Financial overview of the NHS in Scotland 2009/10

AUDIT SCOTLAND

Prepared for the Auditor General for Scotland
December 2010

Auditor General for Scotland

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NHS funding is rising less quickly than before but demand and cost pressures continue to increase.

Introduction

1. The NHS in Scotland is composed of the 14 NHS boards, nine special NHS boards and the Scottish Government Health Directorates (SGHD).[1] This report provides an overview of the financial performance of the NHS in Scotland in 2009/10 and examines the financial challenges and risks it faces for 2010/11 and beyond.

2. The NHS in Scotland spent £10.8 billion in 2009/10, representing around a third of the total spend by the public sector. The vast majority of this money is spent by NHS bodies on hospital and community health services delivered in hospitals and clinics, and on family health services delivered by independent contractors such as GPs, pharmacists, dentists and opticians. It remains Scotland's largest employer with over 160,000 people providing care in community, primary and acute settings throughout the country.

Public sector finances are under greater pressure

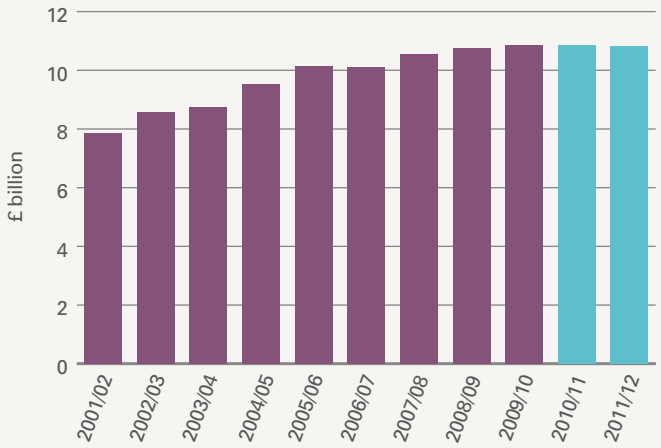
3. The public sector in Scotland is under the greatest financial pressure since devolution. The Scottish budget is forecast to contract for six consecutive years, and by the end of 2015/16 it will be £4.8 billion below its 2009/10 peak in real terms,[2] a cumulative fall of 16.1 per cent.[3]

4. In October 2010, the Chancellor of the Exchequer announced the plans for the UK budget from 2011/12 to 2014/15. This gives Scotland its overall indicative budget (block grant), which will reduce in real terms by £3.3 billion (11.3 per cent) over that period.[4]

Exhibit 1

Gross expenditure on health in Scotland, 2001/02 to 2009/10 (adjusted to 2009/10 prices) and budgeted expenditure for 2010/11 and 2011/12

The level of year-on-year increase in NHS funding is slowing down.



Note: The costs for the years up to 2009/10 are adjusted to 2009/10 prices, ie they are increased to strip out the effects of inflation. The budgets for 2010/11 and 2011/12 are from Scottish budget figures.

Source: Scottish Government Consolidated accounts and Scottish budget documents for 2010/11 and 2011/12

5. The Scottish Government presented its draft budget for 2011/12 to the Scottish Parliament on 17 November 2010. The budget available to health is £11.4 billion, an increase of £191 million (1.7 per cent) over the budget in 2010/11.[5]

Funding to the NHS in Scotland is rising less quickly than before but demand and cost pressures continue to increase

6. Our previous overview reports on the NHS have commented on the financial pressures NHS bodies are facing. Between 2001/02 and 2009/10, NHS expenditure increased by 38 per cent in real terms. However, the level of year-on-year increase in NHS funding is slowing down (Exhibit 1).

7. Despite the slowing rate of funding increases, the NHS continues to face growing demand for its services. Budgets will come under pressure as costs associated with pay, energy, prescribing and demographic changes rise at a faster rate than funding increases. This leaves NHS bodies with a major challenge to find significant savings so they can continue to provide the same level and quality of services within their available budgets.

1 We use the following terms throughout this report: NHS bodies is the collective term to cover both NHS boards and special NHS boards. NHS boards are the territorial health boards, ie NHS Tayside, and special NHS boards are the special health boards, ie NHS QIS. Although the Mental Welfare Commission for Scotland is a commission constituted under the Mental Health (Care and Treatment) (Scotland) Act 2003, for the purposes of this report we have included financial information on its 2009/10 accounts with our coverage of special health boards.
2 The increase after inflation is taken into consideration.
3 *Independent Budget Review, The Report of Scotland's Independent Budget Review Panel*, July 2010.
4 SPICe briefing on UK Spending Review Table 4, 21 October 2010.
5 *Scottish Budget: draft budget 2011/12*, Scottish Government, November 2010.

Our study

8. This report is based largely on the audited annual accounts and auditors' reports on the 2009/10 audits of the NHS bodies and the SGHD. We also used other sources of information to support our work, including literature review, national published statistics and interviews with staff from the SGHD.

9. All NHS bodies submitted their audited accounts by the deadline of 30 June 2010. Auditors reported that the audit process ran smoothly and that draft accounts and supporting schedules were of a good standard. Annual audit reports are available on Audit Scotland's website. The final financial positions in 2009/10 for the NHS boards and special NHS boards are shown at Appendix 1 and forecast financial positions for 2010/11 at Appendix 2. For ease of reference, figures in the main body of the report have been rounded. We have tried to minimise the use of technical terms, but in some places this is unavoidable and we have therefore included a glossary at Appendix 3.

10. The financial performance of the NHS cannot be considered in isolation from its overall performance and service delivery, so this report should be considered alongside our 2008/09 overview report on the performance of the NHS.

11. This report is organised into two parts:

- Part 1 reports on the current financial health of the NHS.
- Part 2 considers the challenges for the NHS in a tighter financial climate.

Key messages

- The financial performance of the NHS was good in 2009/10. All NHS bodies met their financial targets. This was achieved through the delivery of significant planned efficiencies.
- Short-term forecasts suggest that NHS bodies will continue to meet their targets for 2010/11. To do this they will have to identify and deliver more cost savings than achieved in previous years, and at a level in excess of the two per cent efficiency saving set by the Scottish Government.
- In the medium to longer term, pressure on NHS finances will continue to increase. Funding levels are unlikely to increase at the rates experienced over the last decade and any real terms increase may be difficult to sustain in the longer term. At the same time, cost pressures will increase as demand for services grows, and increases in prices, for example for drugs, outstrip increases in funding.
- The NHS is responding to the challenges of the current financial climate, growing demand and other cost pressures. The NHS Scotland healthcare quality strategy has been produced to provide a base that NHS bodies can use in considering a range of options, such as service redesign, better procurement, staff planning and increases in income, to identify ways of bridging the gap between the funding available and the cost of delivering services.
- In taking forward this challenging agenda, NHS bodies must continue to develop management arrangements which will support the difficult decisions they will have to take. Key aspects of these arrangements will include:
  - better information on cost, activity, quality of service and productivity
  - sound leadership and governance
  - good workforce planning
  - closer partnership working
  - engagement with the communities that they support.

Part 1. The current financial health of the NHS

The financial performance of the NHS was good in 2009/10.

The financial performance of the NHS was good in 2009/10

12. The NHS in Scotland spent £10.8 billion in 2009/10, a real terms increase of 0.9 per cent on the previous year. Financial management of NHS funds in Scotland remains sound. Auditors provided unqualified audit opinions on the financial statements produced by the boards and on the regularity of the expenditure they incurred. This year all NHS bodies presented their accounts in accordance with International Financial Reporting Standards (IFRS). This was a significant exercise for the public sector to deliver and, on the whole, NHS bodies managed this well.

