological therapy Percentage of patients to start treatment within 18 weeks of referral **Standard: 90%**	**85%** **(16/17 - 81%)** **(Scottish Average - 81%)**	There continues to be challenges on the accuracy and consistency of this data nationally. The service acknowledges the model in operation was not best placed to meet the needs of the people of North Highland. The locality based service was leading to an inequity of provision and an inflexible use of resources. The appointment of the new Lead Psychologist in December 2017 has allowed a six month review of the service to be completed with a set of recommendations for redesigning the service model. This has been consulted on with the Clinical staff and is now ready for presenting to the Executive Lead for Mental Health and Learning Disability in September for ratification. An implementation group chaired by the General Manager for Mental Health and Learning Disability with support from the Lead Psychologist and involving the Head of Adult Psychology, other senior Psychologists and the Operational Co-ordinator will oversee the introduction of the new model.

Target/ standard	Performance at March 2018	Commentary
Detect Cancer Early Percentage of people diagnosed and treated in the first stage of breast, colorectal and lung cancer **Standard: 25%**	● **24%** **(16/17 - 25%)** **(Scottish Average - 26%)**	During the two year period 1st January 2016 – 31st December 2017 (the latest period for which published data currently available), 24% of patients resident within the NHS Highland area were diagnosed at the earliest stage, this is only slightly less that the Scottish performance. The most promising route for achieving early diagnosis is by increasing participation in cancer screening programmes. Among people invited to take part in bowel screening during the period 1st May 2015 – 30th April 2017 (the latest period for which published data is currently available), uptake within NHS Highland was 60% (56% for Scotland). Among women aged 50-70 invited to take part in breast screening during the period 1st April 2013 – 31st March 2016 (the latest period for which published data are currently available), uptake within NHS Highland was 77% (72% for Scotland). Efforts to build upon this performance and encourage individuals to participate in screening programmes takes place at a number of levels, nationally and locally.
Cancer Treatment Percentage of patients beginning treatment within 31 days of decision to treat **Standard: 95%**	● **93%** **(16/17 - 98%)** **(Scottish Average - 94%)**	Performance reduced during 2017/18, and was below the performance achieved in 2016/17 of 98%. The Board meets the Standard on a regular basis but there are risks due to an increasing diagnosis of renal cancer in particular and a reliance upon a single renal surgeon. Additional capacity continues to be provided on a regular basis in order to minimise the risks of breaching but the risks are exacerbated as a result of the lack of an interventional radiology service to treat non-surgical patients.
Cancer Treatment Percentage of patients beginning treatment within 62 days of urgent referral	● **81%** **(16/17 - 87%)** **(Scottish Average -**	Performance in this area is declining over 2017/18, and lower than the performance achieved in 2016/17 of 87% and is below the Scottish average and 14% lower than the target set by the Scottish Government. The Board's Cancer waiting times continue to be a challenge, like the rest of Scotland. Measures to improve performance have been put in place but it will be several months before a sustained achievement against the

Target/ standard	Performance at March 2018	Commentary
Standard: 95%	**85%)**	standards will be visible. In the meantime all cases are being clinically prioritised and additional activity within Urology and Endoscopy in particular is expected to see an improved position. Urology has been under pressure for sometime as a result of a more complex clinical pathway being established for diagnosis and treatment and there being capacity gaps with an over reliance upon single handed specialists.
Treatment Time Guarantee (TTG) Proportion of patients that were seen within 12 weeks TTG **Standard: 100%**	● **65%** **(16/17 - 76%)** **(Scottish Average - 76%)**	In 2017/18 performance reduced throughout the year to 65%, which is well below the Scottish Government target and a poorer performance than the Scottish average. NHS Highland as a whole agreed a forecast of 1,348 patients breaching 12 weeks by 31st March; end of year position was 2,008 (660 behind forecast). For those longest waiting patients who are over 26 weeks, the agreed forecast was 223 and delivered an end of year position of 664 (441 ahead of forecast). Unfortunately due to bed pressures from winter flu, followed by issues in theatre from the critical care upgrade project, the number of patients being treated fell January to March 2018. The four specialities with the greatest number of patients waiting over 12 weeks were Orthopaedics, ENT, General Surgery and Ophthalmology. Forecast has now been agreed for 2018/19 and it is hoped performance improves as a result of the outcomes of the theatre utilisation programme.
18 weeks Referral to Treatment (RTT) Percentage of patients seen and treated within 18 weeks from initial referral. **Standard: 90%**	● **82%** **(16/17 - 81%)** **(Scottish Average - 81%)**	Performance has improved over the year. However, this is below the Scottish Government target. During 2017/18 performance fluctuated between 74.7% and 82% throughout the year. Referral to Treatment is impacted by the current waits for outpatients and Treatment Time Guarantee described above. The main area of challenge is admitted pathways within the surgical division.

