

# Internal Audit



## Estate Management

April 2019

### Internal Audit Assurance assessment:

Objective One	Objective Two	Objective Three	Objective Four
Moderate Assurance	Significant Assurance	Significant Assurance	Significant Assurance

### Timetable

Date closing meeting held: 29 March 2019

Date draft report issued: 11 April 2019

Date management comments received: 15 April 2019

Date Final report issued: 16 April 2019

Date presented to Audit and Risk Committee: 29 April 2019

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## 1. Introduction

- 1.1 A key part of the Board's service delivery is ensuring best use of estate in supporting operational and corporate delivery. To achieve this, the Board has in place a Property and Asset Management Strategy (PAMS) 2018-2023.
- 1.2 CEL35 (2010) provided a statement of the Scottish Government's policy on property and asset management in NHS Scotland entitled 'A Policy for Property and Asset Management in NHS Scotland'. This policy requires that all NHS Scotland bodies must have a current Property and Asset Management Strategy (PAMS) which reflects a number of policy aims including:
  - To ensure that NHS Scotland assets are used efficiently, coherently and strategically to support Scottish Government's plans and priorities and identified clinical strategies and models of care.
  - To ensure that the operational performance of assets is appropriately recorded, monitored, reported and reviewed and, where appropriate improved.
  - To support and facilitate joint asset planning and management with other public sector organisations.
- 1.3 NHS Lothian's PAMS is intended to underpin the strategic direction set by 2014's *Our Health, Our Care, Our Future* and the 2016 Lothian Hospitals Plan (LHP), as well as the strategic direction taken by the four Integration Joint Boards. On a national level, the Strategy has also considered the impact of the Scottish Government's Health and Social Care Delivery Plan.
- 1.4 Backlog maintenance is essential maintenance work that has not been carried out previously but is deemed necessary to bring the condition of a maintainable asset up to a standard or acceptable level of risk. Assets deemed "acceptable" should comply with all relevant legislation and be maintained at a fully operational state within normal revenue allocations and planned capital investment.
- 1.5 In February 2018, the Scottish Government published its annual Report on the of NHS Scotland's Estate and Facilities 2017. In it the 2017 backlog maintenance requirement was reported as £899 million. NHS Lothian's share of this figure was £54 million and this has been compared with a number of other health boards in Appendix 1.
- 1.6 Reported backlog maintenance for NHS Lothian, calculated in line with Scottish Government requirements and reported in the PAMS, was £44.6 million as at 11 May 2018.
- 1.7 The PAMS splits the backlog maintenance between clinical and non-clinical, and provides several reasons for the improved backlog position, which include estate rationalisation, review and update of statutory compliance data in the Electronic Asset Management System (EAMS), and the continuation of the Backlog Maintenance Programme.
- 1.8 Although there has been significant progress in reducing Backlog Maintenance exposure, 62% of the total backlog exposure remains classified as a high or significant risk. Also, moderate and low risk items will become high and significant risk if remedial works are not undertaken at the appropriate time.

## **Scope**

1.9 The audit assessed the design and operating effectiveness of the controls in place in respect of the delivery of the Board's estate strategy, including the consideration of backlog maintenance and the organisation's wider strategic objectives. Considering the work carried out through our internal audit of Acute Site Masterplans in 2018, which included detailed review of the NHS Lothian Capital Prioritisation Process, we have excluded this particular area in this instance.

## **Acknowledgements**

1.10 We would like to thank all staff consulted during this review for their assistance and cooperation.

## 2. Executive Summary

### Summary of Findings

2.1 The table below summarises our assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Definitions of the ratings applied to each action are set out in Appendix 3.

No.	Control Objectives	Assurance Level	Number of Findings			
			Critical	High	Medium	Low
1	Backlog maintenance is suitably prioritised, ensuring forecasted spend and achievable estate maintenance plans.	Moderate Assurance	-	-	2	-
2	Estate strategic priorities are linked to and supported by the Board's wider service plans.	Significant Assurance	-	-	-	-
3	The best use of the Board's estate is made, including the best use of assets, space and facilities.	Significant Assurance	-	-	-	-
4	Governance of the Board's estate is effective, with sufficient oversight for decision making.	Significant Assurance	-	-	-	1
<b>TOTAL</b>			-	-	<b>2</b>	<b>1</b>

### Conclusion

2.2 There are reasonable controls in place for the effective management of the Board's estate, which are supported by appropriate governance. The resourcing and prioritisation of backlog maintenance is being managed within the Board's financial constraints, however we have identified improvement opportunities around the completion of building condition surveys and the forecasting of backlog maintenance.