Financial performance of the NHS overall

13. The NHS in Scotland under-spent against its total budget by £43 million. This was made up of a revenue under-spend of £42 million and a small under-spend on the capital budget of £1 million (Exhibit 2). The revenue under-spend is 0.4 per cent of the overall budget of the NHS in Scotland.

Financial performance of NHS bodies

14. NHS bodies have three financial targets. These are to stay within their:

- revenue resource limit (RRL) – this is the revenue budget allocated for the day-to-day operation of services
- capital resource limit (CRL) – the funding that a health body has available for capital programmes
- cash requirement – this is the amount of cash drawn down by NHS bodies to fund ongoing operational costs and new capital investment.

15. NHS bodies collectively under-spent by £37 million on their revenue budgets in 2009/10 (Exhibit 3). This was made up of an under-spend of £27 million by NHS boards and £10 million by special NHS boards. This continues a trend which has seen the level of total under-spend against RRL by NHS bodies decrease year-on-year since 2006/07.

16. For the second year running all bodies met their financial targets (Appendix 1). In previous years some NHS boards have recorded a deficit position, where they spent more than the level of funding allocated to them. Where this has happened in the past, boards have entered an arrangement with the SGHD to pay back the deficit. NHS Western Isles is in this position and is due to start repaying this funding in 2012/13, over a six-year term.

17. Over reliance on non-recurring funding can be used to some extent as a measure to help evaluate the financial health of an NHS body. Much of the funding that NHS bodies receive from the SGHD can be classified as recurring income – funding they receive each year to meet their recurring expenditure, or ongoing running costs. NHS bodies also receive non-recurring or one-off funding during the year. A sign of good financial health for an NHS body is when its recurring expenditure does not exceed its recurring income. We have commented in previous overview reports on the extent to which NHS bodies rely on non-recurring funding to achieve financial targets or support their financial position.

Exhibit 2

Overall NHS financial position, including the Scottish Government Health Directorates, 2006/07 to 2009/10

NHS in Scotland outturn	2006/07 £m	2007/08 £m	2008/09 £m	2009/10 £m
Revenue budget	9,109	9,726	10,085	10,387
Capital budget	391	398	508	497
Total budget	**9,500**	**10,124**	**10,593**	**10,884**
Revenue expenditure	9,078	9,702	10,085	10,345
Capital expenditure	324	396	504	496
Total expenditure	**9,402**	**10,098**	**10,589**	**10,841**
Revenue under-spend/over-spend (-)	31	24	0	42
Capital under-spend/over-spend (-)	67	2	4	1
Total under-spend/over-spend (-)	**98**	**26**	**4**	**43**

Source: *Scottish Government Consolidated accounts 2009/10*, September 2010

Exhibit 3

Summary of NHS bodies' performance against Revenue Resource Limit target, 2008/09 and 2009/10

NHS bodies under-spent their budgets by a total of £37 million during 2009/10.

	RRL £m	Expenditure £m	2008/09 under-spend £m	2009/10 under-spend £m
NHS boards	8,312	8,284	44	27
Special boards	1,229	1,220	14	10
Total	9,541	9,504	58	37

Source: NHS bodies' annual accounts

18. In 2009/10, most NHS bodies reduced their reliance on non-recurring funding. Only four (NHS Forth Valley, NHS Borders, NHS Greater Glasgow and Clyde, NHS Lothian) slightly increased their reliance on non-recurring funding (Exhibit 4, overleaf).

19. Historically, the island NHS boards have experienced higher underlying recurring deficits but in 2009/10 all three continued to reduce this. Special NHS boards are not subject to the same fluctuations in demand as NHS boards; therefore it should be easier for them to maintain their financial position without relying on non-recurring funding. In 2009/10, no special NHS boards had a recurring deficit.

The NHS continues to report good progress against the efficiency programme

20. The Scottish Government's Efficient Government Programme has set a target of two per cent efficiency savings. In 2009/10, NHS bodies reported cost savings exceeding £202 million, including £166 million of recurring savings and £36 million of non-recurring savings (Exhibit 5, page 9). Overall, the NHS exceeded the two per cent target.

21. In February 2010, we published our report on *Improving Public Sector Efficiency*. This concluded that public bodies, including the NHS, needed to build on the achievements the Efficiency Programme had reported to date, by taking a more fundamental approach to identifying priorities, improving the productivity of services, and improving collaboration and joint working.

Some NHS bodies need to make significant cost savings to help them break even

22. Boards are generally predicting that they will continue to deliver their services within their budgets in 2010/11 (Appendix 2). However, due to the continuing financial pressures, all NHS bodies recognise that they will have to deliver further financial savings at a higher rate if they are to continue to deliver quality services within budget. Boards recognise that efficiency savings at two per cent are no longer enough and that more needs to be done to balance their financial position.

23. Overall, NHS bodies are forecasting that they will need to achieve £274 million of savings in 2010/11. This is £72 million (36 per cent) more than the savings delivered in 2009/10. However, the level of savings as a proportion of the budget likely to be available to individual NHS bodies varies significantly. A comparison of the level of savings forecast by each board against its opening RRL budget for 2010/11 shows that the level of savings for NHS boards ranged from two per cent (NHS Ayrshire and Arran and NHS Lanarkshire) to 8.6 per cent (NHS Orkney), while those for special NHS boards ranged from 1.3 per cent (NHS Education) to six per cent (NHS QIS), (Exhibit 6, page 10). NHS boards reporting lower levels of savings (such as NHS Ayrshire and Arran and NHS Lanarkshire) have generally had higher levels of cumulative surpluses, built up over previous years, to use in addressing rising financial pressures while others, such as Orkney, have had to find proportionately greater financial savings.

The level of capital investment in 2009/10 is unlikely to be repeated in future years

24. In 2009/10, capital expenditure in the NHS was £772 million[6] compared with around £120 million in 2003/04. Capital expenditure in 2009/10 included £225.4 million of expenditure reclassified as capital because of the introduction of new international accounting guidance, and £50 million brought forward from the 2010/11 budget by the Scottish Government in response to the current economic climate. The amount brought forward is due to be repaid in 2010/11.

6 £772 million = £497 million spend against CRL + £225 million reclassification adjustment + £50 million brought forward.

Exhibit 4

NHS bodies' recurring deficit/surplus – 2008/09 and 2009/10

Nineteen NHS bodies were either in a break-even or underlying recurring surplus position or had improved the position of their underlying recurring deficit.

	2008/09		2009/10	
	Underlying recurring deficit (-)/surplus £m	As a per cent of recurring income	Underlying recurring deficit (-)/surplus £m	As a per cent of recurring income
NHS Ayrshire and Arran	1.40	0.22	0.00	0.00
NHS Borders	-0.96	-0.47	-0.94	-0.48
NHS Dumfries and Galloway	2.00	0.75	2.64	0.98
NHS Fife	-2.62	-0.49	-0.99	-0.17
NHS Forth Valley	0.00	0.00	-8.85	-2.08
NHS Grampian	-7.80	-0.90	-1.09	-0.12
NHS Greater Glasgow and Clyde	-2.00	-0.08	-18.10	-0.67
NHS Highland	-8.02	-1.41	0.08	0.01
NHS Lanarkshire	3.70	0.46	0.40	0.05
NHS Lothian	-8.00	-0.73	-9.00	-0.82
NHS Orkney	-3.60	-9.83	-2.67	-6.45
NHS Shetland	-1.85	-5.31	-1.36	-3.80
NHS Tayside	-2.67	-0.35	-2.58	-0.32
NHS Western Isles	-1.50	-2.30	-1.16	-1.70
Total for NHS boards	-31.92	-0.36	-43.63	-0.50
Mental Welfare Commission for Scotland	0.00	0.00	0.00	0.00
National Waiting Times Centre Board	0.00	0.00	0.00	0.00
NHS 24	0.40	0.71	0.00	0.00
NHS Education for Scotland	8.00	2.03	2.80	0.69
NHS Health Scotland	-0.08	-0.38	0.29	1.20
NHS National Services Scotland	0.10	0.03	0.00	0.00
NHS Quality Improvement Scotland	0.12	0.71	0.15	0.84
Scottish Ambulance Service Board	0.00	0.00	0.08	0.04
State Hospitals Board for Scotland	0.33	0.91	1.32	3.59
Total for special boards	8.87	0.73	4.64	0.40
Total for all NHS bodies	-23.05	-0.23	-38.99	-0.40

Source: Unaudited returns from NHS bodies, July 2009 and July 2010

Exhibit 5

Savings reported by NHS bodies

NHS bodies reported cost savings exceeding £202 million.