Target/ standard	Performance at March 2018	Commentary
Smoking cessation Sustain and embed successful smoking quits, at 12 weeks post quit, in the 40% SIMD areas in the NHS Board area **Standard: 467**	**195** **(16/17 - 291)** **(Scottish Average - N/A)**	NHS Highland had a target to achieve 430 successful quits at 12 weeks post quit (focusing particularly on those living in our most deprived areas) over the year ending March 2018. By the end of December 2017 the Board had delivered 195. There is a continuing downward trend of performance in this area compared with the Scottish average. The main challenges in meeting the standard is that although we continue to engage with those in deprived areas, many accessing the service want to cut down and are not ready to quit. Although disappointing as far as figures are concerned, this has been positive in respect of health improvement activity as many go on to make other positive lifestyle changes through continued engagement with our health improvement advisers. 'Shared-care' practice between community pharmacy and health improvement advisers is in the process of being developed to increase quit rates in pharmacy services. Smoking cessation in our prison is also developing well and relationships between the NHS and the Prison has been extremely positive. Delivery of specialist training to key staff is also underway to increase current capacity.
Sickness absence rate Maximum sickness absence rate every 12 month period. **Standard: 4%**	**5.2%** **(16/17 - 5.1%)** **(Scottish Average - 5.4%)**	Performance has slightly reduced in 2017/18 compared to the performance achieved in 2016/17 (5.08%). Although better than the Scottish average it is still in excess of the 4% standard set. Absence management continues to be a key area of work, with absence rates reported regularly at Executive and Senior management level. Following the Rapid Process Improvement Week in June 2017 on long term sickness absence, work continues to roll out the standard work to all areas. Short term absence remains consistent at approximately a third of the overall sickness absence figure.
People newly diagnosed with dementia will have a minimum of 1 years post-diagnostic support	**- 82% (15/16 latest available)** **(Scottish Average -**	Standard met.

Target/ standard	Performance at March 2018	Commentary
Standard: none set	**85%)**	

Sources: NHS Highland Annual Review 2017. At a glance 2017/18 performance against non-financial local delivery plan targets, as at 31 March 2018

Key

Currently below acceptable limits (more than 5% below standard)

Currently requiring improvement (no more than 5% below standard)

Currently achieving standard

The 2017/18 audit of NHS Highland

Financial sustainability

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500
or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

MENU

Public Audit and Post-legislative Scrutiny Committee

24th Meeting, 2018 (Session 5), Thursday 1 November 2018

2017/18 audit of the Scottish Government Consolidated Accounts

Introduction

1. At its meeting today, the Committee will take evidence from the Auditor General for Scotland on her report entitled '2017/18 audit of the Scottish Government Consolidated Accounts', which was published on 27 September 2018.

2. The report also refers to the 2017/18 Scottish Government Consolidated Accounts[1].

3. The Auditor General has provided a briefing on the key messages from the report, which is attached in Annexe A. A copy of the report can be found in Annexe B.

Clerks to the Committee
October 2018

[1] https://www.gov.scot/Resource/0054/00540845.pdf

Annexe A

REPORT BY THE AUDITOR GENERAL FOR SCOTLAND

THE 2017/18 AUDIT OF THE SCOTTISH GOVERNMENT CONSOLIDATED ACCOUNTS

---

1. The Auditor General's report on the 2017/18 audit of the Scottish Government Consolidated Accounts was published on 27 September 2018. The report is provided to support scrutiny and accountability of the Scottish Government's Consolidated Accounts. These accounts are a key component of the Scottish Government's accountability to the Scottish Parliament and the public.

2. Key messages from the report are:

   - The Scottish Government Consolidated Accounts show that total net expenditure during 2017/18 was £34,461 million, £339 million less than budget. Budget management during the year was effective in managing total spending against the limit set by the Scottish Parliament. My independent audit opinion on the 2017/18 accounts is unqualified.

   - The arrival of new borrowing powers has enhanced the Scottish Government's ability to manage and control its spending each year. In March 2018, the Scottish Government borrowed £450 million of capital funds, the annual limit for 2017/18. This was in line with plans made as part of the 2017/18 Scottish budget. At the end of 2017/18, the Scottish Government had net borrowings of £1.036 billion against its £3 billion capital borrowing limit (35 per cent).

   - The Scottish Government has taken some important steps to improve its financial reporting. The publication of its first medium-term financial strategy and Fiscal Framework Outturn Report are significant developments in the Scottish Government's annual financial reporting and form a key component of the Scottish Parliament's new budget process. However, the Government has not yet published a consolidated account covering the whole public sector in Scotland.

   - During 2017/18, the Scottish Government made further changes to its corporate governance structure following new arrangements established in October 2016. With the main powers from the Scotland Acts now in operation, there has been slow progress in finalising the roles and responsibilities within the Scottish Exchequer directorate and recruitment is ongoing to fill key posts.

MENU

- As Scotland's fiscal responsibilities continue to grow, there is an increasing need for the Scottish Government to produce more detailed and transparent performance reporting, that better links spending with outcomes. This includes providing better information about what activity public spending will support, its aims, and the contribution it expects to make to national outcomes.

- My audit work has highlighted a number of areas for improvement to help support the Parliament and the public in their scrutiny of public finances, which are undergoing significant change. The Scottish Government should:

    - publish a consolidated account for the whole public sector to outline total assets, liabilities, borrowing and investments.

    - finalise the policies and principles within which it will manage its borrowing powers.

    - be more transparent about its overall approach in providing loan facilities to support private companies.

    - ensure there is a robust and transparent process in place for funding public bodies, including allocations to NHS boards and local authorities.

    - prepare a performance report that clearly links to the financial resources outlined in the Consolidated Accounts.

    - continue to improve its governance arrangements and strengthen the opportunity for greater scrutiny and challenge through improving information provided to key groups within its governance structure.

The 2017/18 audit of the Scottish Government Consolidated Accounts

AUDITOR GENERAL

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

MENU

Auditor General for Scotland

The Auditor General's role is to:

- appoint auditors to Scotland's central government and NHS bodies
- examine how public bodies spend public money
- help them to manage their finances to the highest standards
- check whether they achieve value for money.

The Auditor General is independent and reports to the Scottish Parliament on the performance of:

- directorates of the Scottish Government
- government agencies, eg the Scottish Prison Service, Historic Environment Scotland
- NHS bodies
- further education colleges
- Scottish Water
- NDPBs and others, eg Scottish Police Authority, Scottish Fire and Rescue Service.

