

Address:
110 George Street
Edinburgh
EH2 4LH

Telephone:
0845 146 1010
Fax:
0845 146 1009

Website:
www.audit-scotland.gov.uk



Press release

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Financial position in the NHS good but challenging times lie ahead

The financial position in the NHS continues to improve overall but the service faces challenging times in the near future.

An Audit Scotland report published today, *Financial overview of the NHS in Scotland 2007/08*, finds that the health service had an overall underspend of £26 million on its £10.1 billion budget for the financial year ending 31 March 2008. This was the third consecutive financial year that the service had an overall underspend, and during 2007/08 NHS bodies were less reliant than previously on non-recurring types of income to meet financial targets.

However, coming years will be challenging. NHS bodies will receive smaller funding increases over the next three years than in recent years. At the same time, they are expected to increase efficiency savings although they will be able to re-invest these savings to support the delivery of front-line services.

Boards will face continuing costs pressures such as new pay deals for staff, rising drug and fuel costs, and the costs associated with reducing waiting times and service redesign. They will also face new challenges such as the full implementation of the European Working Time Directive.

The Auditor General for Scotland, Robert Black, said: "The financial performance of the NHS was good during 2007/08. The service continues its steady improvement in this area over the past few years. This is the third year in a row that the NHS has ended the year with a small underspend.

"Boards are relying less on non-recurring funding - such as the sale of assets and using one-off government grants for their day-to-day operating costs. This is an issue Audit Scotland has highlighted on a number of occasions in recent years.

"However, NHS bodies should now prepare for some considerable challenges ahead. Future funding increases will be getting smaller at the same time as bodies are being asked to generate significant savings. In addition to the continuing pressures such as pay deals and drug costs, bodies will also have to deal with new issues such as the need to cover staff whose hours are restricted by European employment laws."

During 2007/08, NHS bodies underspent by £24 million on their revenue budgets – the money used for the day-to-day running of the health service – and £2 million on their capital budgets – the money used for projects such as new buildings and equipment. NHS Western Isles was the only board to fail to meet one of its financial targets.

Most NHS bodies also had sound governance arrangements in place but the auditors of NHS Orkney and NHS Western Isles have raised governance issues that those boards must address.

For further information please contact Simon Ebbett on 0131 625 1652 or Anne McCubbin on 0131 625 1653

Notes to editors

1. This year the overview of the NHS in Scotland focuses on financial performance for the year ending 31 March 2008. Financial performance cannot be considered in isolation from overall performance and service delivery, so this report should be read alongside Audit Scotland's overview report on the performance of the NHS in Scotland published in December 2007. Audit Scotland's next performance overview will be published in December 2009.
2. A summary of the financial performance of each NHS board and special health board is in Appendix 1 of the report.

3. The European Working Time Directive (EWTD) will set a 48-hour working week limit on junior doctors, and NHS boards must fully comply with this by August 2009. Boards will need to make other arrangements, such as hiring locums, to cover junior doctors' hours that are over the 48-hour limit or face financial penalties for not complying with the EWTD.
4. All Audit Scotland reports published since 2000 can be found on Audit Scotland's website www.audit-scotland.gov.uk
5. Audit Scotland is a statutory body set up in April 2000, under the Public Finance and Accountability (Scotland) Act, 2000. Audit Scotland has prepared this report for the Auditor General for Scotland.
6. The Auditor General is responsible for securing the audit of the Scottish Government and most other public bodies in Scotland, except local authorities. He investigates whether spending bodies achieve the best possible value for money and adhere to the highest standards of financial management. The Auditor General is independent and is not subject to the control of the Scottish Government or the Scottish Parliament.