	Recurring savings £m	Non-recurring savings £m	Total savings £m
NHS Ayrshire and Arran	11.3	0.0	11.3
NHS Borders	3.0	1.8	4.8
NHS Dumfries and Galloway	4.8	0.0	4.8
NHS Fife	9.1	1.0	10.1
NHS Forth Valley	8.4	1.9	10.2
NHS Grampian	24.4	1.4	25.8
NHS Greater Glasgow and Clyde	41.3	6.5	47.8
NHS Highland	11.3	3.2	14.4
NHS Lanarkshire	3.9	-0.1	3.8
NHS Lothian	16.0	9.0	25.0
NHS Orkney	1.5	0.8	2.2
NHS Shetland	0.8	0.7	1.5
NHS Tayside	13.0	3.0	16.0
NHS Western Isles	1.0	1.4	2.4
Total for NHS boards	**149.7**	**30.5**	**180.2**
Mental Welfare Commission for Scotland	0.0	0.0	0.0
National Waiting Times Centre Board	1.4	0.3	1.7
NHS 24	1.2	0.0	1.2
NHS Education for Scotland	2.8	4.3	7.1
NHS Health Scotland	0.2	0.1	0.3
NHS National Services Scotland	4.9	0.0	4.9
NHS Quality Improvement Scotland	0.5	0.2	0.7
Scottish Ambulance Service Board	4.1	0.1	4.2
State Hospitals Board for Scotland	1.0	0.7	1.7
Total for special boards	**16.2**	**5.7**	**21.9**
Total for all NHS bodies	**165.9**	**36.2**	**202.1**

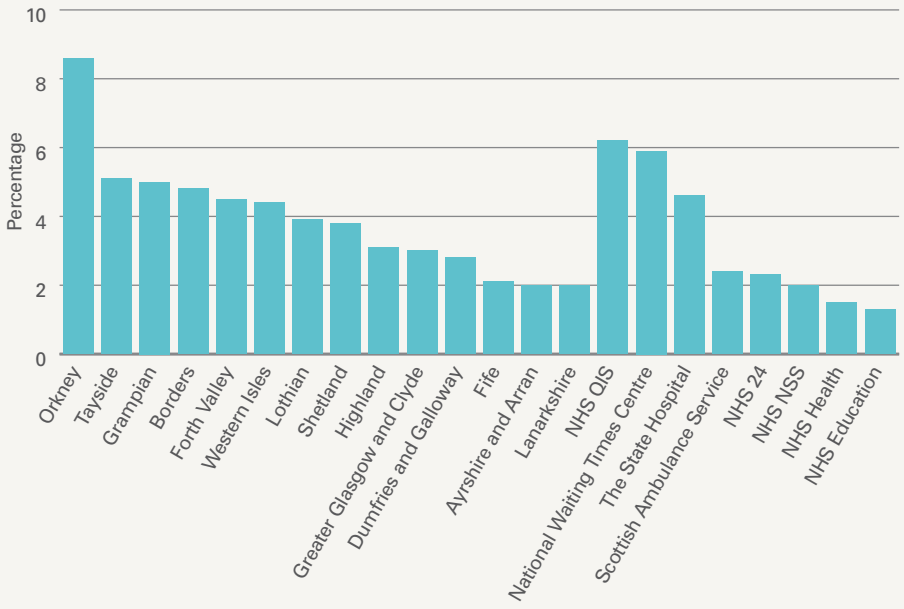
Note: Figures are rounded. The figures provided are from unaudited returns provided by NHS bodies and do not necessarily correspond with Efficient Government Programme returns to the SGHD.

Source: Unaudited returns from NHS bodies, July 2010

Exhibit 6

Cost savings anticipated by NHS bodies in 2010/11

The level of savings against budget NHS bodies need to achieve varies significantly.[1]



Notes:
1. The full level of RRL will not be available until late in the financial year. For comparison purposes we have used the opening RRL to calculate the percentage savings.
2. The level of savings can increase during the year, so although some bodies are below the two per cent level, this is reviewed as financial plans are carried forward over the course of the year.

Source: Unaudited returns from NHS bodies, July 2010

25. NHS bodies use their capital budget to improve their facilities through new buildings or refurbishing existing premises. New and improved facilities can help NHS bodies to redesign and improve how services are delivered. In June 2010, the Scottish Government provided the Public Audit Committee of the Scottish Parliament with information on its plans for capital projects going forward (Exhibit 7). This included 12 major projects for the NHS which will require expenditure of up to £2.6 billion. Audit Scotland will publish a report in early 2011 on how the Scottish Government manages major capital investment.

26. The Scottish Government has reviewed its priorities for capital spend. Consequently, NHS bodies have been informed that their current plans for capital spend may not go forward. This will impact on how NHS bodies take forward their overall strategies for redesigning services by building or refurbishing facilities to improve how services are delivered and to consider alternative methods for delivery.

27. The impact of this will vary across NHS bodies. For example, for NHS Dumfries and Galloway this has resulted in a major review of its plans for delivering services. Following discussions, the SGHD and NHS Lothian agreed a reduction in capital funding, leading to a funding shortfall of over £40 million against NHS Lothian's original capital spending plan. NHS Lothian has begun a review of future capital projects going forward.

Changes in the funding formula are affecting boards in different ways

28. The NHSScotland Resource Allocation Committee (NRAC) published a report in 2008 which set out a new formula to calculate the percentage share of annual funding that each NHS board will receive from the SGHD. Previous overview reports have commented on this funding formula and the difficulty in moving to target allocations. The SGHD has given a commitment that there will be no funding cuts for boards which currently receive a greater share of funding than they would do under the NRAC formula. Instead, an additional uplift would be provided to those boards below the NRAC level. However, given the anticipated reductions in public spending it is hard to see where the additional funding will come from to move to NRAC targets.

29. The Public Audit Committee has requested further information from the Scottish Government in relation to future plans for funding NHS boards:[7]

- how the NRAC formula takes account of levels of deprivation
- where the additional funding will come from to enable funding to match the NRAC targets for each board
- how the NRAC formula allocations will be adjusted if NHS budgets are reduced in future
- the timescales for matching NHS board funding to the NRAC targets.

7 *7th Report 2010: Overview of the NHS in Scotland's performance 2008/09*, Public Audit Committee, October 2010.

Exhibit 7

Major capital projects in the NHS with a value in excess of £50 million

Twelve capital projects in the NHS will require expenditure of up to £2.6 billion.