You can find out more about the work of the Auditor General on our website: www.audit-scotland.gov.uk/about-us/auditor-general

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Introduction

1. The Scottish Parliament's new financial powers are substantially changing how public finances are managed in Scotland. The Scottish budget is now more complex and is subject to greater uncertainty and volatility as a result of new tax and borrowing powers arising from the Scotland Acts in 2012 and 2016. The increasing uncertainty over the impact of the UK's withdrawal from the European Union adds further complexity and risk to the Scottish Government's finances as it makes choices over spending and levels of tax and borrowing. Comprehensive, transparent and timely reporting of the Scottish Government's budget and financial performance has never been more important in this new environment.

2. In December 2016, the Scottish Government published its draft 2017/18 Scottish Budget which set out its spending priorities and plans for the year. The Scottish Government's Consolidated Accounts for 2017/18 provides information on how this budget was managed and where money was spent.

3. The Consolidated Accounts are a key component of the Scottish Government's accountability to the Scottish Parliament and the public. The boundary for the consolidated accounts is determined by the Scottish Government and reflects the areas for which it has direct responsibility and accountability, including the core portfolios and supporting administration, the executive agencies and NHS bodies. The Consolidated Accounts:
   - cover around 90 per cent of the spending approved by the Scottish Parliament
   - report the amounts the Scottish Government spent against each main budget heading, and the reasons for any significant differences
   - show the amounts distributed to other public bodies including local government
   - report the assets, liabilities and other financial commitments of the core Scottish Government, and bodies within the consolidated boundary, carried forward to future years
   - contain a performance report, in which the Government gives a high-level account of its performance during the year.

4. My independent audit opinion on the 2017/18 Consolidated Accounts is unqualified. This means I am content they show a true and fair view, following accounting standards, and that the income and expenditure for the year is lawful. My audit opinion is set out at pages 49 to 51 of the accounts.

5. This report highlights key information in the Consolidated Accounts. It explains what they show about the Scottish Government’s management of its budget. It also provides information on governance, financial and performance management and identifies significant audit findings where further action is required by the Scottish Government.

6. As with previous years, I provide this report on the 2017/18 Consolidated Accounts to support the Scottish Parliament in its important scrutiny role of public finances in Scotland.

Key messages

1. **The Scottish Government's Consolidated Account for 2017/18 meets the requirements of the Government Financial Reporting Manual (FReM) and my opinion on them is unqualified. The accounts show that the total net expenditure during 2017/18 was £34,461 million, £339 million less than budget.**
2. **The arrival of new borrowing powers has enhanced the Scottish Government's ability to manage and control its spending each year. In March 2018, the Scottish Government borrowed £450 million of capital funds, the annual limit for 2017/18. This was in line with plans made as part of the 2017/18 Scottish budget. At the end of 2017/18, the Scottish Government had net borrowings of £1.036 billion against its £3 billion capital borrowing limit (35 per cent). The Scottish Government needs to finalise the policies and principles within which it will manage its borrowing powers. This will help to improve decision making about the level, type and timing of borrowing.**
3. **The Scottish Government has taken some important steps to improve its financial reporting. The publication of its first medium-term financial strategy and Fiscal Framework Outturn Report are significant developments in the Scottish Government's annual financial reporting and form a key component of the Scottish Parliament's new budget process. However, the Government has not yet published a consolidated account covering the whole public sector in Scotland. This is an important commitment that will improve strategic public financial management, support Parliamentary scrutiny and enable better decision making.**
4. **During 2017/18, the Scottish Government made further changes to its corporate governance structure following new arrangements established in October 2016. In February 2018, a new Economy board was established to provide strategic oversight across the Scottish Government's activities. In July 2017, a new role of Director General Scottish Exchequer was created to better reflect Scotland's new fiscal responsibilities. With the main powers from the Scotland Acts now in operation, there has been slow progress in finalising the roles and responsibilities within the Scottish Exchequer directorate and recruitment is ongoing to fill key posts. Until arrangements for the Scottish Exchequer are finalised, it will be harder for the Scottish Government to manage effectively the fiscal risks and opportunities that may arise in the interim period.**
5. **As Scotland's fiscal responsibilities continue to grow, there is an increasing need for the Scottish Government to produce more detailed and transparent performance reporting, that better links spending with outcomes. The Parliament's new budget process emphasises the need for better performance reporting to provide a clearer focus on the delivery of outcomes. This includes providing better information about what activity public spending will support, its aims, and the contribution it expects to make to national outcomes. The launch of the revised National Performance Framework provides the opportunity for the Scottish Government to make progress in this area.**

Financial management

Scottish budget performance 2017/18

7. The Consolidated Accounts show that total net expenditure during 2017/18 was £34,461 million, £339 million less than budget (Exhibit 1). The resource budget was underspent by £287 million (0.9 per cent) against a budget of £32,736 million and capital by £52 million (2.5 per cent) against a budget of £2,064 million. Budget management during the year was effective in managing total spending against the limit set although the underspend is significantly more than in 2016/17 (2016/17: £85 million).

Exhibit 1

Total expenditure (resource and capital) against the Scottish Budget approved by the Scottish Parliament

The Scottish Government consolidated total was £339 million under budget in 2017/18.

Portfolio	Actual (£m)	Budget (£m)	Over/(under) spend (£m)
Finance and the Constitution	66	74	(8)
Health and Sport	13,525	13,559	(34)
Education and Skills	3,350	3,465	(115)
Economy, Jobs and Fair Work	386	414	(28)
Justice	2,478	2,477	1
Communities, Social Security and Equalities	10,983	11,020	(37)
Environment, Climate Change and Land Reform	332	357	(25)
Culture, Tourism and External Affairs	263	274	(11)
Rural Economy and Connectivity	2,780	2,854	(74)
Crown Office and Procurator Fiscal Service	113	113	-
Administration	185	193	(8)
Scottish Government consolidated total	**34,461**	**34,800**	**(339)**

Source: Scottish Government Consolidated Accounts 2017/18 (page 52). Further information of individual portfolio spending performance can be found in pages 53 to 63 in the Consolidated Accounts.