## Main findings

- 2.3 Data is entered into the EAMS system under a number of different criteria including, building, engineering, statutory compliance, functionality and space. All of NHS Lothian's Hard Facilities Management (Hard FM) Managers have been granted read only access to the system, with edit rights given only to a handful of senior staff, including the Head of Business Support & Asset Management and the Head of Hard FM. Projects associated with the programme of backlog maintenance are reviewed within EAMS and prioritised by the level of risk and agreed between the Head of Business Support & Asset Management and the Hard FM managers.
- 2.4 Projects associated with the backlog maintenance programme are procured in accordance with the Board's Standing Financial Instructions and the appropriate procurement route used - e.g. the term contractor framework, quick quote or the minor works framework.
- 2.5 The Board has responded to the sustained pressure on resources by revising and enhancing the way in which it prioritises demands on resources required to develop its assets. Consequently, a revised and comprehensive prioritisation process now drives the Board's investment plans. This includes strategic fit criteria, which can be flexed to accommodate the specific needs of the service environment being prioritised.
- 2.6 A programme to review space utilisation has been prepared and is underway on a number of sites, including office accommodation at Waverley Gate, Astley Ainslie Hospital, Comely Bank, Royal Infirmary of Edinburgh and the Royal Edinburgh Hospital.
- 2.7 Accommodation Groups are in place across a number of sites, with responsibility for the preparation of information and recommendations regarding the utilisation of the accommodation. All accommodation requests are submitted using a completed proforma, logged by site and the decision recorded.
- 2.8 The PAMS was subject to a review by the Scottish Government's Health and Social Care Directorate in 2017 which, in addition to assessing how NHS Lothian prioritises its investment priorities, reviewed the document against each of the requirements expected from the Scottish Government and outlined in PAMS guidance. All recommendations from this exercise have been addressed.
- 2.9 The PAMS Steering Group meets monthly to review implementation of the PAMS and mitigate risks throughout the year while developing the strategy. The PAMS Steering Group includes representation from Facilities, Capital Planning, Finance, Strategic Planning, eHealth and operational teams.
- 2.10 The Terms of Reference (ToR) for the Lothian Capital Investment Group (LCIG) was approved by the Finance & Resources Committee at its meeting on the 21 March 2018. A schematic of LCIG accountability appended to the ToR shows that the PAMS Steering Group feeds into the LCIG and then the Finance & Resources Committee. The LCIG is apprised of the progress in the development and submission of the PAMS, in addition to other activities relevant to the management of the Board's estate.

2.11 The Finance & Resources Committee was advised in July 2018 that the preparation of the pro forma returns for the annual State of NHS Scotland's Assets and Facilities Report (SAFR) and the PAMS had been overseen by the PAMS Steering Group, and that they had been submitted to the Scottish Government as draft pending formal approval by the Committee. The PAMS Executive Summary had been provided as an appendix and the Committee asked to approve the submission to Scottish Government on behalf of NHS Lothian.

2.12 We identified three issues / improvement opportunities during this review:

Medium Rating

- While the schedule of property condition surveys is generally being followed, testing identified two properties from a sample of seven that had not been surveyed within the 5 year timescale (Finding 1).
- The potential for VFA capital planning software to help facilities staff model multi-year capital plans should be presented to the LCIG for formal approval (Finding 2).

Low Rating

- Terms of Reference for the PAMS Group and the LCIG should be reviewed and updated to explicitly state the responsibilities of each around the review, approval and monitoring of the estate backlog maintenance programme (Finding 3).

Further details of these points are set out in the Management Action Plan.

### 3. Management Action Plan

**Control objective 1: Backlog maintenance is suitably prioritised, ensuring forecasted spend and achievable estate maintenance plans**

**Finding 1: Condition surveys have not been carried out on properties within the 5 year timeframe.**

**Associated risk of not achieving the control objective: Necessary works are not being identified to maintain building condition and statutory requirements at an acceptable level.**

**Medium**

Background

All backlog maintenance programmes are based on items of work recorded within the EAMS, which is the national system for recording all aspects of the Board's estate including statutory compliance, physical condition, functional suitability, space utilisation and quality.

Property surveyors appointed through Health Facilities Scotland liaise with NHS Lothian in ensuring that 20% of the Board's estate is surveyed annually and the estate is surveyed in its entirety over a 5-year period.

Prior to the start of each financial year, staff from NHS Lothian will advise the property surveyors on the list of properties to be surveyed as part of the upcoming 'phase'.