	Estimated capital value £m	Due for completion	Status of project at June 2010
Ayrshire and Arran – mental health	53	Not yet known	Business case
Dumfries and Galloway – Royal Infirmary[1]	140	Not yet known	Business case
Fife – general hospital and maternity services	170	2011	In construction
Forth Valley – acute hospital	293	2011	In construction
Greater Glasgow and Clyde – New South Glasgow Hospitals and Laboratory Project[1]	842	Laboratory – 2012 Hospitals – 2015	Laboratory – in construction Hospitals – business case
Grampian – emergency care centre[1]	110	2013	In construction
Lanarkshire – Monklands Hospital	400	Not yet known	Initial agreement
Lothian – Royal Edinburgh Hospital	135	Not yet known	Initial agreement
Lothian – Hospital for Sick Children	148	2012	Business case
Lothian – clinical neurosciences	28-53	Not yet known	Initial agreement
State Hospital – redevelopment	90	2011	In construction
Tayside – mental health[1]	98	2013	In construction
Total cost (potentially most expensive)	2,532		

Note: 1. Four boards have updated their information since the letter to the Public Audit Committee.
Source: Letter from Permanent Secretary to Public Audit Committee, June 2010

Part 2. Challenges for the future

NHS bodies must continue to develop management arrangements which will support the difficult decisions ahead.

30. The NHS in Scotland has benefited from unprecedented increases in funding over the last ten years. Current budget plans suggest that although the NHS may fare better than other parts of the public sector in terms of reduction in funding, the level of funding increases is likely to fall. At the same time NHS bodies face significant cost pressures in a number of areas. These pressures make it even more important that NHS bodies are in a position to manage their finances in a way which ensures stability without significant reductions in service delivery (Exhibit 8).

Demand and cost pressures are likely to increase

Demographics

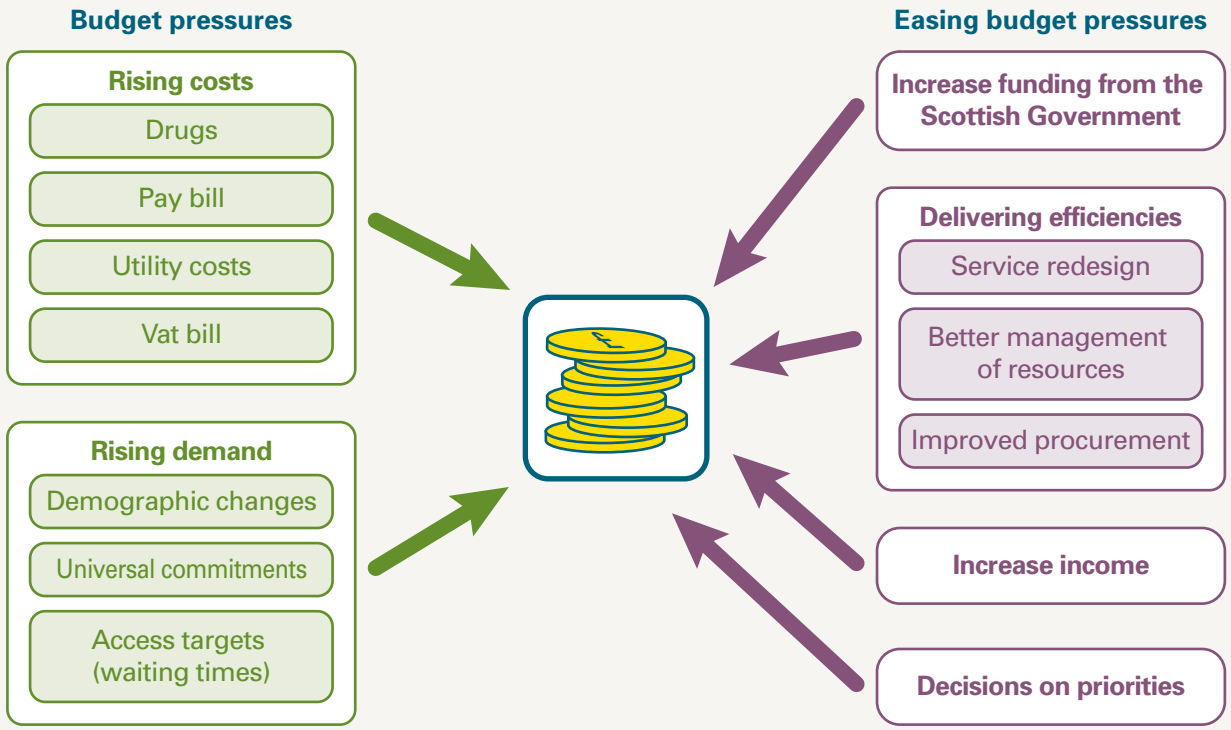
31. Demographic changes mean that the proportion of older people in Scotland will rise significantly in the next 20 years, increasing demand for services and putting pressure on budgets to meet their health and social care needs.

- The population aged 65 and over is projected to increase by 62 per cent between 2006 and 2031. The population aged 85 and over will increase by 144 per cent between 2006 and 2031. This is particularly significant, as the need for care is far greater among the over 85 population.[8]
- A growing older population will lead to a greater prevalence of long-term conditions such as diabetes and chronic obstructive pulmonary disorder, which will require ongoing care.
- Older people see their GPs more frequently than younger people. Women aged 75 or over see their GP 5.6 times per year on average, compared with around 3.5 contacts per year for those aged under 65. This is even more pronounced for older men, as men aged 75 and over see their GPs 5.3 times per year, compared with around 2.2 contacts per year for those aged under 65.[9]
- Projections for the acute sector estimate that the rise in the over 65 population will lead to a 24 per cent rise in beds occupied by older people admitted as emergencies by 2016. By 2031, this equates to 6,000 more beds (Exhibit 9, overleaf).[10]

Exhibit 8

Financial pressures facing the NHS

The NHS is taking a variety of steps to ease financial pressures.



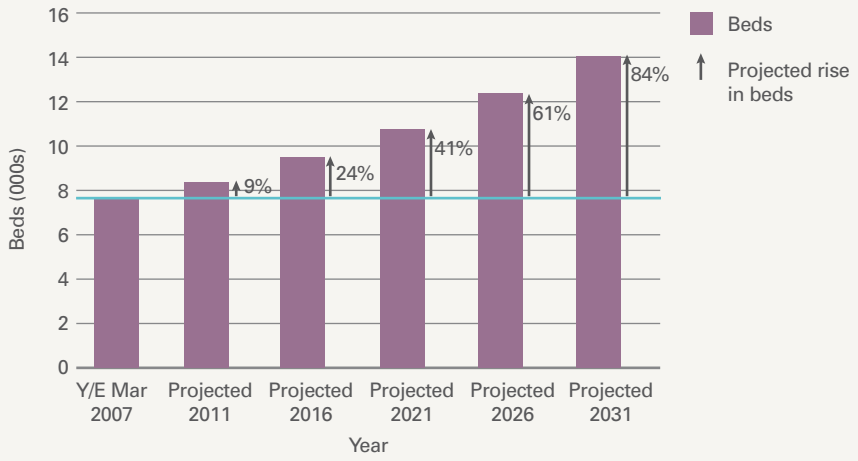
Source: Audit Scotland

8 *Reshaping Care for Older People*, Scottish Government, March 2010.
9 GP and practice nurse annual contact rates per 1,000 registered patients for 2008/09, ISD Scotland, March 2010.
10 Imperatives for Change: shaping the future of care presentation, Scottish Government.