8. Variations in each portfolio are managed by the Scottish Government to ensure overall spending remains within budget. High-level reasons for significant variances between actual and budgeted spend are included in the Consolidated Accounts (pages 53 to 63). Further information is given in the accounts of other bodies.

Capital borrowing

9. Under the terms of the Scotland Act 2016, the limit for Scottish Ministers' capital borrowing was extended to £3 billion (previously £2.2 billion under the 2012 Act). The annual borrowing limit was also increased to 15 per cent (£450 million) of the overall borrowing cap. The extended limits provide Scottish Ministers with more flexibility in responding to spending pressures across its capital programme.

10. In March 2018, the Scottish Government borrowed its full annual capital borrowing limit of £450 million. This was in line with plans outlined by Scottish Ministers as part of the 2017/18 Scottish budget. The loan, from the National Loans Fund, was used to support the capital programme with repayments of the principal loan to be made over the next 25 years at an interest rate of 1.9 per cent. The borrowing term is normally ten years as outlined in the Fiscal Framework, unless the lives of the assets being purchased reflect a different time period. The Scottish Government reported that 2017/18 borrowing was used to support its overall capital programme including major projects such as the completion of the Forth Replacement Crossing and therefore agreed a longer time for repayment with the National Loans Fund.

11. The Scottish Government borrowed the full amount of £450 million in March 2018 with the view that unused amounts would be carried forward to future years using the Scotland Reserve. The Scottish Government needs to finalise the policies and principles within which it will manage its borrowing powers. This will help to improve decision making on capital budget management such as the level, type and timing of borrowing and avoid any excess borrowing and associated interest costs. Details of the overall loan, repayments and interest payments are outlined on page 20 of the consolidated accounts.

12. The Scottish Government's borrowing and associated repayments are made via the Scottish Consolidated Fund. Borrowed amounts and repayments are made between the Scottish Consolidated Fund and HM Treasury with the corresponding adjustments made to funding received by the Scottish Government from the SCF. This means there is no associated liability disclosed in the Statement of Financial Position within the Scottish Government's consolidated accounts. Details of the amount of capital borrowing and the associated liability are set out within a separate account prepared for the Scottish Consolidated Fund.

13. In 2015/16 and 2016/17, the Scottish Government used its capital borrowing limit to accommodate the financial impact of decisions by the Office for National Statistics (ONS) to reclassify some major Non-Profit Distributing (NPD) investment projects as public sector projects. Projects such as the Aberdeen Western Peripheral Route and the Edinburgh Royal Hospital for Sick Children were reclassified, meaning that capital budget cover was required at the point of initial investment, rather than revenue budget cover for the annual payments over the lifetime of the contract. Although this did not result in additional borrowing, the

Government agreed with HM Treasury that these amounts would be recorded against its capital borrowing limit. At the end of 2017/18, Government had net borrowings of £1.036 billion against its £3 billion capital borrowing limit (35 per cent).