Observation and Risk

Testing was carried out on a sample of seven NHS Lothian properties from a population of 65 owned by NHS Lothian. The objective was to confirm that all seven had been subject to condition surveys within the last five years.

Properties were selected at random, with testing confirming that five of the seven had been surveyed within an appropriate timeframe. Of the remaining two properties, one is vacant and the other was opened in 2013/14 and is due to be surveyed in 2019/20.

Further testing was carried out on a population of 40 properties last surveyed in 2012/13, with the objective to confirm that there are plans to survey them by the end of the 5-year timeframe. Of the seven properties selected, 3 are recorded in the phase 10 schedule (2018/19). One property had not been surveyed as it was vacant and declared surplus for sale. One property had actually been surveyed during 2013/14 and is scheduled for survey in 2019/20.

However, two properties that should have been surveyed this year were not. The two properties are listed below and had been incorrectly omitted from survey schedule:

- Boghall Health Clinic, and
- Bathgate House.

Without adherence to the survey schedule, there is a risk that issues around the condition, functionality and statutory compliance of the Board's properties are not being identified and



corrective action taken to maintain the condition of the property to an appropriate level.

Recommendation

Management should continue to monitor the schedule of condition surveys to ensure that all relevant properties are assessed within the 5 year timeframe.

Any properties that have lapsed should be promptly identified and their surveys completed as soon as possible.

Management Response

Acknowledge that two properties were omitted from the programme

Management Action

The two properties will be surveyed in the financial year 2019/20. A review of the survey list will be undertaken by Land & Property to ensure all properties are included on the survey programme.

Responsibility:

Head of Business Support & Asset  
Management

Target date:

30 June 2019

**Control objective 1: Backlog maintenance is suitably prioritised, ensuring forecasted spend and achievable estate maintenance plans**

**Finding 2: The current means of forecasting and resources backlog maintenance is ineffective.**

**Associated risk of not achieving the control objective: Financial planning and the appropriate allocation of resources is not being effectively managed in line with future service requirements.**

**Medium**

Background

The budget cost for works recorded in the EAMS is a net cost provided by NHS Lothian's surveyors (Thomson Gray). This is normally a cost per sqm for works based on the schedule of rates taken from the BCIS schedule of rates. The costs are indicative only and exclude VAT, fees, enabling works, decant costs etc. and have been calculated only to bring the asset back to condition B (sound, operationally safe, and exhibiting only minor deterioration), and meet current building requirements.

Observation and Risk

The LCIG was also advised in July 2018 that the PAMS group are currently developing a more sophisticated approach to forecasting backlog maintenance requirements and the impact of different funding scenarios on the condition of the building. It is proposed to make use of the VFA Capital Planning System - a tool procured and supported by the Scottish Government.

VFA capital planning software is designed to help facilities staff model multi-year capital plans by providing the forecasting tools needed to efficiently gather and maintain facility condition data and use that data to optimise decisions around maintenance and capital planning.

The LCIG was again advised in January 2019 that this more sophisticated approach to forecasting backlog maintenance requirements and the impact of different funding scenarios on the condition of the building was still being developed, with the outcome to be brought back to the LCIG in summer 2019.

Without an effective means of identifying, costing and prioritising backlog maintenance requirements, there is a risk that financial planning and the appropriate allocation of resources is not being effectively managed in line with future service requirements and the longer term intentions for the Board's estate.

Recommendation

Management should complete its review around the use of the VFA Capital Planning software and present this to the LCIG for consideration and, if necessary, approval in summer 2019.

The review should include a cost / benefit analysis of the training required to effectively operate the system.

Management Response

Accepted.

Management Action

Resource has now been identified within Capital Finance to take the initiative forward, and members of the Estates team have also received training.

Formal approval will be requested from the LCIG.

Responsibility:

Capital Finance Manager

Target date:

30 September 2019

**Control objective 2: Estate strategic priorities are linked to and supported by the Board's wider service plans**

We identified no significant weaknesses in relation to the above control objective.

It was noted through the Internal Audit review of Acute Site Masterplans in 2018 that the NHS Lothian Board has responded to the sustained pressure on resources by revising and enhancing the way in which it prioritises demands on resources required to develop its assets.

Consequently, a revised and comprehensive prioritisation process now drives the Board's investment plans. This includes strategic fit criteria, which can be flexed to accommodate the specific needs of the service environment being prioritised.

The PAMS places the focus of the development of acute service provision on the four sites as stipulated in "Our Health, Our Care, Our Future" and expressed in the Lothian Hospitals Plan (LHP). The LHP remains the strategic plan for the 4 main sites that currently deliver NHS Lothian's acute and speciality services.