Exhibit 9

Forecast increase in hospital beds occupied by over 65s

Projections for the acute sector estimate that the rise in the over 65 population will lead to a 24 per cent rise in beds occupied by older people admitted as emergencies by 2016.[1]



Note: 1. Imperatives for Change: shaping the future of care presentation, Scottish Government.
Source: Scottish Government

- Projections for the community care sector estimate that the rise in the over 65 population will lead to 26 per cent increase in community care interventions by 2016, which would mean services for some 23,000 extra people.[11]

- The Scottish Government has reported that the amount spent on health and social care services would need to increase by £3.5 billion by 2031 if services continue to be delivered as they are now.[12]

Drugs costs

32. In 2009/10, the NHS incurred prescribing costs of £1.14 billion.[13] NHS boards continue to face pressures because the rise in their expenditure on drugs is increasing at above inflationary levels. In evidence to the Scottish Parliament's Health and Sport Committee, some NHS boards provided information about their likely future expenditure on drugs in hospitals and from GP prescriptions. For those boards which provided information, the level of cost increase for hospital drugs was forecast to rise by between four per cent and 11 per cent while the cost of GP prescribing was expected to rise by between four per cent and eight per cent.[14]

33. Audit Scotland published a follow-up report on *Managing the use of medicines in hospitals* in 2009. This found that NHS boards need better information to manage and monitor the use of medicines in hospitals. The report recommended that the Scottish Government should work with boards to develop a plan and timescales to ensure that an electronic system is implemented across all boards in Scotland as soon as possible and that data be centrally collated and analysed to support planning and monitoring across Scotland. From March 2010, a new electronic patient management system has been available to NHS boards which includes optional medicines management modules.[15]

Pay costs

34. The cost of NHS salaries (excluding those associated with independent contractors such as GPs, community pharmacists, dentists and opticians) has risen in cash terms by more than 60 per cent, from just under £3 billion in 2003/04 to around £5 billion in 2008/09. The rise in the pay bill has absorbed much of the increased funding for the NHS over the past few years. In evidence to the Health and Sport Committee,[16] NHS boards forecast that the impact of pay inflation is between 2.2 to 3.3 per cent.

35. Previous overview reports have highlighted a number of the factors which contribute to these continuing pressures: including the consultants' contract; the General Medical Services contract; and Agenda for Change. In addition, Audit Scotland published reports on the consultant contract and the nGMS contract[17] in 2006 and 2008 respectively. Both reports found that the costs of implementing these contracts were significantly more than expected and that allocations were insufficient to meet all of the additional costs. NHS bodies are also reporting challenges around meeting the costs of the European Working Time Directive.

36. Another pressure on staff budgets is the continued reliance on locum staff, particularly agency locums. Audit Scotland published a report on the use of locum doctors in hospitals

11 Imperatives for Change: shaping the future of care presentation, Scottish Government.
12 *Reshaping Care for Older People*, Scottish Government, March 2010.
13 ISD cost book, September 2010.
14 NHS bodies' submissions to the Health and Sport Committee as part of the inquiry into NHS boards revenue allocations, June 2010.
15 *Managing the use of medicines in hospitals: A follow-up review*, Audit Scotland, April 2009.
16 NHS bodies' submissions to the Health and Sport Committee as part of the inquiry into NHS boards revenue allocations, June 2010.
17 *Implementing the NHS consultant contract in Scotland*, Audit Scotland, 2006; *Review of the new General Medical Services contract*, Audit Scotland, 2008.

in June 2010.[18] NHS boards spent approximately £47 million on locum doctors in 2008/09, 4.3 per cent of overall medical staffing expenditure. This is approximately double the amount spent in 1996/97 in real terms.

37. The report also found that NHS boards with a high level of vacant consultant posts spend more than the national average on locum doctors and that demand was mainly driven by wider workforce planning issues such as the full implementation of the 48-hour week European Working Time Directive and increasing numbers of hard-to-fill vacancies. In addition, using locum doctors presents a number of potential risks to patient safety which NHS boards must manage. The report included a self-assessment checklist for NHS boards to help them review their approach to using locum doctors.

38. Since the report was published the SGHD has introduced a new agency framework contract which is expected to make it easier and more cost-effective to employ locum doctors. It also plans to introduce a medical staff bank in 2011, which is intended to provide other high-quality medical staff on an affordable basis.

39. The report also found the NHS in Scotland could save around £6 million a year by some boards reducing their expenditure on locum doctors to the national average. Local circumstances may make this challenging to achieve but all NHS boards should be capable of making savings by improving procurement procedures, and more generally, managing workforce planning better.

VAT increase

40. Following the UK budget in June 2010, VAT will rise from 17.5 to 20 per cent from 1 January 2011. This will have cost implications in relation to supplies and services, as VAT registered companies will need to charge the higher level of VAT to cover their VAT charges. The Scottish Government estimates that this will add an additional £23.3 million to the cost of the NHS in Scotland.[19]

Financing PFI deals

41. Contracts for assets provided through PFI/PPP are long-term commitments for the NHS bodies involved. The cost of servicing these contracts is a fixed cost which boards need to finance irrespective of any changes to levels of funding. The cost of contracts already in place is £136 million each year.

Commitment to universal services

42. The Scottish Government is committed to national targets for the delivery of certain services the NHS delivers and it has removed or reduced charges for a number of NHS services.

43. Previous overview reports have highlighted how the additional cost of meeting waiting time targets is a continuing cost pressure for the NHS. Annual audit reports for 2009/10 have again identified evidence of the continuing pressure on individual boards to maintain existing service levels and achieve national waiting times targets.

44. Services delivered free of charge represent significant proportions of the Scottish budget. They include services such as free prescriptions, free personal and nursing care and free eye tests, for which demand and costs are likely to rise.

45. The Independent Budget Review recommended that 'the Scottish Government and Parliament should consider undertaking immediate work to review whether all free or subsidised universal services should be retained in their current form. This should cover issues such as changes in eligibility criteria, the introduction of charges and ensure that those in greatest need are not disadvantaged.'[20]

NHS funding continues to increase but this may not be sustainable in the longer term

46. The NHS has not yet faced any reductions in funding experienced by other parts of the Scottish public sector; however, the rate of increase in spend is unlikely to return to the levels experienced in previous years in the near future. This leaves NHS bodies with a major challenge to continue to maintain service levels and quality within the budgets available to them.

47. In evidence to the Scottish Parliament's Finance Committee in April 2010, the Auditor General invited MSPs to 'consider the longer-term implications of ring-fencing NHS funding'. In response to questions about whether any spending area should be protected from real terms cuts, the Auditor General advised: 'that excluding any specific sector from the requirement to deliver services more efficiently represented a missed opportunity and that the public sector needs to ensure it has a priority-based approach to budgeting and spending'.[21]

48. Independent commentators have also questioned the protection of major areas of public sector spending. The Scottish Government commissioned an independent review of public expenditure in Scotland as part of the Scottish budget process for 2010/11. The review considered the implications of forecasts of reductions in public spending in Scotland in the short and medium term and made recommendations on options for delivering public

18 *Using locum doctors in hospitals*, Audit Scotland, June 2010.
19 Answer to parliamentary question S3W-33760, May 2010.
20 *Independent Budget Review, The Report of Scotland's Independent Budget Review Panel*, July 2010.
21 Submission from Audit Scotland to the Finance Committee's Inquiry into Efficient Public Services, Tuesday 20 April 2010.

services within the constrained public expenditure environment in Scotland.