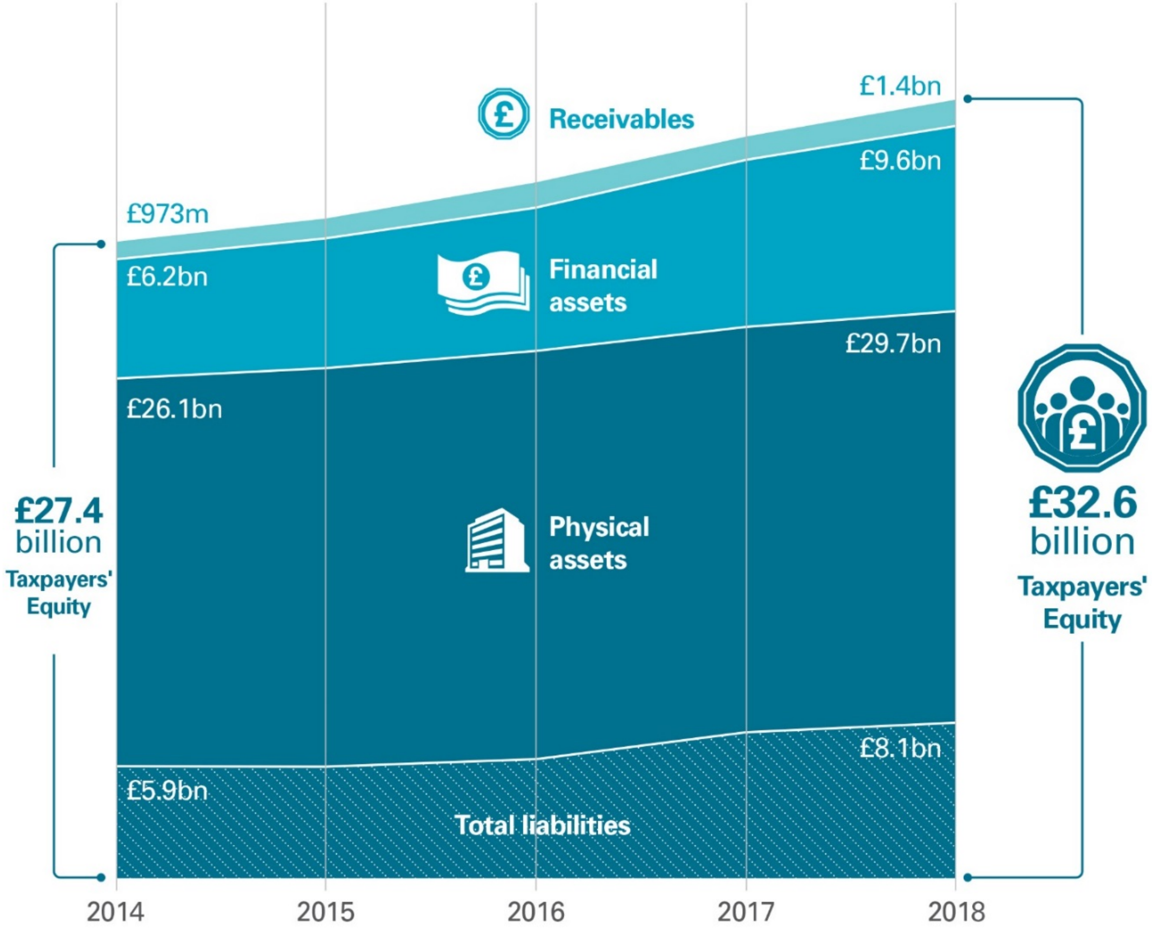
Overall financial position

14. The Consolidated Statement of Financial Position (previously known as the balance sheet) (page 64) is one of the primary financial statements in the Consolidated Accounts. It summarises what is owned and owed by the core Scottish Government and those public bodies within the consolidated boundary. This shows taxpayers' equity – an accounting measurement of the amount of taxpayers' money applied that has continuing public benefit. It shows how much of this has arisen from the application of parliamentary funding (arising from the Scottish Block Grant, capital borrowing and devolved taxes) and how much resulted from changes over time in the value of physical assets.

15. The key items in the Statement of Financial Position over the last five financial years are summarised in Exhibit 2. Taxpayers' equity has increased in each of the last five years, largely due to an increase in physical assets (such as property and roads) and financial assets (such as loans and investments). Total liabilities (such as payments for private-financed projects) have also increased from £5.9 billion to £8.2 billion. It is important to note that the position does not reflect all the assets and liabilities of the Scottish public sector. For example, key liabilities are excluded such as capital borrowing, local government borrowing and all public sector pension liabilities funded from the Scottish budget.

Exhibit 2

Scottish Government's year end financial position, 2014 to 2018



Source: Consolidated Accounts 2013/14 to 2017/18

Funding to NHS boards and local authorities

16. A number of features of the way that the health system in Scotland currently operates need to be addressed. This includes risks arising from a narrow focus on achieving financial balance each year, coupled with an increasingly tight financial position, late budget allocations at year end and a general need for greater transparency.

17. In April 2018, I reported to the Public Audit and Post-Legislative Scrutiny Committee on the retention of eHealth funds by NHS Tayside. Early in March 2018, Scottish Government staff became aware that NHS Tayside was holding money intended to fund eHealth in NHS boards. This came to light when the Scottish Government health finance team were asked to process an allocation adjustment relating to the eHealth national programmes budget. It emerged that an arrangement had been in place since 2012/13 to route eHealth money from Scottish Government through NHS National Services Scotland then on to the NHS boards. Since that time, underspent funds on the eHealth programme had been held by NHS Tayside to fund its expenditure and thereby reduce its annual deficit. It was then returned to the Scottish Government as funding allocation credits the following year.

18. In May 2018, the Scottish Government Health and Social Care Directorate's finance team reviewed the funding allocations process in response to the issues relating to NHS Tayside. A revised process is now in operation and the Scottish Government Internal Audit Directorate are undertaking a review of the controls in place. Given the pressure on health boards to meet their financial targets, it is important that a robust allocations process is in place to reduce the risk of manipulation of targets. We will review its implementation as part of the 2018/19 audit of the Scottish Government.

19. On 31 January 2018, the Scottish Government announced an additional £159.5 million of general revenue grant funding for local authorities at stage one of the 2018/19 Budget Bill. Of this additional sum, £34.5 million was reallocated from projected 2017/18 underspends within other government portfolios and was paid on 28 March 2018. Local authorities were free to spend it from the date of receipt and therefore treated it as income in 2017/18. This meant that local authority accounts showed additional income of £34.5 million in 2017/18, reducing the Scottish Government's overall 2017/18 underspend by the same amount. By including 2017/18 monies as part of its 2018/19 funding allocation to local authorities, the Scottish Government has reduced transparency over local government funding, making it harder to compare funding levels between each year. It is important that funding allocations are transparent and consistently applied across years to allow public bodies to plan and manage their finances effectively, and support parliamentary scrutiny.

Support to private companies

20. In recent years, the Scottish Government has taken a direct role in providing financial support to private companies in addition to support provided through the enterprise agencies such as Scottish Enterprise. This includes the purchase of Prestwick Airport together with loans of £38 million, and a power purchase agreement at the hydro plant and aluminium smelter at Lochaber, involving a financial guarantee valued at £18.7 million in 2017/18.

21. During 2017/18, the Scottish Government entered into new commercial loan agreements with two private sector companies.