The PAMS has recorded the strategic headlines for the four acute sites, as stated in the Lothian Hospitals Plan.

In delivering its PAMS, NHS Lothian will ensure through the revised prioritisation process that where new investment is made it supports the delivery of NHS Lothian's strategic aims and those of the IJBs.

**Control objective 3: The best use of the Board's estate is made, including the best use of assets, space and facilities**

We identified no significant weaknesses in relation to the above control objective.

A programme to review space utilisation has been prepared and is underway on a number of sites, including office accommodation at Waverley Gate, Astley Ainslie Hospital, Comely Bank, Royal Infirmary of Edinburgh and the Royal Edinburgh Hospital.

NHS Lothian is working towards a target of 90% utilisation of its assets (compared to the current 73%), and with 90% of space being classed as A or B in terms of functional suitability and condition (currently 70% and 55% respectively). Appropriate plans are in place to achieve this target through estate rationalisation (disposals etc.), which are tested each year as part of the annual property transactions internal audit. Comprehensive information recorded using EAMS is used to inform decisions on the maintenance and use of the Board's estate.

Additionally, Accommodation Groups are in place across a number of sites, with responsibility for the preparation of information and recommendations regarding the utilisation of the accommodation. All accommodation requests are submitted using a completed proforma, logged by site and the decision recorded.

Elsewhere, the PAMS advises the Board on the condition of its estate and includes:

- Physical Condition
- Functional Suitability
- Quality
- Space Utilisation
- Statutory Compliance.

The PAMS was subject to a review by the Scottish Government's Health and Social Care Directorate in 2017 which, in addition to assessing how NHS Lothian prioritises its investment needs, reviewed the document against each of the requirements expected from the Scottish Government and outlined in PAMS guidance. The assessment was positive, with a small number of recommendations that have now been addressed.

**Control objective 4: Governance of the Board's estate is effective, with sufficient oversight for decision making**

**Finding 3: Terms of reference for the PAMS Group and the LCIG does not explicitly state their responsibilities in the management of backlog maintenance.**

**Associated risk of not achieving the control objective: Members are not adequately informed of their roles and responsibilities around the management of the Board's estate and decisions associated with its maintenance and upkeep.**

**Low**

Background

A robust governance process and structure for reporting backlog maintenance within NHS Lothian has been implemented, with agreement and monitoring of the programme subject to review by the following governance groups:

- Property & Asset Management Strategy (PAMS) Group
- Capital Steering Group
- Lothian Capital Investment Group (LCIG)
- Finance & Resources Committee.

For example, in July 2018 the LCIG was presented with a Backlog Maintenance Update and the group asked to acknowledge the programme for the year ahead, the basis of selection and the financial impact.

Observation and Risk

While Terms of Reference are in place for both the PAMS Group and the LCIG, the emphasis of each is to support the development of NHS Lothian's PAMS and support the development of the Property and Asset Management Investment Programme (PAMIP). There is no explicit mention in either of the groups' responsibilities around the review, prioritisation and approval of the backlog maintenance programme. We acknowledge that the remit of both groups is to focus on the NHS Lothian wider estate in its entirety and backlog maintenance is just one aspect in managing the NHS Lothian estate.

Therefore, there is a risk, albeit reduced, that the governance groups in place do not provide effective oversight or governance related to the programme of backlog maintenance.

Recommendation

The Terms of Reference for the PAMS Group and the LCIG when next reviewed should be considered in the context of backlog maintenance and whether it is necessary to be explicit in the remit on backlog maintenance or whether it is determined this is covered sufficiently when looking at the wider NHS Lothian estate.

Management Response

Whilst not explicitly covered we note that the Terms of Reference note amongst the activities:

Support the development of NHS Lothian's Property and Asset Management Strategy (PAMS), which covers premises, medical equipment, eHealth and transport.

The LCIG does review and monitor the capital plan and backlog maintenance is one aspect of this. The BLM prioritisation and programme is approved by LCIG.

We will discuss this further at the PAMS group but initially feel that premises cover maintenance, and to single out backlog maintenance would reduce the focus at the Committee on the wider Estate.

Management Action

The points will be discussed with the PAMS Group and LCIG and a decision made around updating the terms of reference and whether those are fit for purpose.