49. The review found no overwhelming rationale for protecting major blocks of expenditure such as the NHS and concluded that: 'Given the scale of the reductions that would otherwise have to be met from "non-protected" areas of public services, the Panel would strongly advocate as an option an approach which would not have an over-riding presumption of whole segment "protection", but which would instead be built upon all services being subject to scrutiny and comparative prioritisation in the allocation of resources.'[22]

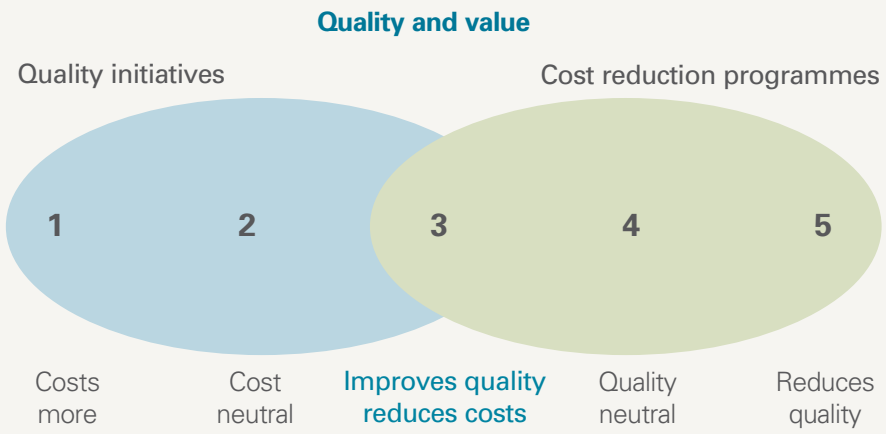
50. It recommended that: 'If, however, a ring-fencing approach is adopted, the Scottish Government and Parliament should consider alternatives to ring-fencing the budget of NHSScotland that allow for a broader interpretation of health spending. This broader definition of health might include non-NHS services that support the health and wellbeing of the community, for example early intervention programmes across the public sector.'

The NHS in Scotland recognises the challenge and is taking action

A new quality strategy has been introduced

51. The SGHD published its Healthcare Quality Strategy in May 2010 as the overarching strategic document for improving the quality of healthcare and the healthcare experience for everyone in Scotland.[23] It put forward eight commitments for the NHS in Scotland in support of improvements designed to achieve an overall vision to deliver the highest quality healthcare to people in Scotland and to ensure that it is recognised as providing world leading healthcare. The strategy is based on three quality ambitions for improvement, focusing on being person-centered, safe and effective. The Scottish Government expects the strategy to play a major part in bringing together a continuing drive for quality improvement with the need to find more efficiencies (Exhibit 10).

Exhibit 10
The quality strategy will provide a base for aligning quality improvement with efficiency savings



Source: Scottish Government

52. In 2009, the SGHD established an NHS Efficiency and Productivity Programme. The programme is expected to deliver efficiencies within support service (such as prescribing and procurement), improve benchmarking information, support the uptake of improvement methodologies and reduce variation in service delivery through the redesign of core services.

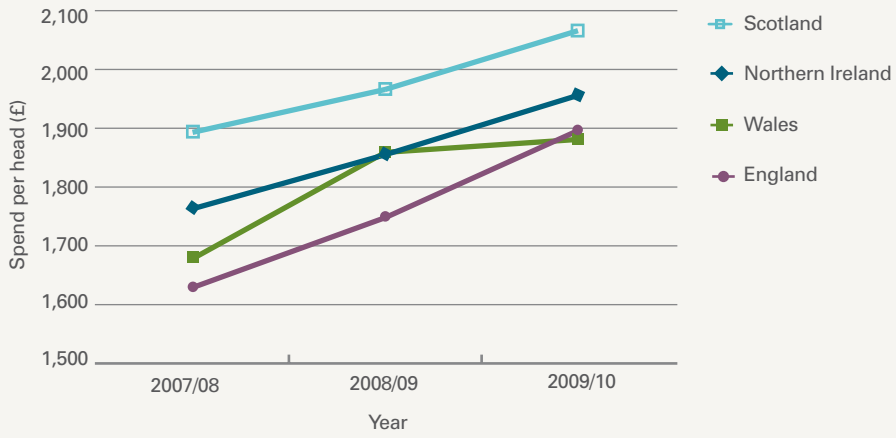
NHS bodies recognise the challenge and are taking action

53. All NHS bodies recognise that major challenges lie ahead if they are to deliver high-quality services within the funding constraints and cost pressures they are facing. Their financial plans provide evidence of a number of steps they are already taking by identifying scope for cost savings. These include:

- **service redesign** to deliver clinical and non-clinical services in new ways, such as providing new improved facilities in a single location to replace dispersed service delivery
- **better management of resources** by acknowledging the need for unit costs and important efficiency indicators, such as the utilisation of beds and associated nurse-to-bed ratios
- **improved procurement** by reviewing and renegotiating supplier contracts, more standardisation in the products in use and the benefits of central contracts
- **increasing income** by reviewing the prices charged for services
- **workforce planning** by considering the future requirements in relation to staffing complement and deployment.

22 *Independent Budget Review, The Report of Scotland's Independent Budget Review Panel*, July 2010.
23 *The Healthcare Quality Strategy for NHS Scotland*, Scottish Government, May 2010.

Exhibit 11
Expenditure on health per head of population in England, Wales, Northern Ireland and Scotland



Source: *Public Expenditure Statistical Analyses 2010*, HM Treasury

There are a number of risks NHS boards must address

Better information on activity, cost and quality is necessary

54. Scotland continues to spend more on health per head of population than other UK countries (Exhibit 11). Trying to understand why this is the case has been the focus of much research work in recent times but may be affected by factors such as fewer people in Scotland taking private healthcare insurance. The health service is a devolved matter, which means the Scottish Government can set its own priorities for delivering services and improving health, but commitments to factors such as providing some services previously mentioned free of charge require higher levels of funding.

55. Our previous overview reports have highlighted a need for more information on activity, cost and quality relating to the NHS in Scotland. Audit Scotland's recent report on *Review of orthopaedic services*[24] highlighted the need for better information to improve services. The report found that waiting times for orthopaedic services have reduced considerably in recent years, by service redesign and additional funding from the SGHD. NHS boards which managed their planned and emergency activity separately had higher consultant activity for a lower cost base. However, the report also found there was scope for further efficiencies, for example by moving more inpatient care to day surgery or outpatients and by reducing the length of stay in hospital. Unit costs varied significantly across Scotland and national information on orthopaedic expenditure was limited. It was not possible to draw clear conclusions about productivity in orthopaedic services due to data limitations.

56. The Nuffield Trust published a report in January 2010,[25] which initially suggested Scotland was doing less for higher levels of funding, compared to the other UK countries. Since the report was published, issues in the comparability of statistics have been challenged and further work is ongoing to try and improve the comparisons between health spend in Scotland and other areas of the UK.

57. The Centre for Public Policy for Regions published a report in June 2010,[26] that found that additional health spending in Scotland compared to England had not improved Scotland's relative performance against England in terms of reduced mortality rates or life expectancy. It also highlighted the importance of improving productivity in the NHS across the UK as the NHS seeks to provide better health outcomes with the same or fewer resources.

58. In June 2010, the Scottish Parliament's Health and Sport Committee concluded that it was very difficult for it to scrutinise the NHS in Scotland's budget in terms of quality and cost-effectiveness. It concluded that current productivity measures, which focus excessively on hospital workload, are deficient and in urgent need of an overhaul.[27] The SGHD's Healthcare Quality Strategy has led to the development of a quality measurement framework to provide a structure for understanding and aligning the wide range of measurement the NHS in Scotland uses for different purposes. By demonstrating how current measures can be linked to the quality ambitions and potential quality outcome measures, the framework is expected to provide a basis for assessing priorities and to demonstrate improvements.

Sound leadership and governance should underpin service changes

59. The structure of NHS boards is changing. In June 2010 NHS Dumfries and Galloway and NHS Fife held elections for board members as a pilot exercise. Elected membership is expected to improve accountability and increase community involvement in the design and delivery of services.

24 *Review of orthopaedic services*, Audit Scotland, March 2010.
25 *Funding and Performance of Healthcare Systems in the Four Countries of the UK Before and After Devolution*, Nuffield Trust, January 2010.
26 *Spending on Health*, Centre for Public Policy for Regions, June 2010.
27 *8th Report: NHS board revenue allocations*, Health and Sport Committee, June 2010.

60. Audit Scotland published its report into *The role of boards* on 30 September 2010.[28] The report included the results of an examination of how a range of boards of public sector bodies, including health boards, operated. It found that in addition to giving leadership and strategic direction, a very important role for boards is the scrutiny of risk, financial management and performance, which will become increasingly important as budgets are reduced. The report found that boards are not consistently good at doing this and that responsibility for risk management is largely delegated to audit committees, rather than being led by the board. The report recommended that boards focus their scrutiny on organisational performance, financial management and risk management. The report also recommended that boards review the use of committees and ensure that major decisions which should be made by the board are not delegated.

Changes in workforce levels need careful planning

61. Staff costs are the largest element of NHS expenditure. In 2008/09, NHS bodies spent some £5 billion employing doctors, nurses and support staff. As pressures on budgets rise, it is inevitable that the numbers of people employed will reduce in certain areas. The challenge for the NHS is to manage this change, while ensuring that it has the right level of people in the right places to deliver services in line with priorities.

62. NHS bodies are already addressing this challenge in a number of ways, including reviewing shift patterns and staff deployment, to identify more effective ways of working. NHS bodies have plans in place to reduce staff numbers. NHS Greater Glasgow and Clyde, Lothian, Grampian, Tayside and Highland have already presented plans to reduce employment numbers by some 3,100 posts, while the remaining 17 NHS bodies are projecting a net reduction of a further 624 posts.[29] Individual NHS bodies are constrained in how much they can shape their future workforce, due to the commitment within the NHS for no compulsory redundancies. The Scottish Government has established a national scrutiny group to consider major changes in workforce levels proposed by health boards.

63. In changing the way services are delivered, NHS boards must integrate their workforce development strategies into all service activities. This should enable boards to demonstrate that they have:

- quantified workforce requirements to resource the NHS in the short, medium and longer term, taking into account planned changes in service redesign, working practices, training, service delivery and resources
- arrangements to monitor staff turnover rates and take action to address significant concerns
- produced, and are able to take forward, an annual workforce plan and contribute to regional workforce plans as required
- plans in place to develop nursing workforce planning in line with the requirements of the Chief Nursing Officer's letter of August 2007, *Implementation of Nursing and Midwifery WorkLoad and Workforce Planning Tools and Methodologies*
- an established staff appraisal system which seeks to identify training and development needs, and has sufficient resources to meet these needs
- joined-up workforce plans with financial and service plans.

Partnership working arrangements are likely to be increasingly important

64. NHS bodies work in partnership with other public sector organisations in their geographical area such as local councils. This includes representation on Community Planning Partnerships, which cover the wider public sector in the area, and Community Health Partnerships (CHPs). All NHS boards have established one or more CHPs in their area to help join up health and social care services and improve the health and quality of life of their local population. The introduction of Single Outcome Agreements and the National Community Care Outcomes Framework have given an approach to health boards and local authorities to help them identify how partners can work together to deliver outcomes associated with health improvement.

65. Audit Scotland is currently undertaking a performance audit of CHPs that will examine whether CHPs are achieving what they were set up to deliver and whether they are contributing to shifting the balance of care from hospital settings to the community and improving the health and quality of life of local people. It will also consider their governance and accountability arrangements and whether they are managing their resources efficiently and effectively. The national report will be published in 2011.

66. The NHS does not operate in a vacuum but plans and delivers services closely with other partners. If funding for the NHS is to be protected, it will impact on the money available to other parts of the public sector. As budgets become tighter, this could create a climate where partnerships become strained because of budget pressures. As future funding is announced, public sector bodies will need to work closely together to ensure all parties are clear on the funding available for partnership activities and how that is to be allocated to partnership priorities.

28 *The role of boards*, Audit Scotland, September 2010.
29 NHS Boards Projected Staff in Post (WTE) changes in 2010/11, ISD Scotland NHS Workforce Information, June 2010.

Community engagement is necessary in taking forward changes to services

67. As NHS bodies have to review their options for service redesign, it is important they engage with their local communities on the challenges that lie ahead.

68. Changes to how health services are delivered can be contentious. The NHS and individual NHS bodies need to be proactive in engaging with the public to make them aware of the financial challenges ahead and the possible impact on service delivery. This will require strong leadership from both the SGHD and individual NHS bodies. In February 2010, the Scottish Government published updated guidance on community engagement.[30] The Scottish Health Council provides support to NHS bodies in taking forward their consultation activity.

69. Proactive community engagement is essential to help the public understand the difficult decisions around priorities that may need to be made. When NHS bodies are clearer on the implications of the funding settlement and what that means for their overall clinical and service redesign strategies, it is important that they put in place effective consultation and engagement mechanisms. This will ensure the public is kept informed about the need for the difficult decisions ahead.

Preparing for the future

70. The NHS in Scotland will see finances continuing to be stretched with rising demand and increasing costs. Within the overall context of reductions in public spending, it is likely that NHS Scotland will need to go further in the steps they have currently been taking to ease these budgetary pressures. Good practice in identifying further efficiency savings should be shared across NHS bodies. There will be increasing challenges for NHS bodies to deliver the efficiency and productivity programme, which is designed to continue to improve the quality of care while containing or reducing costs. There will be challenges in terms of workforce planning, both in terms of current issues such as using locums and the implications of recent pay contracts, but also what the size and shape of the future NHS workforce should be, in light of future funding levels. In order to respond to these increasing financial challenges, it is important that the NHS in Scotland prepares itself as best it can.

71. In November 2009, Audit Scotland published *Scotland's public finances, preparing for the future*.[31] The report presented some key questions for the Scottish Government, the Parliament and the wider public sector to consider when planning the delivery of public services in a time of severe resource constraints. It presented some key questions that need to be addressed in planning for the financial challenges that lie ahead, and invited the Scottish public sector to use those in planning for the future.

- How are decisions made between competing priorities? What will success look like in relation to service delivery on the ground?
- Is there sufficiently good information on the cost, quality and quantity of services to support evidence-based priority setting?
- What needs to be done to improve understanding of the links between spending, activities, performance and outcomes?
- What contribution beyond the two per cent efficiency savings can be reasonably expected? What more could be done to improve understanding of productivity in public services as a basis for further action?
- Is the balance right between short-term measures and long-term changes?
- Is enough being done across sector and service boundaries to deliver efficient services that place the needs of users first?

72. Audit Scotland will be publishing a follow-up report on public finances in 2011. This will provide an overview of the impact of the Scottish budget on public sector budgets for the years following the UK spending review, and evaluate how well public sector bodies are planning and taking action to respond to future budget cuts.

30 *Informing, engaging and consulting people in developing health and community care services*, Scottish Government, February 2010.
31 *Scotland's public finances, preparing for the future*, Audit Scotland, November 2009.

Appendix 1.

Financial performance of NHS bodies 2009/10

	Revenue resource limit	Revenue resource outturn	Variance under/over (-)	Capital resource limit	Capital resource outturn	Variance under/over (-)
	£000	£000	£000	£000	£000	£000
NHS Ayrshire and Arran	635,043	627,948	7,095	36,148	36,147	1
NHS Borders	186,659	185,620	1,039	5,690	5,679	11
NHS Dumfries and Galloway	266,966	264,738	2,228	6,488	6,418	70
NHS Fife	555,564	555,373	191	56,472	56,446	26
NHS Forth Valley	438,878	434,368	4,510	40,603	40,603	0
NHS Grampian	784,030	783,989	41	55,793	55,793	0
NHS Greater Glasgow and Clyde	2,100,273	2,100,151	122	329,047	329,040	7
NHS Highland	543,361	543,282	79	19,865	19,865	0
NHS Lanarkshire	844,918	832,849	12,069	49,068	49,067	1
NHS Lothian	1,122,312	1,122,166	146	72,063	67,372	4,691
NHS Orkney	42,550	42,542	8	3,279	3,275	4
NHS Shetland	45,771	45,767	4	4,927	4,777	150
NHS Tayside	675,837	675,821	16	36,881	36,875	6
NHS Western Isles	69,805	69,794	11	2,581	2,573	8
Total for NHS boards	**8,311,967**	**8,284,408**	**27,559**	**718,905**	**713,930**	**4,975**
Mental Welfare Commission for Scotland	4,035	4,028	7	22	22	0
National Waiting Times Centre Board	61,376	59,686	1,690	7,696	7,354	342
NHS 24	63,496	63,477	19	2,508	2,427	81
NHS Education for Scotland	418,438	411,395	7,043	1,600	1,539	61
NHS Health Scotland	27,189	26,855	334	55	52	3
NHS National Services Scotland	398,928	398,784	144	14,922	14,854	68
NHS Quality Improvement Scotland	19,176	19,027	149	126	120	6
Scottish Ambulance Service Board	201,494	201,415	79	13,202	13,192	10
State Hospitals Board for Scotland	35,317	35,017	300	18,793	18,743	50
Total for special boards	**1,229,449**	**1,219,684**	**9,765**	**58,924**	**58,303**	**621**
Total for all NHS bodies	**9,541,416**	**9,504,092**	**37,324**	**777,829**	**772,233**	**5,596**

Source: NHS bodies' annual accounts

Appendix 2.

Forecast financial performance of NHS bodies 2010/11

	Opening revenue resource limit 2010/11	Forecast cumulative surplus/deficit (-) 2010/11
	£000	£000
NHS Ayrshire and Arran	570,200	5,000
NHS Borders	166,000	0
NHS Dumfries and Galloway	238,300	2,200
NHS Fife	502,900	0
NHS Forth Valley	398,800	0
NHS Grampian	678,500	0
NHS Greater Glasgow and Clyde	1,871,400	0
NHS Highland	480,600	0
NHS Lanarkshire	798,400	7,600
NHS Lothian	1,018,200	0
NHS Orkney	31,300	0
NHS Shetland	36,800	0
NHS Tayside	592,900	0
NHS Western Isles	58,100	0
Total for NHS boards	7,442,400	14,800
Mental Welfare Commission for Scotland	3,700	0
National Waiting Times Centre Board	42,100	0
NHS 24	57,200	0
NHS Education for Scotland	399,400	5,200
NHS Health Scotland	21,500	270
NHS National Services Scotland	256,600	0
NHS Quality Improvement Scotland	17,200	175
Scottish Ambulance Service Board	197,100	0
State Hospitals Board for Scotland	35,500	0
Total for special boards	1,030,300	5,645
Total for all NHS bodies	8,472,700	20,445

Source: NHS bodies funding allocations news release, SGHD, March 2010 and unaudited returns from NHS bodies, July 2010

Appendix 3.

Glossary of terms

Access targets	The SGHD's targets that relate to access to services and waiting times, recognising patients' need for quicker and easier use of NHS services. For example, no patients will wait longer than 12 weeks from referral to a first outpatient appointment from 31 March 2010.
Agenda for Change	A UK-wide plan to introduce a new pay system for all NHS staff with the exception of doctors, dentists and most senior managers. The new system aims to standardise conditions of service for staff.
Annual accounts	The annual accounts of an NHS body provide the financial position for a financial year, ie 1 April to 31 March. The format of the annual accounts is set out in NHS accounts manuals and includes financial statements, notes to the accounts and memorandum statements (known as Scottish Financial Returns).
Audit report	A final report by an NHS body's auditor on the findings from the audit process.
Balanced financial position	Where income received is equal to expenditure made on an ongoing basis.
Break even	Where income equals expenditure.
Capital resource limit (CRL)	The amount of money an NHS board is allocated to spend on capital schemes in any one financial year.
Cash requirement	This is the amount of cash an NHS body needs to support its operational activities during the year.
Community Health Partnership (CHP)	A partnership between health and social care and responsible for the delivery of a wide range of community health provision including GP services, pharmacy, social care and community nursing.
Consultant contract	The new pay, terms and conditions negotiated on a UK-wide basis for NHS consultants.
Cost base	The cost of providing day-to-day healthcare services in an NHS board area.
Cumulative deficit	The excess of expenditure over income built up over more than one year.
Cumulative surplus	The excess of income over expenditure built up over more than one year.
Efficient Government Programme	A Scottish Government initiative to increase efficiency across the whole of the public sector in Scotland by delivering the same services with less money or delivering more services with the same money.

Family Health Services (FHS)	Services provided by GPs, dentists, opticians and community pharmacists.
Financial gap	The difference between the income and expenditure that is needed on a recurring basis to pay for operational activities. This excludes any additional one-off funding received from SGHD and any planned savings.
Financial statements	The main statements in annual accounts of an NHS body. These include an operating cost statement, statement of recognised gains and losses, balance sheet and cash flow statement. The format of these statements is specified in NHS accounts manuals.
General Medical Services (GMS) contract	A new contract for general practitioners (GPs) introduced in April 2004 where GPs receive a lump sum based on a contract. Additional payments are made for services provided over and above those specified in the contract or where they are provided to an enhanced specification.
Governance	The framework of accountability to users, stakeholders and the wider community, within which the organisations take decisions, and lead and control their functions, to achieve their objectives.
Non-recurring funds	An allocation of funding for projects with a specific lifespan, or one-off receipts. This includes ring-fenced funding and capital receipts.
One-off funding	Funding which is provided for one-year only.
Outturn	The final financial position, which could be the actual or forecast position.
Private Finance Initiative (PFI)	The UK Government's initiative to encourage the development of private finance in the public sector. A generic term for projects involving both the public and private sectors. The involvement can be to varying degrees and the partnership can take different forms.
Qualified audit opinion	When an auditor is of the opinion that there is a problem with the annual accounts of an NHS body, they can issue a qualified report on the accounts. The qualification may be on the truth and fairness of the accounts, the regularity of transactions or both.
Revenue resource limit (RRL)	The amount of money an NHS board is allocated to spend on day-to-day operations in any one financial year.

Scottish Government Consolidated Accounts	Consolidation is where a group of entities combine (consolidate) their financial statements into one set of accounts. The Scottish Government's consolidated accounts reflect the consolidated assets and liabilities and the results of all entities within the Scottish Government departmental accounting boundary.
Underlying deficit	The underlying deficit is the ongoing financial gap in the NHS board area between the money received to provide health services and the costs of providing these services.
Unqualified audit opinion	When auditors of NHS bodies are satisfied with the annual accounts they will issue an unqualified audit opinion.

Financial overview of the NHS in Scotland 2009/10

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ISBN 978 1 907916 08 3 AGS/2010/13

Printed on Revive 100 Uncoated, a Forest Stewardship Council (FSC) certified recycled grade containing 100% post consumer waste and manufactured at a mill certified with ISO 14001 environmental management standard. The pulp used in this product is bleached using an Elemental Chlorine Free process (ECF).