    - In September 2017, the Scottish Government provided a commercial loan of £15 million to Ferguson Marine Engineering Limited (FMEL), a ship building and engineering company based in Port Glasgow. The purpose of the loan was to support FMEL's completion of a contract to build two ‘dual-fuel’ ferry vessels for Caledonian Maritime Assets Limited (CMAL) valued at around £97 million. CMAL is a company wholly owned by the Scottish Government in which Scottish Ministers are the sole shareholders. It does not fall within the consolidated boundary of the Scottish Government Consolidated Accounts. In June 2018, the Scottish Government provided FMEL with an additional £30 million loan to improve their cash flow position to help support the delivery of the CMAL vessels and improve the future prospects of the company and shipbuilding on the Clyde. As at August 2018, FMEL had drawn down £26 million (58 per cent) of the total £45 million loan facility.
    - In November 2017, the Scottish Government entered into an agreement to offer a commercial loan facility of £15 million to Burntisland Fabrications Limited (BiFab), a

fabricator of oil, gas and offshore wind structures, to support the completion of two key contracts. On 17 April 2018, the former Cabinet Secretary for the Economy, Jobs and Fair Work informed the Scottish Parliament that the Government had provided BiFab with an expanded commercial loan facility as a result of increasing costs associated with the completion of contracts for the Beatrice Offshore Wind Farm. Included in the agreement with BiFab is a provision for the loan to be converted to an equity stake, not exceeding a 38 per cent shareholding in BiFab. A further £10 million loan was also made available to BiFab in April 2018 to support business restructuring following the completion of the contracts. The profile of BiFaB's drawdown of the borrowing facility is not in the public domain as the Scottish Government has maintained that the company needs to ensure commercial confidentiality whilst it is in the process of bidding for new contracts. It is important that the Scottish Government provides full transparency on the loans that it has provided to BiFab as soon as it has completed the current procurement process. The Scottish Government plans to monitor options for when it will sell its shareholding but no decision has been made about when this will take place.

22. The loans to FMEL and BiFab were subject to external due diligence and legal advice and were approved by Ministers with notification of the loans provided, in private, to the Parliament's Finance and Constitution Committee. We became aware of the loans during the course of our 2017/18 audit. The Scottish Government is actively monitoring the performance of both companies including commissioning due diligence work prior to each draw down. The provision of loan facilities to private sector companies highlights the Scottish Government's increasing risk appetite in providing financial support and guarantees to support policy objectives.

23. Publicly available information about the extent of the loans is limited. The consolidated accounts provide only a very brief narrative on the loans issued during 2017/18 (page 19). There is a need for the Scottish Government to be more transparent about its overall approach in providing significant public funds to support private companies. While the business cases for loan support were clear, there is no framework in place to support the Government's decision making or approach in providing loans to private companies. The Scottish Government should develop a framework that clearly outlines its role in financial interventions in private companies to support decision making over where, when and at what level to invest. Such a framework should provide clear information on financial capacity, risk tolerance and expected outcomes. In doing so, the Scottish Government will provide the Parliament with greater assurance and better information over its strategic objectives in entering these agreements and allow for greater scrutiny of the risks and opportunities that exist, including the opportunity costs involved.

EU Common Agricultural Policy

24. The Scottish Government provides financial support to farmers and other rural businesses as part of the Common Agricultural Policy (CAP). The Consolidated Accounts record intangible assets of £153 million reflecting the costs of a wider Rural Payments and Services System (RPSS) which includes the previous CAP Futures system. The system is stabilising and the

Scottish Government met the 2018 payment performance targets set by the European Commission.

25. The Scottish Government established two loan schemes during 2017/18 to help farmers and rural businesses receive money more quickly, given the difficulties that the IT system was having in making payments. This is the third year that loans have been paid. The 2017/18 loan schemes were funded from the Scottish Government's financial transaction budget which supports loan schemes that go beyond the public sector. The Consolidated Accounts discloses that loan payments of £369 million were made in 2017/18. This included £317 million of loans related to the Basic Payments Scheme 2017. Delays in processing payments meant that £150 million of loans remained outstanding at the year end and additional financial transaction budget cover was required.

26. A further loan scheme of up to £55 million for the LFASS 2017 was announced in February 2018, with loan payments starting in April 2018.

27. Scotland currently receives around £0.5 billion annually from the European Commission to support farming. Uncertainty over the nature of the UK's withdrawal from the European Union means future financial support to farmers remains unclear.

Financial reporting

28. Over the last year, the Scottish Government has taken some important steps to improving its financial reporting. In May 2018, the Scottish Government published its first medium-term financial strategy, *Scotland's Fiscal Outlook*. The strategy aims to provide an assessment of the medium-term outlook for Scotland's public finances as the new financial powers from the Scotland Acts 2012 and 2016 come into effect. The strategy, to be updated annually, provides an explanation of the fiscal framework and outlines potential funding scenarios for the Scottish budget over the next five financial years to 2022/23 based on independent forecasts carried out by the Scottish Fiscal Commission.

29. In September 2018, the Scottish Government published its first Fiscal Framework Outturn Report. This is intended to support the Parliament's scrutiny of the operation of the Fiscal Framework agreed between the UK and Scottish governments setting out the arrangements for new tax and social security powers and how the Scottish block grant will be adjusted. The report includes details of the reconciliation process between forecasts and outturn, and how the Scotland Reserve and borrowing powers have been used. Together, Scotland's Fiscal Outlook and the Fiscal Framework Outturn Report are positive developments in the Scottish Government's annual financial reporting. They form a key component of the Scottish Parliament's new budget process, following recommendations made by the Budget Process Review Group in June 2017, and will develop further over time.

30. The use of capital borrowing powers for the first time in 2017/18 reinforces the need for the Scottish Government to improve the reporting of its overall financial position. The current structure and boundary of the Scottish Government's consolidated accounts provides information on the core Scottish Government and those bodies within the consolidated

boundary such as Transport Scotland and the Scottish Prison Service. The Scottish Consolidated Fund Account is a receipts and payments account reflecting the flows of money into, and out of, the fund. There is currently no appropriate audited account that sets out all the assets and liabilities, including borrowing by Scottish Ministers.