Responsibility:

Head of Business Support & Asset  
Management / Capital Finance Manager

Target date:

30 June 2019

## Appendix 1 – Backlog Maintenance 2017 Cost Comparison

<b>Health Board</b>	<b>Backlog Maintenance Cost</b>
NHS Lothian	£54 million
NHS Greater Glasgow and Clyde	£252 million
NHS Tayside	£99 million
NHS Grampian	£153 million
NHS Fife	£63 million
NHS Ayrshire and Arran	£72 million
NHS Lanarkshire	£36 million
NHS Highland	£63 million
NHS Forth Valley	£18 million
NHS Dumfries and Galloway	£72 million



## Appendix 2 – Staff Involved and Documents Reviewed

### Staff Involved

- Head of Hard FM
- Head of Business Support & Asset Management
- Land & Property Manager
- Administration Assistant – Business Support & Asset Management
- Accounting Assistant – Capital Planning
- Estates Managers

### Documents Reviewed

- Phases 1-8 condition survey schedules
- Phase 9 condition survey schedule
- Phase 10 condition survey schedule
- PAMS Appendix 2 – high risk backlog maintenance
- Corporate Risk Register extract – Facilities Fit For Purpose
- LCIG minutes – 24 July 2018
- Finance & Resources Committee paper 15 November 2017 – Backlog Maintenance
- Finance & Resources Committee minutes 15 November 2017
- Finance & Resources Committee paper 23 January 2018 – Fit for Purpose
- LCIG paper January 2019 – Backlog Maintenance Month 10 Report
- NHS Lothian PAMS 2018-2023
- Finance & Resources Committee paper 23 July 2018
- Finance & Resources Committee paper 19 September 2018
- PAMS Group Terms of Reference
- PAMS minutes – September 2017, January 2018, February 2018, March 2018, April 2018, May 2018, August 2018, December 2018, February 2019
- Scottish Government PAMS review feedback
- LCIG Terms of Reference
- Finance & Resources Committee paper 21 March 2018 – LCIG ToR Approval
- Finance & Resources Committee minutes 21 March 2018
- LCIG Minutes – March 2018, May 2018, August 2018, December 2018
- Condition Surveys undertaken on behalf of NHS Lothian under PPI/Hub/NPD contractual arrangements
- Various quotes received for work identified in the 2018/19 backlog maintenance programme
- NHS Lothian Strategic Plan 2014-2024
- Lothian Hospitals Plan

## Appendix 3 - Definition of Ratings

### Findings and management actions ratings

Finding Ratings	Definition
<b>Critical</b>	A fundamental failure or absence in the design or operating effectiveness of controls, which requires immediate attention
<b>High</b>	A key control failure has been identified which could be either due to a failure in the design or operating effectiveness. There are no compensating controls in place, and management should aim to implement controls within a calendar month of the review.
<b>Medium</b>	A control failure has been identified which could be either due to a failure in the design or operating effectiveness. Other controls in place partially mitigate the risk to the organisation, however management should look to implement controls to fully cover the risk identified.
<b>Low</b>	Minor non-compliance has been identified with the operating effectiveness of a control, however the design of the control is effective

## Report ratings and overall assurance provided

Report Ratings	Definition	When Internal Audit will award this level
<b>No assurance</b>	The Board cannot take any assurance from the audit findings. There remains a significant amount of residual risk.	The controls are not adequately designed and / or operating effectively and immediate management action is required as there remains a significant amount of residual risk (for instance one Critical finding or a number of High findings)
<b>Limited assurance</b>	The Board can take some assurance from the systems of control in place to achieve the control objective, but there remains a significant amount of residual risk which requires action to be taken.	<p>This may be used when:</p> <ul style="list-style-type: none"> <li>• There are known material weaknesses in key control areas.</li> <li>• It is known that there will have to be changes that are relevant to the control objective (e.g. due to a change in the law) and the impact has not been assessed and planned for.</li> </ul> <p>The controls are deficient in some aspects and require management action (for instance one 'high' finding and a number of other lower rated findings)</p>
<b>Moderate assurance</b>	The Board can take reasonable assurance that controls upon which the organisation relies to achieve the control objective are in the main suitably designed and effectively applied. There remains a moderate amount of residual risk.	<p>In most respects the "purpose" is being achieved. There are some areas where further action is required, and the residual risk is greater than "insignificant".</p> <p>The controls are largely effective and in most respects achieve their purpose with a limited number of findings which require management action (for instance a mix of 'medium' findings and 'low' findings)</p>
<b>Significant assurance</b>	<p>The Board can take reasonable assurance that the system(s) of control achieves or will achieve the control objective.</p> <p>There may be an insignificant amount of residual risk or none at all.</p>	<p>There is little evidence of system failure and the system appears to be robust and sustainable.</p> <p>The controls adequately mitigate the risk, or weaknesses are only minor (for instance a low number of findings which are all rated as 'low' or no findings)</p>