31. The Scottish Government has committed to producing a consolidated account to cover the whole public sector in Scotland, including total assets, investments and liabilities such as local government borrowing and public sector pension liabilities. The Scottish Government had designated 2016/17 as a 'shadow year' with a view to producing the account for audit during 2018 but this has not yet happened. The use of the new borrowing powers increases the need for a public consolidated account to provide a comprehensive and transparent assessment of the state of Scotland's public finances. This is important for decision making over the longer term as it will provide important information about the impact of past decisions on future budgets, the scale of liabilities, and potential risks to financial sustainability. The Scottish Government needs to quicken the pace of its development and should aim to publish the account, using 2017/18 financial information, before the end of 2018.

32. In September 2018, the Scottish Government aims to publish its second action plan to the Open Government Partnership (OGP). The plan aims to give the public a better understanding of how government works so they can have more influence in holding them to account. The plan is expected to contain between three and five commitments to be delivered by September 2020. An independent report on progress with the Scottish Government's first action plan found that the Government showed strong participation in creating and implementing the plan. The review also found that the Scottish Government could improve OGP governance to improve engagement with other civil society organisations, deepen its commitment to financial transparency and build a stronger focus on accountability.

Non-Domestic Rating Account 2017/18

33. Non-domestic rates form a key part of the Scottish budget and are a significant source of funding for local government. The Non-Domestic Rating (NDR) account prepared annually by the Scottish Government shows the amount of non-domestic rates collected by councils and redistributed back to them by the Scottish Government during the year. Due to forecasting and timing differences between collection and distribution, the balance on the Non-Domestic Rating account shows either a surplus or deficit balance.

34. The 2017/18 account shows Scottish Ministers received £2,869 million of non-domestic rates in the year and paid £2,713 million back to local authorities. This means the overall deficit on the account decreased by £156 million, from £297 million in 2016/17 to £141 million in 2017/18. The reduction in 2017/18 is in line with plans outlined in the 2018/19 draft Scottish budget which aim to bring the account into balance by the end of 2018/19 (Exhibit 3).

Exhibit 3

Non-domestic rates contributions and distributions, 2011/12 to 2017/18

Any surplus or deficit on the NDR account is carried forward to the following financial year.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Contributions (from councils to Scottish Government)	2,259	2,442	2,501	2,554	2,628	2,799	2,869
Distributions (from Scottish Government to councils)	2,238	2,311	2,513	2,781	2,843	2,807	2,713
Surplus/(deficit)	21	131	(12)	(227)	(215)	(8)	156
Cumulative surplus/(deficit)	**34**	**165**	**153**	**(74)**	**(289)**	**(297)**	**(141)**

Source: Scottish Government

35. The Scottish Government has taken some steps to improve the transparency of the NDR account through additional information provided in budget documents and the medium-term financial strategy. There remains scope for further improvement to help provide the Parliament and the wider public with a fuller understanding of how NDR funding operates by:

- publishing details of how the distributable amount is calculated, including details about the assumptions used
- undertaking, and publishing, scenario planning and sensitivity analysis to provide more information on how any fluctuations in NDR contributions or distributions affect local government funding over time. [1]

Performance reporting

36. The 2017/18 Consolidated Accounts include a performance report and an accountability report in line with the requirements of the Government Financial Reporting Manual (FReM). The performance report (pages 13 to 21) summarises financial performance for the year, with particular emphasis on performance against budget. It also contains some specific performance information which is required by current guidance on supplier payment

[1] The Scottish Fiscal Commission is responsible for providing independent five-year forecasts on non-domestic rates income. The SFC will focus on forecasting the contributable amount. It remains the responsibility of the Scottish Government to determine what the distributable amount for each year will be.

performance compared with policy targets and signposts where more information is available on sustainability and environmental performance. For information on the Scottish Government's progress towards its overall aims and objectives, users of the accounts are directed to the National Performance Framework (NPF). In June 2018, the Scottish Government launched a revised NPF, which sets out the purpose, objectives and national outcomes that the Scottish Government aims to achieve. The performance report provides a link to the national performance website where progress against the measures set out in the NPF is regularly updated.

37. This means that the Consolidated Accounts focus on the Government's finances. As with previous years they do not report on the performance of individual portfolios or the Scottish Government as a whole, limiting the reader's ability to see the Government's own contribution to national outcomes. This means that the reader is unable to see the links between the money spent by the Scottish Government, what it has achieved, and progress made towards achieving national outcomes.

38. As Scotland's fiscal responsibilities continue to grow, expectations are increasing for the Scottish Government to produce more detailed and transparent performance reporting, that better links spending with outcomes. The Parliament's new budget process places a greater emphasis on the need for better performance reporting to provide a clearer focus on the delivery of outcomes. This includes better information about what activity public spending will support, its aims, and the contribution it expects to make to national outcomes. The launch of the revised National Performance Framework provides the opportunity for the Scottish Government to make progress in this area.

39. The Scottish Government should prepare a performance report that clearly links to the financial resources outlined in the Consolidated Accounts. Greater transparency around the Scottish Government's own performance towards meeting its strategic objectives would provide greater accountability for the use of its financial resources. This would provide a more rounded account of the Scottish Government’s overall performance and would enhance reporting to the Scottish Parliament and the public, and help strengthen accountability and scrutiny.

Governance

40. A Governance Statement (pages 23 to 33) prepared by the Permanent Secretary is a key feature of the Consolidated Accounts. It forms part of a wider accountability report and summarises how the core Scottish Government organisation is controlled and directed. The statement confirms that it complies with relevant guidance on corporate governance. It also highlights some of the main risks and opportunities for the organisation and any significant internal control issues in 2017/18. I am content that the Governance Statement is consistent with the financial statements and has been prepared in accordance with guidance issued by the Scottish Ministers.

41. During 2017/18, the Scottish Government made further changes to its corporate governance structure following new arrangements established in October 2016. In February 2018,

approval was given to create a new Economy Board, chaired by Director General Economy, including the Permanent Secretary and all Directors-General. The role of the Economy Board is to focus on Scotland's productivity and economic performance rather than policy implementation.

42. In July 2017, a new role of Director General Scottish Exchequer was created to better reflect Scotland's new fiscal responsibilities with a Chief Financial Officer role to cover financial management and operations. With the main powers from the Scotland Acts now in operation, there has been slow progress in finalising the roles and responsibilties with the Scottish Exchequer directorate and recruitment is ongoing to fill key posts. Until arrangements for the Scottish Exchequer are finalised, it will be harder for the Scottish Government to effectively manage the fiscal risks and opportunities that may arise in the interim period.

43. In November 2017, an independent review of governance arrangements led by the Director of Internal Audit and the Crown Agent reported that the structures introduced in October 2016 were appropriate for an organisation of the scale and complexity of the Scottish Government. It also found that the structures were enabling accountabilities, decision making, challenge, risk management and assurance to take place, and overall were considered fit for purpose. The report made a number of recommendations intended to support the further development and performance of the structures. The Scottish Government made some improvements to its governance arrangements during 2017/18 such as greater consistency and standardisation of agendas, minutes and papers, the implementation of a board development programme and the appointment of a Board Secretary to improve connections between corporate groups.

44. As I reported in September 2017, the success of the new arrangements will be determined by how they operate in practice and the culture and behaviours adopted by those involved including the contributions made by non-executive directors. In 2017/18, pressure on non-executive directors' capacity, combined with late or out-of-date information provided to meetings meant that scrutiny and challenge was not as effective as it needed to be. It is important that non-executive directors and other participants are given up-to-date information in sufficient time to allow effective support and challenge. This is particularly important at a time of significant change for the Scottish Government as it takes on new powers and seeks to manage the uncertainty and risks associated with the UK's withdrawal from the European Union. The Scottish Government is currently recruiting additional non-executive directors and hope to have these posts filled by the end of 2018.

Internal Audit

45. The governance structures within the Scottish Government draw on a number of sources of assurance, with substantial reliance placed on the work of the Internal Audit Directorate (IAD). Internal Audit reviews whether the framework of internal control operates satisfactorily and proper arrangements are in place for the prevention and detection of fraud and corruption. An efficient and effective internal audit function is a key element of good governance.

46. Each year, we undertake an overview of the Scottish Government's internal audit arrangements in accordance with International Standard on Auditing 610 *Using the work of*

internal auditors. Our work found that, although the Internal Audit Directorate meets some of the Public Sector Internal Audit Standards (PSIAS), it does not comply with significant aspects of the standards.

47. Based on the available evidence, we did not identify any internal audit reports where the underlying evidence would suggest an incorrect audit opinion or conclusion, but our review found that significant improvements are required in audit planning, audit documentation, audit reporting and management review. The Internal Audit Directorate are currently undertaking a 'Back to Basics' project aimed at embedding best practice across IAD in line with Public Sector Internal Audit Standards. The project provides an opportunity to take forward the recommendations made in our review. Central to its success will be the culture adopted by IAD in complying with PSIAS and ensuring that good practice is embedded across all its audit activity.

Conclusion

48. The Scottish Government's Consolidated Account for 2017/18 meets the requirements of the FReM and my opinion on them is unqualified. The account is prepared from the perspective of the Scottish Government's role in managing the budget it directly controls and covers the majority of public spending in the Scottish budget. It covers spending against budget for the financial year and sets out what is owned and owed by the core Scottish Government and those bodies within the consolidated boundary as at 31 March 2018. This is a critical component of the Scottish Government's accountability to the Parliament and the public.

49. The Scottish Government has a good record of financial management and reporting. In 2017/18, improvements were made to financial reporting through the publication of its first medium-term financial strategy and Fiscal Framework Outturn Report. Governance arrangements continue to evolve and the revised National Performance Framework provides details on what the Government aims to achieve and performance against national outcomes.

50. My audit work has highlighted a number of areas for further improvement to help support the Parliament and the public in their scrutiny of public finances, which are undergoing significant change. The Scottish Government should:

- Publish a consolidated account for the whole public sector to outline total assets, liabilities, borrowing and investments. The Scottish Government should aim to publish this, using 2017/18 financial information, before the end of 2018.
- Finalise the policies and principles within which it will manage its borrowing powers. This will help to improve decision making on capital budget management such as the level, type and timing of borrowing and avoid any excess borrowing and associated interest costs.
- Be more transparent about its overall approach in providing loan facilities to support private companies. This should include developing a framework that clearly outlines its policy aims, financial capacity, risk tolerance and expected outcomes.

- Ensure there is a robust and transparent process in place for funding public bodies, including allocations to NHS boards and local authorities.
- Prepare a performance report that clearly links to the financial resources outlined in the Consolidated Accounts. Greater transparency around the Scottish Government's own performance towards meeting its strategic objectives would provide greater accountability for the use of its financial resources.
- Continue to improve its governance arrangements and strengthen the opportunity for greater scrutiny and challenge through improving information provided to key groups within its governance structure. Finalising the roles and responsibilties for the new Scottish Exchequer should be a priority.

51. In October 2018, Audit Scotland will publish a briefing paper on key issues and risks in managing public finances as a result of the Scottish Parliament's new financial powers. This is intended to support the Parliament's scrutiny of the forthcoming 2019/20 draft Scottish budget.

52. Working with Audit Scotland and the Accounts Commission, I will continue to support the independent scrutiny of Scotland's public finances through all of our audit work.

The 2017/18 audit of the Scottish Government Consolidated Accounts

This report is available in PDF and RTF formats, along with a podcast summary at:
www.audit-scotland.gov.uk

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500
or **info@audit-scotland.gov.uk**

For the latest news, reports and updates, follow us on:

AUDIT SCOTLAND

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk