NHS financial performance 2011/12

AUDIT SCOTLAND

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Auditor General for Scotland

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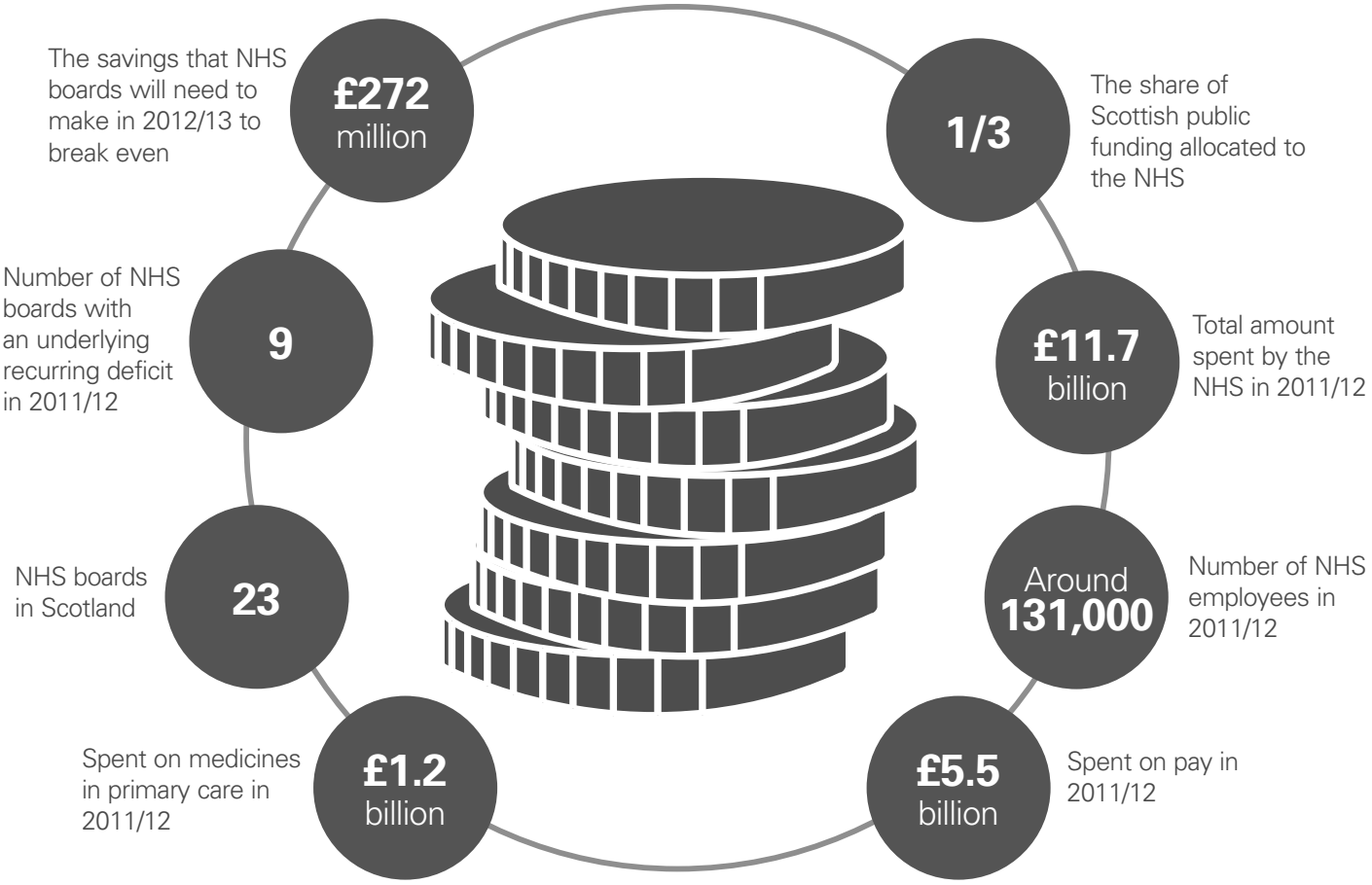


The overall health budget is decreasing in real terms.

Background

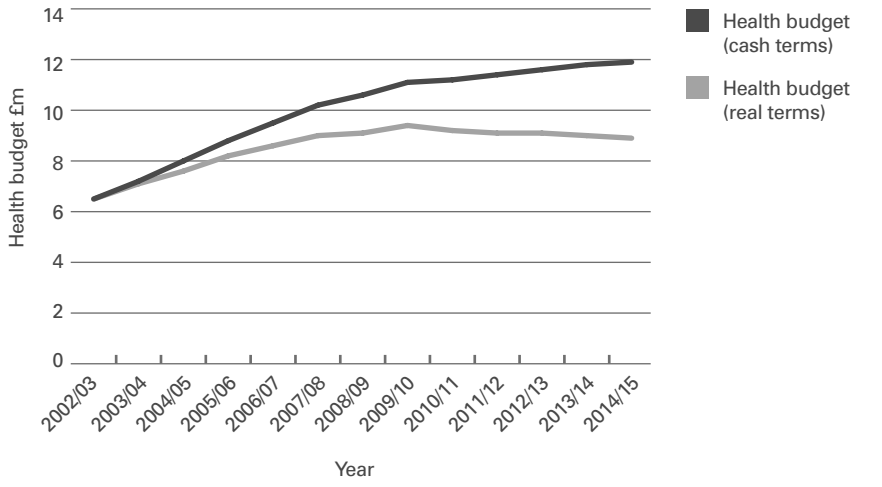
1. After several years of growth in public finances following devolution, public sector budgets are now falling.[1] This reinforces the need for sound financial management and clear financial reporting, underpinned by good information and strong governance and accountability.

2. In 2011/12, spending on health accounted for about a third of the total Scottish budget and amounted to around £11.7 billion. Although the overall health budget has continued to increase in cash terms, it has been decreasing in real terms since 2009/10 and is projected to decrease further in real terms for the next three years (Exhibit 1).

3. The Scottish Government allocates over 90 per cent of the total health budget to 23 NHS boards (14 territorial boards and nine special boards), with the remainder retained by the Scottish Government to spend on other areas of its Health and Wellbeing Portfolio.[2] While the overall health budget is decreasing in real terms, the Scottish Government has protected the total amount allocated to territorial boards and this will increase slightly in real terms (1.3 per cent) over the next three years. However, budgets for special boards will fall by 5.6 per cent in real terms.[3]

4. The Scottish Government oversees the financial performance of the NHS as a whole. Each year boards submit their local delivery plans, which include a financial plan, to the Scottish Government for approval. The Scottish Government monitors financial performance on a monthly basis and holds mid-year and annual reviews with each board (Exhibit 2, overleaf).

Exhibit 1
Scottish health budget (actual from 2002/03 to 2011/12, and forecast to 2014/15)
While the health budget continues to increase in cash terms, it is decreasing in real terms.



Note: 2002/03 used as reference year for GDP deflator.
Source: Scotland's draft budgets 2007/08, 2008/09, 2009/10, 2010/11, 2011/12, Scottish Government

5. The NHS continues to face a number of significant pressures that will make it difficult to reduce costs while maintaining high-quality services. Demand for services continues to grow, particularly due to an ageing population; it is becoming more difficult to identify recurring savings as early opportunities have already been targeted; and significant cost pressures remain, including:

- limited flexibility in reducing costs due to the policy of no compulsory redundancies, national requirements for medical training, and difficulties in changing the location of services
- the need to invest in maintenance and repair of the NHS estate
- growing spending on medicines, largely due to more drugs being prescribed.

About the audit

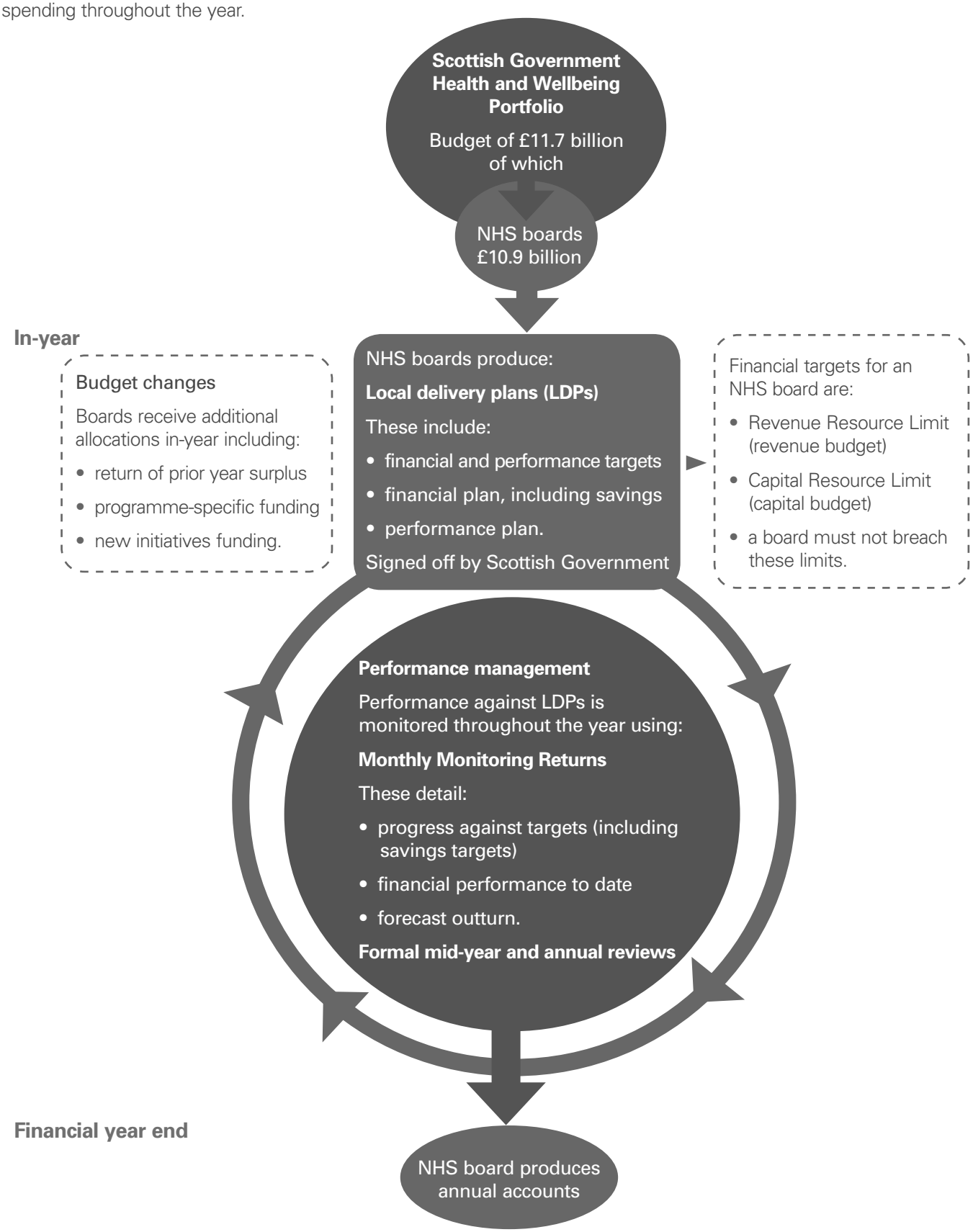
6. This report considers the financial performance of the NHS for 2011/12. We also comment on financial sustainability, recognising the challenges and cost pressures facing the delivery of healthcare services. Our work is based largely on an analysis of the audited annual accounts and auditors' reports on the 2011/12 audits of the 23 NHS boards. We also reviewed documentation provided by the Scottish Government. A glossary of terms is provided at Appendix 4.

1 *Scotland's public finances: addressing the challenges,* Audit Scotland, 2011.
2 For the purposes of this report, we refer to NHS National Services Scotland, the Mental Welfare Commission and Healthcare Improvement Scotland as special NHS boards.
3 *SPICe Briefing – Scottish Spending Review 2011 and Draft Budget 2012-13: Health*, Scottish Parliament, October 2011.

Exhibit 2

Overview of financial management in the NHS in Scotland

The Scottish Government allocates most of the health budget to NHS boards and monitors how much they are each spending throughout the year.



Source: Audit Scotland

Key messages

- All 23 NHS boards met their financial targets for the fourth year running, resulting in a small surplus for the NHS as a whole. However, this was achieved through in-year movements in funding across the NHS, which are not clearly reported in boards' financial statements. The requirement for boards to break even each year encourages a short-term focus, and the NHS needs to increase its focus on longer-term financial planning.

- Boards are forecasting significant recurring savings in 2012/13. It may become more difficult for boards to achieve recurring savings as they have already identified those that are easier to deliver in previous years, and continue to rely on non-recurring savings.

- Although the Scottish Government is moving £320 million from revenue to capital over the next three years the capital budget continues to fall. Boards are using their available capital funding for existing projects and there is little left to spend on backlog maintenance, which is now estimated at over £1 billion, or to invest in new local projects including equipment and ICT. There is limited opportunity for boards to invest in ways of delivering services better and more efficiently.

Recommendations

- The way in which boards achieve their financial position at the year end is not transparent as the movements of funds and budgets that enable a board to show a surplus are not clearly reported. NHS boards should:

  – enhance the disclosure of any special financial support received in the year by clearly reporting how much was received, in what form, and how and when it is repayable

  – disclose the actions being taken to bring the board back to long-term financial balance, where this is relevant

  – include clear information in the financial statements about any surplus funds during the year that have been returned to the Scottish Government, together with information about what this funding had been intended for, when the Scottish Government will return the funds and when it will be spent.

- The Scottish Government should require boards to report realistic forecast outturn positions in the monthly monitoring returns during the year, made on a consistent basis across the sector.

- The requirement for boards to break even each year encourages a short-term focus on financial planning. Changes to service provision and strategies required to deliver future sustainability often need upfront investment. The Scottish Government should consider whether other options are available to better promote long-term planning, and help boards to invest in new ways of working.

Part 1. Financial performance and future sustainability

The NHS needs to increase its focus on longer-term financial planning.

All NHS boards met their financial targets in 2011/12

7. The Health and Wellbeing Portfolio in the Scottish Government includes spending by the 14 territorial boards and nine special boards. It also includes spending on Sport and Equalities, and on the Health and Social Care Directorates within the Scottish Government. In 2011/12, the Health and Wellbeing Portfolio spent £11,741 million, of which:

- the 14 territorial boards spent £9,616 million (82 per cent)
- the nine special boards spent £1,250 million (11 per cent) (Exhibit 3).

8. As a whole, the NHS in Scotland continues to manage its finances within its total budget. Within the year, the Health and Social Care Directorates balanced the forecast outturn of the boards with their own forecast outturn, to ensure that the NHS in Scotland achieved a small overall underspend for 2011/12. The directorates accelerated some of their own spending at the end of the year to balance a slightly larger than forecast underspend by the boards.

9. For the fourth year running, all NHS boards met the two financial targets of breaking even against their revenue and capital budgets at the end of the financial year (Appendices 1, 2 and 3). A board's annual revenue and capital budgets are formally known as its Revenue Resource Limit (RRL) and Capital Resource Limit (CRL). A small surplus of £13.4 million (composed of £12.8 million revenue and £0.6 million capital) was reported for the 23 boards overall (Exhibit 3). This is £18 million less than the surplus of £31 million reported in 2010/11.

Exhibit 3
Overall NHS performance against budget (capital and revenue), 2011/12
The Health and Wellbeing Portfolio produced a small overall surplus of £27.7 million in 2011/12. This includes a surplus of £13.4 million for the 23 NHS boards.

	2011/12 budget	2011/12 expenditure	Surplus	Surplus
	£ million	£ million	£ million	% of budget
Health and Wellbeing portfolio	11,769.1	11,741.4	27.7	0.2
of which:				
Territorial boards	9,625.8	9,615.5	10.3	0.11
Special boards	1,253.2	1,250.1	3.1	0.25

Source: NHS boards' annual accounts 2011/12 and Scottish Government management information

10. At the start of 2011/12, three territorial boards (NHS Ayrshire and Arran, Dumfries and Galloway, and Lanarkshire) and two special boards (NHS Education for Scotland and NHS Health Scotland) agreed with the Scottish Government that they would show a revenue surplus at year end.[4] This accounted for £8.8 million (69 per cent) of the overall revenue surplus of £12.8 million. If this agreed surplus is removed from the overall figure, the remaining surplus is £4 million, or 0.04 per cent of the total budget.

The relatively small surpluses achieved by boards at the year end highlights the careful management of the financial position

11. All boards, except NHS Health Scotland, reported a surplus at the year end of less than one per cent of their budget, with 18 boards reporting a surplus of less than 0.5 per cent of budget (Appendix 1). NHS Health Scotland reported a surplus of 2.7 per cent of its budget. Ending the financial year so close to budget highlights the high level of active management of the forecast position by both the boards and the Scottish Government. This close management is partly in response to the Scottish Parliament Public Audit Committee's 2008 inquiry into the financial deficit at NHS Western Isles in 2006/07.[5] The Committee's report stated that the Scottish Government bore responsibility for some of the failures at the board and it highlighted the need for effective monitoring and scrutiny of individual boards by the Scottish Government. The Scottish Government and the boards now carefully manage the forecast position during the year.

4 Each of these boards had built up historical surpluses, and have agreed plans to steadily reduce these surpluses each year.
5 *Report on the 2006/07 Audit of the Western Isles Health Board*, Public Audit Committee, Scottish Parliament, 2008.

The NHS should focus on longer-term financial planning

Movements in budgets are required during the year to enable some boards to achieve financial balance

12. The overall financial performance at the year end does not show the in-year movement in funds required to enable NHS boards to achieve financial balance. This includes special financial support to boards (including brokerage); additional funding allocations during the year; and boards returning surplus funds to the Scottish Government.

13. In 2009/10, the Scottish Government introduced the National Resource Allocation Committee (NRAC) formula to allocate funding to territorial boards based on factors including age, gender, deprivation and remoteness of communities. The funding changes due to the new formula are being phased in over time to allow boards to plan for the differences to their budgets, and to ensure that no board receives a real-terms reduction in its budget. The Scottish Government has not set a timeframe for the boards to receive their target allocation. Five boards currently receive less than their target allocation under NRAC.[6] Two of these boards have had financial support from the Scottish Government (NHS Fife and Forth Valley). In general, however, there does not appear to be any strong relationship between financial performance and the distance from target NRAC allocation.

14. Boards receive an initial budget allocation at the start of the year, with the Scottish Government providing additional funding allocations throughout the year. A board's final budget is confirmed at the end of April after the end of the financial year on 31 March. The additional allocations include ring-fenced funding for national initiatives and programmes, but can also include additional financial support where boards are at risk of exceeding their budgets. On average, boards received 96 per cent of their total allocation in the first quarter of 2011/12, and only 1.6 per cent in the final quarter. The additional allocations received near the year end are only a small part of the final budget, but boards can find it difficult to manage and spend late allocations, especially if the funding is ring-fenced for specific purposes. To make the allocation process simpler and to give boards more discretion over how they spend some funding, the Scottish Government in 2011/12 collated a number of previously separate allocations into four larger 'bundles'.[7]

15. The Scottish Government and NHS boards have regular discussions throughout the year about boards' financial positions. If a board highlights difficulties in staying within its annual budget then the Scottish Government considers with the board whether any additional financial support is required. For example, boards may need extra support to help with changes to service delivery such as opening a new hospital or to allow a board time to introduce a new clinical strategy. The Scottish Government may also give additional funding to enable a board to address its underlying financial deficit, for example through additional allocations during the year or through special financial support packages which boards are required to repay (eg, brokerage).[8]

The NHS needs to focus on longer-term financial planning

16. Boards must operate within their annual RRLs and CRLs. This means that long-term planning can be disrupted by the need to break even at the end of each financial year. This is a difficult position for boards to manage, as changes to service delivery can take a number of years to put in place and may need upfront investment to deliver future cost savings. Unlike other parts of the public sector, NHS boards cannot build up reserves from year-end surpluses to support future investment in services. Instead, boards with forecast surpluses need to agree them in advance with the Scottish Government each year if they want to have these funds available to them in the next financial year.

17. The focus on the year-end outturn position and the in-year movements in funding to achieve a small surplus position reflect a concentration on short-term financial planning within the NHS. While short-term planning is necessary, boards also need to plan for the long term if they are to achieve financial sustainability. Boards need to ensure that their strategies and plans, rather than the annual accounts, are driving their financial management.

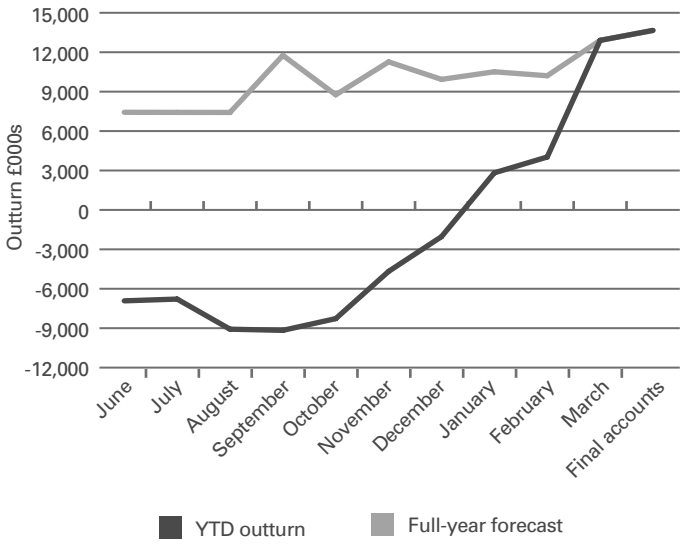
Performance management information could be improved

18. The Scottish Government monitors each board's financial position throughout the financial year. Each board completes a monthly monitoring return, which provides information on outturn against budget, savings achieved and forecast position for the full year. The Scottish Government uses this information to discuss potential surplus or deficit positions with individual boards and to highlight potential areas of difficulty.

19. Information from the 2011/12 monthly monitoring returns shows that the full-year forecast by boards was a broadly increasing surplus throughout the year. However, the outturn was a deficit position throughout the year until the final quarter (Exhibit 4). The Scottish

6 The five boards are NHS Fife, Forth Valley, Grampian, Lanarkshire and Lothian.
7 The four bundles in 2011/12 were for effective prevention, access support, dental services and mental health.
8 Financial support is sometimes referred to as 'brokerage' although this term is not used consistently. Brokerage generally refers to repayable financial support, usually an advance on future funding.

Exhibit 4
Year-to-date outturn for all NHS boards in each month of 2011/12, shown against the full-year forecast position for each month
During the year there is a large gap between the actual financial position at the end of the month and the full-year forecast position.



Note: Monthly monitoring for each financial year starts in June.
Source: Monthly monitoring reports, Scottish Government

Government and boards need to ensure that figures are being reported on a consistent basis and reflect the most accurate forecast position. Of the three boards which required additional financial support in the year (paragraph 20), only one reported a forecast year-end deficit in the monthly monitoring return before the financial support was received. Both the Scottish Government and Boards of directors (Boards) should be challenging the financial information presented to them to get assurance about financial management.[9]

Three of the 14 territorial boards would not have broken even without additional financial support

20. In 2011/12, the Scottish Government agreed to provide financial support to three territorial boards (NHS Fife, Forth Valley, and Orkney) to enable them to stay within their RRL. The Scottish Government put in place different support packages for each of the boards to reflect their individual needs (Exhibit 5, overleaf).

21. NHS Orkney has received support from the Scottish Government to help address the underlying issues causing its recurring deficit and enable the board to be financially sustainable (Case study 1, page 12).

22. NHS Forth Valley and NHS Orkney also received financial support in 2010/11 (Exhibit 5). Both boards are forecasting to be in recurring balance by 2012/13, although achieving such a shift in their underlying position will be challenging (Exhibit 7, page 14). All three boards are scheduled to make repayments on the financial support in 2012/13, placing increased pressure on their budgets.

23. The only other board currently required to repay financial support provided in previous years is NHS Western Isles. The board received significant brokerage of £3.1 million in 2008/09 and was due to start repayments in 2012/13. The board generated surplus funds in 2011/12 and was able to return £0.631 million to the Scottish Government as early repayment of brokerage.

Additional financial support during the year from the Scottish Government is not clearly disclosed in boards' financial statements

24. Financial statements should provide transparency about the financial position and sustainability of individual NHS boards and the NHS as a whole. The Scottish Government provides financial support through adjustments to a board's RRL, ie it increases its budget during the financial year. This means that it is not possible to clearly identify that a board needed additional funds from the Scottish Government to break even. Furthermore, as any repayments are likely to be made through adjustments to future annual budgets, the board's annual accounts do not show when repayments are due and the amount to be repaid. While the three boards in receipt of financial support in 2011/12 disclosed a brief narrative about the arrangement in the summary of performance in their accounts, the amount of detail varied and is not easy to understand (Exhibit 6, page 13).

Boards are allowed to use capital receipts as repayments but this places pressure on the capital budget

25. Under current Scottish Government guidelines, when a board sells an asset then the capital element of the receipt should pass to the Scottish Government as a contribution to the overall NHS capital programme. The board can retain any profit element of the sale proceeds.

9 Each of the NHS boards had a Board made up of executive and non-executive directors.

Exhibit 5

Financial support provided to NHS Fife, Forth Valley, and Orkney

The Scottish Government provided financial support to three territorial boards in 2011/12. The type of support and arrangements for repayment vary.

NHS Fife (2011/12 revenue outturn £607.2 million)

At the end of December 2011, NHS Fife reported a year-to-date overspend of £2.72 million, and forecasted a year-end deficit of £3.12 million. This was due to overspends in the Acute Operational Division and GP prescribing, and costs for a small number of patients receiving specialist treatment out of the NHS Fife area. The Scottish Government engaged with the board to better understand its financial position, the assumptions and pressures within its forecast financial position and how it was progressing with efficiency savings. The following financial support package was agreed.

Funding	Support provided	Repayable	Non repayable	Repayment schedule
2011/12				£1.11 million repayable in 2012/13 (£0.75 million capital, £0.36 million revenue)
Revenue brokerage	£1.11 million	£1.11 million		
Specific out-of-area patient support	£0.42 million		£0.42 million	
NHS Fife total	**£1.53 million**	**£1.11 million**	**£0.42 million**	

NHS Forth Valley (2011/12 revenue outturn £502.6 million)

The Scottish Government delayed approving NHS Forth Valley's LDP for 2011/12 as the plan did not propose financial balance. Therefore, the board and the Scottish Government agreed a tailored support programme, before the Scottish Government signed off the LDP in July 2011. The plan included a £30 million savings plan, and was agreed on the basis that the board and Scottish Government undertake a detailed mid-year review. The board continued to highlight to the Scottish Government the considerable risks to achieving financial balance, and the subsequent mid-year review confirmed that moving acute healthcare services to the new hospital at Larbert had meant that the board would not be able to deliver the assumptions in the plan. Also, while the board's month-on-month overspend was falling, there was still an in-year overspend which needed to be addressed. The Scottish Government agreed the following financial support package with the board for 2011/12. Financial support had also been provided in 2010/11.

Funding	Support provided	Repayable	Non repayable	Repayment schedule
2011/12				£12.1 million repayable over five years starting 2011/12 from sale of assets (£5.051 million capital, £7.049 million revenue).
Voluntary severance scheme – to fund the establishment of a scheme to release future costs	£4 million	£4 million		
Project costs and transport	£1 million		£1 million	
Unidentified savings – to provide contingency funds for any planned but unidentified savings the board could not realise.	Up to £6 million provided, board used £6 million	£6 million		
2011/12 total	**£11 million**	**£10 million**	**£1 million**	
2010/11				
Financial support	£2.1 million	£2.1 million		
NHS Forth Valley total	**£13.1 million**	**£12.1 million**	**£1 million**	

NHS Orkney (2011/12 revenue outturn £45.0 million)

The initial LDP submitted by NHS Orkney for 2011/12 forecast a deficit of £1.339 million. The Scottish Government and NHS Orkney agreed a tailored support programme and the Scottish Government delayed signing-off the LDP. The tailored support programme focused on the board establishing and implementing a new clinical strategy that supported a return to recurring financial balance. In October 2011, the tailored support programme ended and NHS Orkney re-submitted its financial plans, with the following financial package agreed. NHS Orkney also received financial support in 2009/10 and 2010/11.

Funding	Support provided	Repayable	Non repayable	Repayment schedule
2011/12				£4.38 million repayable over seven years starting 2011/12 from sale of assets and additional savings generated (£0.423 million capital, and £3.957 million revenue)
Voluntary severance scheme – to fund the establishment of a scheme to release future costs	£2 million	£1.3 million from capital receipts and profit on sale of disposal of assets	£0.7 million	
UNPACS cap at 1.5 per cent of baseline – to give the board certainty over a key budget variable and pressure	£0.7 million		£0.7 million The Scottish Government has historically provided ad hoc funding to cover these cost pressures. Therefore, this cap is not repayable and is offered for two years.	
Unidentified savings – to provide contingency funds for any planned but unidentified savings the board could not realise.	Up to £0.950 million provided, board used £0.959 million	£0.959 million		
2011/12 total	**£3.659 million**	**£2.259 million**	**£1.4 million**	
2010/11				
Brokerage	£1.011 million	£1.011 million		
2009/10				
Brokerage	£1.110 million	£1.110 million		
NHS Orkney total	**£5.78 million**	**£4.38 million**	**£1.4 million**	

Note: UNPACS (Unplanned Activity) occur when a provider delivers healthcare to a patient which is not covered by an NHS service agreement.
Source: Audit Scotland, based on information from the Scottish Government

Case study 1
NHS Orkney

The Scottish Government has provided additional financial support totalling £5.8 million to NHS Orkney for the last three years. NHS Orkney has been unable to meet its health targets and outcomes within its available budget and the additional support provided in previous years has not addressed the underlying pressures.

At the start of 2011/12, NHS Orkney was unable to produce a financial plan that forecast a break-even position at the year end. The Scottish Government and NHS Orkney agreed a tailored support programme which focused on developing a clinical strategy that could be delivered on a sustainable basis within NHS Orkney's annual budget. There were three main exercises in the programme:

- Establish a sustainable network of care for the outer isles.
- Review the basis for the provision of primary care on the mainland.
- A major re-structuring exercise to embed the integration of health and social care across the islands.

These actions were accompanied by the financial support package (Exhibit 5). This included clear repayment terms, so the board could include repayments in its financial forecasts to show the Scottish Government that it could return the funding provided.

Following this support package and additional financial allocation, NHS Orkney was able to break even in 2011/12. NHS Orkney's Local Delivery Plan for 2012/13 shows it returning to recurring financial balance.

The delivery of the new strategy has been supported by a stable permanent senior management team for the second year. In previous years, NHS Orkney has had significant turnover in key management positions, relying on interim appointments to fill vacancies. A stable senior management team should help to drive through the changes necessary to deliver long-term financial sustainability.

While 2012/13 currently shows a return to financial balance, there are still significant risks to the achievement of financial balance. The clinical strategy is still in the early stages of implementation and the board needs to embed the new processes. The strategy and financial plan need to be tested for at least a couple of years to see if the board can deliver long-term financial sustainability.

Source: Scottish Government documentation and NHS Orkney annual audit report 2011/12

26. When the Scottish Government agrees a financial support package with a board, the terms state that repayment of the financial support is the first call on any surplus funds. However, the financial support packages in 2011/12 for NHS Fife, Forth Valley and Orkney included an agreement that the boards could use the capital receipts generated from the sale of assets as part of the repayment to the Scottish Government (Exhibit 5, page 10). This means that the three boards can make repayments using capital funds that would not normally be available to them, and therefore there is less pressure on their revenue budgets. This pressure is passed to the overall health capital budget. As the three boards are using £6.2 million of capital to repay their revenue brokerage, these funds will not be available to the overall capital budget. During the period in which the funds are loaned to a board the Scottish Government cannot use these for other purposes.

27. NHS Forth Valley's repayments are scheduled around the agreed sale of surplus assets and the schedule of expected income from the land developer. The Scottish Government has agreed flexible repayment terms to accommodate any changes in timing of the receipt of funds from the developer.

Nine boards returned surplus funds to the Scottish Government during 2011/12

28. During the year, boards return forecast unspent funds to the Scottish Government as an alternative to reporting a higher surplus at the financial year end. Boards do this on the understanding that the Scottish Government returns the same amount to the board in the following year through a corresponding increase in its RRL. The in-year surplus funding might represent ring-fenced funding which is committed in the following year, or slippage against projects which again run into the next year.

Exhibit 6
Actual disclosure of financial support in financial statements
Information in boards' financial statements about in-year support from the Scottish Government is not easy to understand.

Fife	Achievement of the target was through a combination of recurring and non-recurring initiatives, and resulted in a carry-forward of just over £0.348 million at the year end. This position was achieved with support from SGHSCD.
Forth Valley	The financial position [...] represents a non-recurring surplus achieved through a combination of budget management, delivery of savings targets, slippage on planned developments, and use of non-recurring allocations. Funding banked with the Scottish Government in prior years, together with non-recurrent brokerage funding received during 2011/12, was used to help meet transitional costs associated with the Healthcare Strategy and to manage the limited voluntary severance programme which will deliver recurrent future savings.
Orkney	Prior to this, NHS Orkney received brokerage, from 2009/10 and 2010/11, of £2.12 million. Additional brokerage of £0.959 million was utilised in 2011/12. NHS Orkney is required to repay brokerage to SGHSCD over a five-year timeframe commencing 2013/14 through to conclusion in 2017/18. Such repayments are built into the approved five-year plan.

Source: Boards' annual accounts 2011/12

29. In 2011/12, nine boards (three territorial boards and six special boards) returned a total of £17.2 million to the Scottish Government (£9 million in 2010/11).[10] These boards returned around a third (32 per cent) of this money to the Scottish Government in November 2011, with the remainder given back in the last quarter of the financial year. Of the £17.2 million returned to the Scottish Government in 2011/12, £15.2 million was then given back to the boards as an increase to their RRL in 2012/13 (£9 million in 2011/12).[11]

30. Boards' annual accounts do not show that funding was returned to the Scottish Government as the budget is reduced by an equivalent amount. Boards are not required to return unspent funds during the year, but may choose to do so to ensure upfront agreement with the Scottish Government that these funds will be returned in the following year, and to allow the Scottish Government to manage these underspends as part of the whole portfolio budget position.

31. In 2011/12, the Scottish Government used funding achieved through reduced budgets for some boards (amounting to £17.2 million) to help balance the increased budgets for others (£13.7 million). However, because the Scottish Government was committed to increasing some boards' 2012/13 budget by an equivalent amount (to compensate for the amount returned in 2011/12), this meant it had to allocate £15.2 million from the 2012/13 budget. It expects that some boards will also return funding in 2012/13 to balance this payment.

There are concerns about consistent underspending in two special boards

32. Special boards operate within a different funding environment to territorial boards. In recent years, savings generated by special boards have been returned to the Scottish Government to be added to the overall budget for the NHS.[12] Over the last three years, special boards' budgets have decreased by an average of 1.5 per cent in cash terms (6.5 per cent in real terms). The budget for four special boards has decreased by over ten per cent over the last three years.[13] Despite these reductions in funding, all special boards showed a surplus at the 2011/12 year end, with six out of the nine special boards also returning excess funds totalling £6.9 million to the Scottish Government during the year.

33. Two special boards, NHS Health Scotland and Healthcare Improvement Scotland, are undertaking financial and performance management reviews due to concerns about repeated underspends against their budgets. The auditors for NHS Health Scotland reported that the board monitored its spending closely throughout 2011/12, with funding for underspending projects being re-allocated to other

10 The nine boards which returned surplus funding to the Scottish Government during 2011/12 are: NHS Grampian, NHS Lanarkshire, NHS Lothian, National Waiting Times Centre Board, NHS 24, NHS Health Scotland, NHS Education Scotland, Healthcare Improvement Scotland, and The State Hospital.
11 The Scottish Government did not return the full amount of funding in 2012/13 to the following three boards: NHS Health Scotland, NHS Education Scotland, and Healthcare Improvement Scotland.
12 This relates to four special boards: NHS Education Scotland, NHS National Services Scotland, NHS Health Scotland and Healthcare Improvement Scotland.
13 The four boards are: Mental Welfare Commission, National Waiting Times Centre Board, NHS Health Scotland, and NHS National Services Scotland.

Exhibit 7
Underlying recurring financial position of NHS boards
Nine territorial boards reported an underlying recurring deficit in 2011/12.

	Actual position 2011/12		Projected position 2012/13	
NHS board	**Underlying recurring surplus/(deficit) £m**	**Underlying recurring surplus/(deficit) as a percentage of recurring income %**	**Underlying recurring surplus/(deficit) £m**	**Underlying recurring surplus/(deficit) as a percentage of recurring income %**
Ayrshire and Arran	0.60	0.09	0.00	0.00
Borders	(0.19)	(0.10)	0.00	0.00
Dumfries and Galloway	0.00	0.00	0.00	0.00
Fife	(4.02)	(0.71)	(7.37)	(1.28)
Forth Valley	(11.24)	(2.33)	0.00	0.00
Grampian	2.62	0.28	(0.07)	(0.01)
Greater Glasgow and Clyde	0.00	0.00	0.00	0.00
Highland	(8.83)	(1.49)	(5.87)	(0.83)
Lanarkshire	0.07	0.01	0.25	0.03
Lothian	(7.00)	(0.56)	0.00	0.00
Orkney	(1.19)	(2.66)	0.03	0.07
Shetland	(1.56)	(4.26)	(1.38)	(3.68)
Tayside	(2.80)	(0.35)	(3.10)	(0.39)
Western Isles	(0.50)	(0.72)	(0.40)	(0.57)
Total territorial boards	**(34.04)**	**(0.36)**	**(17.91)**	**(0.18)**
Mental Welfare Commission	0.06	1.80	0.00	0.00
National Waiting Times Centre	0.00	0.00	0.00	0.00
NHS 24	0.20	0.33	0.00	0.00
NHS Education Scotland	1.50	0.36	2.70	0.64
NHS Health Scotland	0.61	2.93	0.42	1.88
Healthcare Improvement Scotland	0.13	0.74	0.00	0.00
NHS National Services Scotland	0.00	0.00	0.00	0.00
Scottish Ambulance Service	0.00	0.00	0.00	0.00
The State Hospital	0.25	0.71	(0.25)	(0.77)
Total special boards	**2.75**	**0.23**	**2.87**	**0.24**
Total	**(31.29)**	**(0.29)**	**(15.04)**	**(0.14)**

Source: Audit Scotland analysis of returns provided by NHS boards

projects. Despite these efforts and the board spending £3.5 million (16 per cent of its total RRL) in the last few days of the financial year, the board's surplus at the year end still exceeded its forecast outturn. The auditors reported that addressing the weaknesses in ongoing financial management should be a high priority for its Board members.

34. Healthcare Improvement Scotland was created on 1 April 2011 following a merger of NHS Quality Improvement Scotland and some functions of the Care Commission.[14] Its auditors reported that the board showed underspends across nearly every part of its business. In 2011/12, the board commissioned an external review which highlighted significant concerns about a lack of ownership and accountability for financial management in all parts of the business; gaps in financial management competency not being addressed; and overall budget monitoring and control. The board has prepared an action plan to address these issues but the auditor has highlighted the need for strong leadership and direction in achieving this plan. The auditor's annual report also noted concerns from the Board and committee members about a lack of comprehensive financial and performance reports to enable them to discharge their governance responsibilities.

There are several key risks to boards' financial sustainability

Nine boards relied on non-recurring funding to break even in 2011/12

35. One measure of a board's financial health is to consider its underlying financial position. This looks at whether a board relies on non-recurring funding to break even. All boards receive some non-recurring funding in a year, but they should not need to use this funding to support recurring spending. Financial sustainability is predicated on balancing recurring spending with recurring income.

36. In 2011/12, nine territorial boards (no special boards) had underlying recurring deficits (Exhibit 7). Forecasts suggest that this should decrease to six territorial boards and one special board in 2012/13. Of those nine boards showing underlying recurring deficits in 2011/12, seven had forecast this deficit a year earlier, with NHS Highland and NHS Lothian forecasting an underlying recurring surplus for 2011/12 but actually reporting an underlying recurring deficit position.

Boards are forecasting significant recurring savings in 2012/13 despite reliance on non-recurring savings in the past

Boards made savings of £319 million, but a further £272 million is needed in 2012/13

37. In 2011/12, boards achieved total savings of £319 million (3.7 per cent of the overall baseline budget) (Exhibit 8, overleaf). Due to continuing cost pressures, boards need to make additional savings each year to balance the annual budget. To maintain financial sustainability, they should aim to make most of these savings on a recurring basis, as a permanent cost reduction. However, boards are still relying on one-off (non-recurring) savings to bridge the funding gap. Relying on non-recurring savings means that a board has to find this level of savings again the next year, and this is included in the new savings target.

38. Territorial boards achieved savings of £280 million in 2011/12 against a target of £282 million (3.7 per cent of the baseline budget). Some boards were more successful at achieving their targets but all boards made savings equivalent to at least three per cent of the baseline. NHS Borders, Fife, Highland and Tayside reported non-recurring savings of more than 40 per cent of their overall savings. These boards are forecasting a higher percentage of recurring savings in 2012/13.

39. All special boards met their savings targets, with three exceeding the target by at least 20 per cent (NHS 24, NHS National Services Scotland and The State Hospital). However, six special boards also have large savings targets for 2012/13 above the average of 3.1 per cent of baseline. Hitting these targets is a large undertaking for special boards and will require careful planning and monitoring to meet them.

40. Around 20 per cent of savings (£67 million) were non-recurring in 2011/12. This means that boards need to make further savings of £67 million immediately in 2012/13 just to be level with the 2011/12 position. These £67 million savings are included in the 2012/13 savings target of £272 million. Each year, it becomes more difficult for boards to find recurring savings. To release further savings, boards need to reconsider their healthcare strategies and the potential for service redesign. These strategies take time to develop and implement, and can require upfront investment (both revenue and capital).

Savings plans for 2012/13 will be challenging to achieve

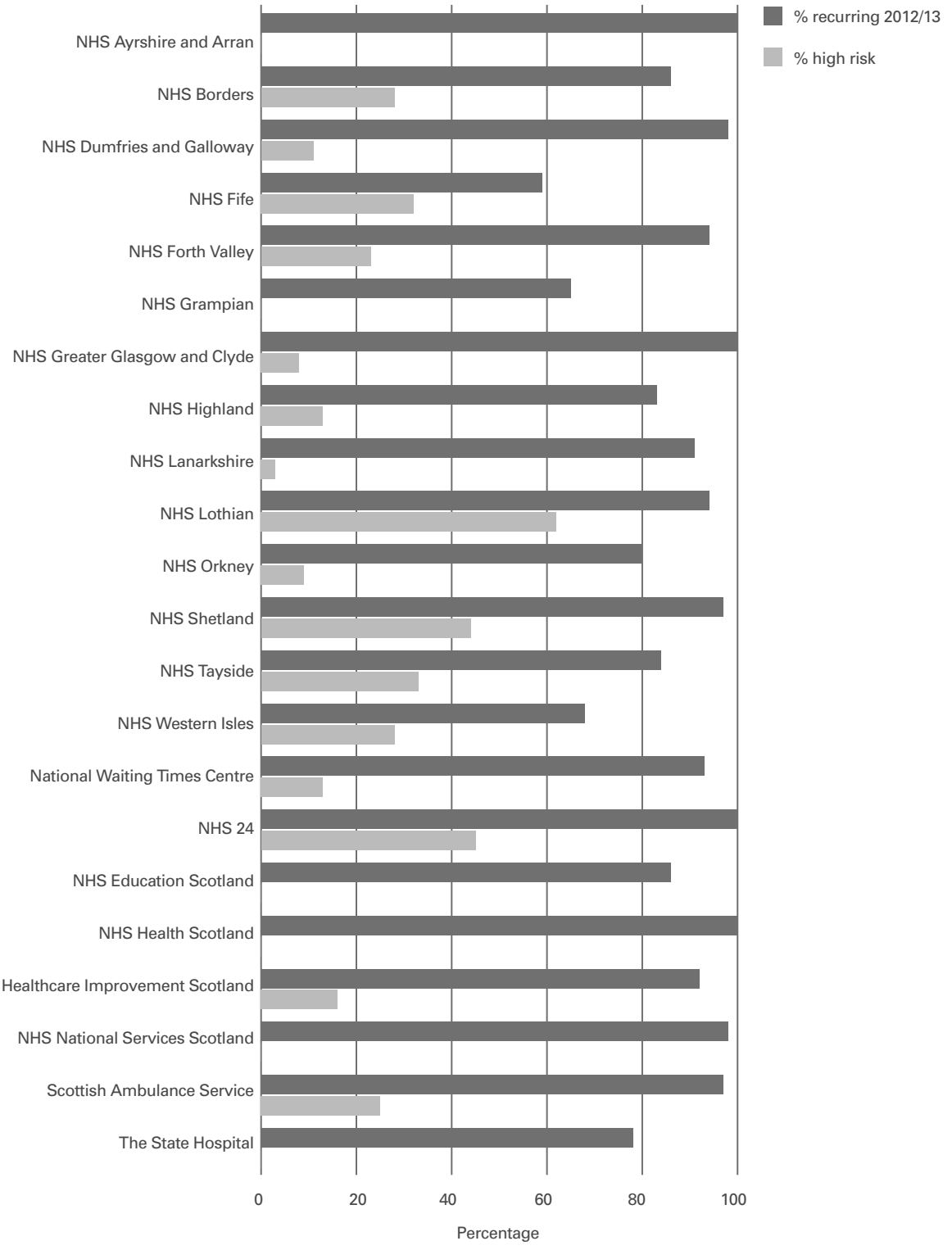
41. Boards are required to categorise their savings plans into high, medium and low risk, according to how much certainty or risk there is to the savings being realised. Eight boards have categorised at least a quarter of their savings plans as high risk, with NHS Lothian stating that two-thirds of its savings plans are high risk. Overall, 20 per cent of the savings target is classified as high risk, raising concern about the achievability of the savings plans and boards' ability to break even in 2012/13.

14 When created in April 2011, Healthcare Improvement Scotland took responsibility for the regulation of independent healthcare providers which had previously been delivered by the Care Commission.

Exhibit 8
Savings achieved by NHS boards in 2011/12 and savings required in 2012/13
Boards are forecasting significant recurring savings in 2012/13.

	Savings achieved 2011/12				Savings required 2012/13			
NHS board	**£000s**	**% of target**	**% of baseline**	**% recurring**	**£000s**	**% of baseline**	**% recurring**	**% high risk**
Ayrshire and Arran	17,800	100	3.10	97	13,094	2.20	100	0
Borders	7,098	83	4.20	57	5,904	3.50	86	28
Dumfries and Galloway	7,842	105	3.20	89	7,500	3.00	98	11
Fife	15,212	100	3.00	56	17,524	3.40	59	32
Forth Valley	25,539	90	6.30	65	11,944	2.90	94	23
Grampian	20,733	100	3.00	98	12,006	1.70	65	0
Greater Glasgow and Clyde	57,000	100	3.00	100	59,049	3.00	100	8
Highland	18,919	98	3.90	42	23,736	4.80	83	13
Lanarkshire	26,074	107	3.20	94	19,211	2.30	91	3
Lothian	50,130	100	4.80	66	37,540	3.40	94	62
Orkney	2,753	100	8.70	85	1,418	4.30	80	9
Shetland	1,467	88	4.00	100	2,671	7.10	97	44
Tayside	26,107	104	4.40	57	24,543	4.00	84	33
Western Isles	2,967	89	5.10	82	2,485	4.20	68	28
Total territorial boards	**279,641**	**99**	**3.70**	**77**	**238,625**	**3.10**	**89**	**22**
National Waiting Times Centre	3,488	107	8.30	97	2,305	5.80	93	13
NHS 24	3,458	172	3.40	67	1,720	2.90	100	45
NHS Education Scotland	12,000	100	3.10	81	7,295	1.90	86	0
NHS Health Scotland	1,051	100	5.20	100	1,009	5.20	100	0
Healthcare Improvement Scotland	911	101	5.30	98	1,700	10.20	92	16
NHS National Services Scotland	9,935	125	3.00	100	10,340	3.70	98	0
Scottish Ambulance Service	7,451	99	3.80	83	7,318	3.60	97	25
The State Hospital	1,489	120	3.70	100	1,389	4.20	78	0
Total special boards	**39,783**	**111**	**3.50**	**97**	**33,076**	**3.20**	**94**	**9**
Total	**319,424**	**100**	**3.70**	**79**	**271,701**	**3.10**	**90**	**20**

Exhibit 8 (continued)
Savings required in 2012/13



Note: Healthcare Improvement Scotland (HIS) was created on 1 April 2011 and was formerly NHS Quality Improvement Scotland (NHS QIS).
Source: Unaudited monthly monitoring returns March 2012 for the 2011/12 savings, and 2012/13 Local Delivery Plans for the savings required in 2012/13

42. At the start of 2012/13, boards did not have plans in place to deliver five per cent of the target savings (£13 million), ie these savings were 'unidentified'. Two special boards (Scottish Ambulance Service and NHS 24) had classified 45 per cent and 25 per cent of their respective savings plans as unidentified, and placed them as high risk. NHS Lothian, NHS Shetland and NHS Western Isles had unidentified savings accounting for more than ten per cent of the savings required.

43. Auditors reported that boards' savings plans will be challenging to achieve, as the level of flexibility within budgets is considerably reduced by cost savings made in previous years.

Cost pressures continue to grow as budgets level off

Spending on pay continues to be a significant cost pressure

44. NHS boards spend more than half of their budget on staffing, which means that even small increases in pay can have a large impact on the budget. Boards cite pay costs as one of their top cost pressures. Spending on staff grew by 0.1 per cent on the previous year, with total spending in 2011/12 of £5,464 million compared to £5,456 million in 2010/11. The increase is driven primarily by pay awards to the lowest paid members of staff.

45. At 31 March 2012, the NHS employed 131,172 people (135,823 at 30 September 2009). Further reductions in staff numbers are expected in 2012/13. If the impact of the movement of staff in NHS Highland to Highland Council as part of changes in the delivery of social care in this region is removed, staff numbers will decrease to 130,370 by March 2013. This represents a cumulative reduction of four per cent since 30 September 2009. While there have been increases in medical and dental staff over this period, nursing and midwifery numbers are forecast to reduce by four per cent. The largest decrease will be in administrative staff (8.1 per cent) (Exhibit 9).

Exhibit 9

Actual and forecast staff numbers, September 2009 to March 2013

The number of medical and dental staff has grown, while there has been a reduction in the number of staff working in nursing and administration.

	At 30 September 2009 (WTE)	At 30 September 2010 (WTE)	At 30 September 2011 (WTE)	At 31 March 2012 (WTE)	Projected at 31 March 2013 (WTE)	Projected percentage change 30 September 2009 to 31 March 2013
Medical (hospital, community and public health services)	10,680	10,732	11,237	11,115	11,347	6.2
Dental (hospital, community and public health services)	641	707	724	720	649	1.2
Medical and dental support	1,667	1,811	1,829	1,864	1,872	12.3
Nursing and midwifery	58,428	57,878	56,309	56,467	56,111	(4.0)
Allied health professions	9,579	9,596	9,347	9,428	9,271	(3.2)
Other therapeutic services	3,326	3,407	3,424	3,490	3,493	5.0
Personal and social care	763	948	925	923	1,756	130.1
Healthcare science	5,594	5,628	5,426	5,357	5,298	(5.3)
Emergency services	3,704	3,698	3,643	3,609	3,654	(1.3)
Administrative services	26,107	25,887	24,668	24,298	24,004	(8.1)
Support services	14,761	14,411	13,767	13,710	13,750	(6.8)
Unallocated staff	573	261	41	192	–	(100)
All NHS in Scotland staff (excluding GPs and GDPs)	**135,823**	**134,964**	**131,340**	**131,173**	**131,205**	**(3.4)**

Note: Significant increase in personal and social care is due to a transfer of staff in NHS Highland between local authority and NHS board (equivalent to approximately 835 WTE). GDPs are General Dental Practitioners.
Source: ISD workforce statistics

Boards are using voluntary severance schemes to reduce costs

46. As staff costs form such a large part of a board's fixed costs, some cost reductions can only come through reductions in staffing. Boards have limited flexibility to make reductions to staff costs, with a national policy of no compulsory redundancies and fixed requirements for medical training. Boards will need to look at different ways of delivering services in order to make any significant changes to costs.

47. Voluntary severance schemes have enabled boards to generate recurring savings. In 2011/12, there were 475 exit packages agreed across NHS Scotland at a cost of £20.8 million (£15.4 million in 2010/11 for 343 exit packages). Most of these packages (353) were agreed in the territorial boards (totalling £16.1 million), with the remaining 122 from the special boards (totalling £4.7 million). The average cost per exit package has remained relatively constant at £44,000, from £45,000 in 2010/11 (Exhibit 10, overleaf). The average cost of an exit package within the special boards has decreased by 28 per cent, driven primarily by a fall in the number of senior management severance packages agreed. In 2010/11, 34 per cent of packages in special boards were worth over £50,000, with three per cent over £200,000. In 2011/12, 28 per cent of packages were worth over £50,000 in 2011/12, with no packages worth over £200,000.

The highest-earning directors are generally medical directors

48. Following the publication of the Hutton Review in March 2011, the Scottish Government introduced a new disclosure in the 2011/12 NHS accounts which shows the relationship between the remuneration of the highest paid director and the median remuneration of the board's workforce (shown as a ratio) (Exhibit 11, page 21).[15] The disclosure aims to support greater transparency about remuneration of the highest earners in NHS boards compared with the rest of the workforce. The highest-earning directors are generally medical directors. Median pay ratios ranged from 4.50 to 7.93, with those boards where the highest earner is a medical professional generally reporting ratios at the higher end of the range. Care should be taken when making comparisons between boards as auditors reported some variation in how boards had calculated these figures. In particular, as part of the Private Finance Initiative (PFI) agreements for some boards, certain classes of staff including cleaners and caterers are employed by the PFI provider and not the board, and this may affect the median pay level.

The financial impact of some pay-related cost pressures is not yet known

The level of future NHS board contributions to pensions is uncertain

49. Pension provisions increased by £3.3 million to £127 million in 2011/12. This provision relates to each board's share of the overall NHS pension deficit. The most recent actuarial valuation for the NHS Superannuation Scheme was for the year ending 31 March 2004. A more up-to-date valuation would have been expected for the 2011/12 accounts. The most recent actuarial valuation was carried out at 31 March 2008, but HM Treasury has placed the publication of this valuation on hold pending the outcome of public sector pension reforms. Periodic actuarial valuations are important in identifying the amount of employer and employee contributions to the scheme, and publication of the latest actuarial valuation will clarify the adequacy of current contributions to meet the future commitments of the scheme.

Equal pay claims may affect financial positions in the future

50. The NHS in Scotland has received over 10,000 claims relating to equal pay. These claims have been referred to the Central Legal Office (CLO) to coordinate the legal response.[16] The CLO's advice is that it is not possible to estimate the impact of the claims. Audit Scotland agreed with the Scottish Government and NHS Scotland that an unquantified contingent liability for equal pay should be disclosed in the 2011/12 financial statements of the NHS boards concerned. The scope for large liabilities emerging is reducing due to a likely legal reduction in the time period covered by the claims, but there is a risk that equal pay claims could affect boards' future financial positions.

Spending on medicines continues to rise

51. NHS boards often highlight spending on medicines as a significant cost pressure. The main cost driver is the increased volume of prescribing rather than price. In 2011/12, spending on primary care prescribing totalled £1.2 billion, an increase of 3.2 per cent from 2010/11. This compares to a 2.5 per cent increase between 2009/10 and 2010/11.[17] The total cost of prescribing in the NHS (including hospital) is estimated at around £1.5 billion.[18] The rate of increase in GP prescribing volumes is rising, with volumes increasing by 2.4 per cent between 2009/10 and 2010/11, and then by 3.8 per cent between 2010/11 and 2011/12.

52. Looking forward, boards are forecasting costs pressures for 2012/13 of between three and eight per cent of the budget for GP prescribing, and between three and nine per cent for hospital prescribing, due to increased prescribing volumes.[19] The increased volume accompanied by price inflation causes this to be an area of concern for boards.

15 *Hutton Review of Fair Pay*, Will Hutton, March 2011.
16 The Central Legal Office is part of NHS National Services Scotland and provides legal services to all NHS boards.
17 *Prescribing and Medicines: Prescription Cost Analysis*, ISD, June 2012.
18 In 2010/11, hospital prescribing was valued at £302.8 million, *Scottish Health Service Costs year ended 31 March 2011*, ISD, November 2011.
19 *NHS Boards Budget Scrutiny*, Health and Sport Committee, Scottish Parliament, June 2012.

Exhibit 10
Severance payments by NHS board in 2011/12 and 2010/11
There were 475 severance payments in 2011/12 at a total cost of £20.8 million.

	2011/12			2010/11		
NHS board	**Total exit packages**	**Total package costs**	**Average exit package**	**Total exit packages**	**Total package costs**	**Average exit package**
	Number	**£000's**	**£000's**	**Number**	**£000's**	**£000's**
Ayrshire and Arran	2	174	87	21	1,227	58
Borders	8	171	21	7	87	12
Dumfries and Galloway	7	258	37	9	382	42
Fife	0	0	0	0	0	0
Forth Valley	79	5,126	65	4	537	134
Grampian	31	2,078	67	31	2,305	74
Greater Glasgow and Clyde	68	1,951	29	25	592	24
Highland	0	0	0	0	0	0
Lanarkshire	58	2,022	35	168	6,527	39
Lothian	42	2,024	48	26	1,075	41
Orkney	47	2,066	44	6	551	92
Shetland	0	0	0	1	1	1
Tayside	11	247	22	7	165	24
Western Isles	0	0	0	0	0	0
Total territorial boards	**353**	**16,117**	**46**	**305**	**13,449**	**44**
Mental Welfare Commission	0	0	0	0	0	0
National Waiting Times Centre	7	161	23	6	188	31
NHS 24	5	89	18	10	434	43
NHS Education for Scotland	22	812	37	4	41	10
NHS Health Scotland	18	904	50	6	649	108
Healthcare Improvement Scotland	25	1,126	45	0	0	0
NHS National Services Scotland	26	1,062	41	4	289	72
Scottish Ambulance Service	5	86	17	1	15	15
The State Hospital	14	474	34	7	333	48
Total special boards	**122**	**4,714**	**39**	**38**	**1,949**	**51**
Total	**475**	**20,831**	**44**	**343**	**15,398**	**45**

Source: Audit Scotland analysis of NHS annual accounts 2011/12

Exhibit 11
Highest-paid director and median pay ratio by board, 2011/12
The highest-earning directors are generally medical directors.

	2011/12			
NHS board	**Highest-earning director's role**	**Highest-earning director's total remuneration band £000**	**Median total remuneration £**	**Ratio**
Ayrshire and Arran	Medical Director	210-215	27,034	7.93
Borders	Director of Public Health	165-170	23,650	7.11
Dumfries and Galloway	Medical Director	145-150	26,255	5.60
Fife	Medical Director	170-175	28,287	6.10
Forth Valley	Medical Director	155-160	28,959	5.44
Grampian	Medical Director	160-165	27,639	5.87
Greater Glasgow and Clyde	Chief Executive	165-170	25,215	6.64
Highland	Medical Director	160-165	23,895	6.80
Lanarkshire	Medical Director	155-160	27,090	5.81
Lothian	Medical Director	195-200	28,537	6.98
Orkney	Medical Director	130-135	28,246	4.69
Shetland	Director of Public Health	165-170	29,279	6.00
Tayside	Director of Public Health	170-175	27,533	6.27
Western Isles	Medical Director	155-160	25,045	6.35
Mental Welfare Commission	Chief Executive	140-145	35,100	4.50
National Waiting Times Centre	Medical Director	180-185	28,785	6.32
NHS 24	Medical Director	170-175	26,556	6.51
NHS Education Scotland	Medical Director	205-210	43,702	4.82
NHS Health Scotland	Director of Public Health	165-170	28,470	5.93
Healthcare Improvement Scotland	Chief Executive	170-175	35,666	4.88
NHS National Services Scotland	Medical Director	185-190	31,000	6.00
Scottish Ambulance Service	Chief Executive	140-145	30,591	4.66
The State Hospital	Medical Director	145-150	31,543	4.72

Source: NHS bodies' financial statements 2011/12

53. In April 2011, prescription charges were abolished following three years of phased reductions in charges. The Scottish Government estimated that this policy would cost the boards £57 million in 2011/12, and increased the boards' funding by this amount. This is a recurring increase in funding, and is included in baseline budgets for future years. Before the policy was introduced, more than 90 per cent of prescriptions did not incur charges as the patient was exempt.

54. We are carrying out an audit of prescribing in general practice to assess how boards are addressing the costs pressures and delivering value for money in this area (due for publication in early 2013).

Increases in the price and volume of supplies are contributing to financial strain

55. Supplies include equipment, fuel and energy. In 2010/11, spending on heating and lighting increased by 5.8 per cent on the previous year.[20] Energy and fuel prices are volatile making it difficult for boards to accurately forecast for price increases. Boards are anticipating costs pressures in 2012/13 of between 0.9 per cent and 2.7 per cent due to price changes, and up to 1.2 per cent due to increased volumes. NHS Forth Valley is forecasting a 20 per cent increase in utilities and transport costs, partly associated with the move to the new hospital. NHS Greater Glasgow and Clyde highlights that just a 0.5 per cent increase in the price of supplies can affect its budget forecast by £2.5 million.

Reduced capital budgets represent a risk to long-term financial sustainability

56. All NHS boards met their Capital Resource Limits (CRLs) in 2011/12, with a surplus of £0.59 million across the 23 boards (Appendix 3). In 2011/12, the capital budget fell by 15 per cent on the previous year, and is forecast to decrease by a further 9.3 per cent in real terms over the next three years.

57. The capital budget is under significant pressure. In 2011/12, the Scottish Government introduced a new system for allocating capital budgets to boards. Around 18 per cent of the total capital budget is allocated directly to boards using the NRAC formula with the remaining 82 per cent allocated to significant capital projects, such as the South Glasgow hospitals project in NHS Greater Glasgow and Clyde. Existing smaller projects within the boards accounted for all of the budget distributed so no funds were available for improvement works or to take forward new capital projects. As the significant projects reach completion over the next three years, the level of budget allocated to these projects should decrease so freeing more resource to be allocated directly to boards.

58. Six boards transferred revenue funding during the year to support £7.16 million of capital spending.[21] Boards are also raising the concern that a lack of capital funding will prevent projects being taken forward that would release future revenue savings. There is also a risk that the investment needed to maintain and develop the clinical estate, equipment and ICT will be unaffordable.

Backlog maintenance is estimated at over £1 billion

59. Backlog maintenance is a significant cost pressure for the NHS boards and was estimated at over £1 billion in 2011 (Exhibit 12).[22] Some of this backlog is likely to be improved by the major capital projects in progress and the disposal of older properties, but this remains a significant cost pressure. NHS Lanarkshire transferred £3.65 million from its revenue budget partly to help address the maintenance backlog at Monklands Hospital. The Scottish Government has allocated an additional £320 million of capital funding over the next three years to help address this backlog.

Some major capital projects are now complete

60. No significant new capital projects in excess of £50 million were started in 2011/12. Construction of the NHS Tayside's mental health developments at Stracathro Hospital and Murray Royal Hospital are now complete. These were the first NHS projects to use the Non-Profit Distributing (NPD) model of procurement. In addition, the development of a wing of Victoria Hospital in NHS Fife to house general and maternity services, funded through PFI, was completed in 2011/12.

61. The Royal Hospital for Sick Children project in NHS Lothian was delayed, as a result of difficulty in securing agreement from the banks supporting the PFI partners to a land swap to facilitate the new build on the Little France site. This was resolved in August 2012 and the Scottish Government recently approved the board's outline business case. Auditors report that the major South Glasgow hospitals project is progressing well and remains on target for completion in 2015.

20 *Scottish Health Service Costs year ended 31 March 2011*, ISD, November 2011. This is the latest published information about spending on heating and lighting.
21 The six boards are: NHS Ayrshire and Arran, NHS Dumfries and Galloway, NHS Lanarkshire, NHS Western Isles, NHS National Services Scotland, and Healthcare Improvement Scotland.
22 *State of the NHSScotland Estate 2011*, Scottish Government, February 2012.

Exhibit 12
Estimated backlog maintenance at each of the boards
The level of backlog maintenance is significant in some boards.

NHS board	Estimated backlog 2011 £m
Ayrshire and Arran	91
Dumfries and Galloway	61
Fife	61
Forth Valley	20
Grampian	172
Greater Glasgow and Clyde	182
Highland	81
Lanarkshire	131
Lothian	131
Orkney	20
Shetland	10
Tayside	40
NHS National Services Scotland	10
Total	**1,010**

Note: NHS Borders, NHS Western Isles and the other special boards had backlog maintenance below £10 million and were not therefore separately disclosed in the Scottish Government report.
Source: *State of the NHSScotland Estate 2011*, Scottish Government, February 2012

62. In 2011/12, total spending on PFI charges was £184.5 million (£154.1 million in 2010/11). This was due primarily to increases in charges of £15.7 million in NHS Forth Valley and £8.1 million at NHS Fife, as a result of the completion of the new PFI projects at the Forth Valley Royal Hospital in Larbert and Victoria Hospital in Kirkcaldy (which became fully operational in July 2011 and December 2011 respectively). PFI charges are a significant financial commitment for boards but the charges include the cost of maintaining the assets to an appropriate standard.

Strong governance is fundamental to safeguarding public finances

63. Meeting the financial challenges ahead means doing things differently by transforming service delivery.[23] This reinforces the need for long-term planning that considers overall financial sustainability. Significant service redesign frequently requires upfront investment to develop and implement changes, with savings released in the longer term. Boards need to have a sound understanding of their costs and the NHS in Scotland aims to address this through the introduction of patient-level costing and improving community cost and activity data.

64. Strong governance is fundamental to designing and delivering financially sustainable services, and boards need to continually assess their arrangements to ensure they meet good practice. This needs to be supported by effective governance by Boards, and their audit committees, and the Scottish Government.[24]

65. Changing services to improve health outcomes can be difficult and requires strong leadership at Board and political levels. Effective community engagement is critical to the success of delivering services in different ways in order to achieve better health outcomes.

23 *Scotland's public finances: preparing for the future*, Audit Scotland, 2009; and *Scotland's public finances: addressing the challenges*, Audit Scotland, 2011.
24 *The role of boards*, Audit Scotland, 2010.

Appendix 1.

Financial performance of NHS boards in 2011/12 – Total revenue and capital

	2011/12				2010/11	2009/10
NHS board	**Total resource limit £m**	**Outturn £m**	**Variance Under/ (over) £m**	**Percentage of Total Resource Limit %**	**Variance Under/ (over) £m**	**Variance Under/ (over) £m**
Ayrshire and Arran	663.9	660.9	3.0	0.45	5.0	7.1
Borders	194.1	194.1	0.0	0.03	0.1	1.0
Dumfries and Galloway	296.9	294.6	2.3	0.76	4.2	2.3
Fife	821.2	820.9	0.3	0.04	0.0	0.2
Forth Valley	580.0	579.9	0.1	0.02	0.1	4.5
Grampian	877.8	877.7	0.1	0.01	0.0	0.0
Greater Glasgow and Clyde	2,441.9	2,441.6	0.3	0.01	0.7	0.1
Highland	580.8	580.6	0.2	0.03	0.1	0.1
Lanarkshire	952.1	950.0	2.1	0.21	7.6	12.1
Lothian	1,299.2	1,298.3	0.9	0.07	0.3	4.9
Orkney	45.8	45.6	0.2	0.43	0.0	0.0
Shetland	49.3	49.2	0.1	0.25	0.6	0.2
Tayside	750.5	750.3	0.2	0.02	0.2	0.0
Western Isles	72.3	71.8	0.5	0.66	1.4	0.0
Total territorial boards	**9,625.8**	**9,615.5**	**10.3**	**0.11**	**20.3**	**32.5**
Mental Welfare Commission	3.7	3.6	0.1	0.83	0.0	0.0
National Waiting Times Centre	59.4	59.4	0.0	0.00	0.8	2.0
NHS 24	62.8	62.6	0.2	0.41	1.1	0.1
NHS Education for Scotland	426.2	424.4	1.8	0.42	5.9	7.1
NHS Health Scotland	22.7	22.1	0.6	2.67	1.1	0.3
Healthcare Improvement Scotland	20.6	20.5	0.1	0.67	1.0	0.2
NHS National Services Scotland	381.8	381.5	0.3	0.08	0.9	0.2
Scottish Ambulance Service	217.5	217.5	0.0	0.02	0.0	0.1
The State Hospital	58.5	58.5	0.0	0.02	0.3	0.4
Total special boards	**1,253.2**	**1,250.1**	**3.1**	**0.25**	**11.1**	**10.4**
Total	**10,879.0**	**10,865.6**	**13.4**	**0.12**	**31.4**	**42.9**

Appendix 2.

Financial performance of NHS boards in 2011/12 – Revenue

	2011/12				2010/11	2009/10
NHS board	**Revenue resource limit £m**	**Outturn £m**	**Variance Under/ (over) £m**	**Percentage of RRL %**	**Variance Under/ (over) £m**	**Variance Under/ (over) £m**
Ayrshire and Arran	660.1	657.1	3.0	0.46	5.0	7.1
Borders	190.4	190.4	0.0	0.03	0.1	1.0
Dumfries and Galloway	278.6	276.4	2.2	0.77	4.2	2.2
Fife	607.5	607.2	0.3	0.06	0.0	0.2
Forth Valley	502.7	502.6	0.1	0.02	0.1	4.5
Grampian	811.2	811.1	0.1	0.01	0.0	0.0
Greater Glasgow and Clyde	2,238.0	2,237.7	0.3	0.01	0.7	0.1
Highland	567.8	567.7	0.1	0.01	0.1	0.1
Lanarkshire	929.9	927.8	2.1	0.22	7.6	12.1
Lothian	1,245.5	1,244.6	0.9	0.07	0.3	0.2
Orkney	45.1	45.0	0.1	0.26	0.0	0.0
Shetland	48.6	48.5	0.1	0.25	0.5	0.0
Tayside	713.2	713.0	0.2	0.02	0.2	0.0
Western Isles	71.3	70.8	0.5	0.67	1.3	0.0
Total territorial boards	**8,909.9**	**8,899.9**	**10.0**	**0.11**	**20.1**	**27.5**
Mental Welfare Commission	3.6	3.6	0.0	0.00	0.0	0.0
National Waiting Times Centre	56.9	56.9	0.0	0.00	0.6	1.7
NHS 24	62.5	62.3	0.2	0.32	1.1	0.0
NHS Education for Scotland	424.5	422.8	1.7	0.39	5.9	7.0
NHS Health Scotland	22.6	22.0	0.6	2.68	1.1	0.3
Healthcare Improvement Scotland	20.3	20.2	0.1	0.64	1.0	0.2
NHS National Services Scotland	371.1	370.9	0.2	0.06	0.9	0.1
Scottish Ambulance Service	203.6	203.6	0.0	0.02	0.0	0.1
The State Hospital	45.7	45.7	0.0	0.02	0.3	0.3
Total special boards	**1,210.8**	**1,208.0**	**2.8**	**0.24**	**10.9**	**9.7**
Total	**10,120.7**	**10,107.9**	**12.8**	**0.13**	**31.0**	**37.2**

Appendix 3.

Financial performance of NHS boards in 2011/12 – Capital

	2011/12				2010/11	2009/10
NHS board	**Capital resource limit £m**	**Outturn £m**	**Variance Under/ (over) £m**	**Percentage of CRL %**	**Variance Under/ (over) £m**	**Variance Under/ (over) £m**
Ayrshire and Arran	3.8	3.8	0.0	0.00	0.0	0.0
Borders	3.7	3.7	0.0	0.16	0.0	0.0
Dumfries and Galloway	18.3	18.2	0.1	0.55	0.0	0.1
Fife	213.7	213.7	0.0	0.00	0.0	0.0
Forth Valley	77.3	77.3	0.0	0.00	0.0	0.0
Grampian	66.6	66.6	0.0	0.00	0.0	0.0
Greater Glasgow and Clyde	203.9	203.9	0.0	0.01	0.0	0.0
Highland	13.0	12.9	0.1	0.59	0.0	0.0
Lanarkshire	22.2	22.2	0.0	0.00	0.0	0.0
Lothian	53.7	53.7	0.0	0.00	0.0	4.7
Orkney	0.7	0.6	0.1	11.22	0.0	0.0
Shetland	0.7	0.7	0.0	0.00	0.1	0.2
Tayside	37.3	37.3	0.0	0.00	0.0	0.0
Western Isles	1.0	1.0	0.0	0.00	0.1	0.0
Total territorial boards	**715.9**	**715.6**	**0.3**	**0.04**	**0.2**	**5.0**
Mental Welfare Commission	0.1	0.0	0.1	40.00	0.0	0.0
National Waiting Times Centre	2.5	2.5	0.0	0.00	0.2	0.3
NHS 24	0.3	0.3	0.0	18.81	0.0	0.1
NHS Education for Scotland	1.7	1.6	0.1	8.03	0.0	0.1
NHS Health Scotland	0.1	0.1	0.0	0.00	0.0	0.0
Healthcare Improvement Scotland	0.3	0.3	0.0	2.03	0.0	0.0
NHS National Services Scotland	10.7	10.6	0.1	0.53	0.0	0.1
Scottish Ambulance Service	13.9	13.9	0.0	0.06	0.0	0.0
The State Hospital	12.8	12.8	0.0	0.02	0.0	0.1
Total special boards	**42.4**	**42.1**	**0.3**	**0.71**	**0.2**	**0.7**
Total	**758.3**	**757.7**	**0.6**	**0.08**	**0.4**	**5.7**

Appendix 4.

Glossary of terms

Actuarial valuation	An assessment done by an actuary, usually every three or four years. The actuary will work out whether enough money is being paid into a pension scheme to pay pensions when due and assess whether employees' and employers' contributions are sufficient.
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).
Annual audit report	A final report by an NHS body's auditor on the findings from the audit process. Annual audit reports are published on Audit Scotland's website.
Break-even	Where income equals expenditure.
Brokerage	A facility where the Scottish Government provides money to an NHS board to enable it to meet the financial target. This money must be repaid in future years.
Capital Resource Limit (CRL)	The amount of money an NHS board is allocated to spend on capital schemes in any one financial year.
Capital spending	Expenditure on physical assets, eg expenditure on new construction or land, alterations to existing buildings or the purchase of fixed assets such as plant and machinery.
Cash terms	Figures which show the amount in cash and which have not been adjusted to take into account the effect of inflation.
Deficit	The excess of expenditure over income.
Governance	The framework of accountability to users, stakeholders and the wider community, within which an organisation takes decisions, and leads and controls its functions, to achieve its objectives.
Internal control	The process designed to ensure reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations.
Median pay disclosure	A new disclosure requirement to show the mid-point of the banded remuneration of the highest paid director, and the ratio between this and the median remuneration of the reporting entity's staff.
Monthly Monitoring Return	A return used by the Scottish Government to gather information on a monthly basis about a board's progress against its performance targets, its actual financial outturn and its forecast outturn.
Non-Profit Distributing (NPD) Model	NPD is a form of PPP. As with PFI, there is a partnership with a private sector provider, which pays the up-front construction and ongoing maintenance costs. However, there is a limit imposed on the profits that the private sector operator may retain. Any surplus profit is re-invested in the public sector. The public sector pays an annual charge over the life of the asset from its revenue budget.
Non-recurring savings	Savings which are made in one year only, and do not represent a permanent cost reduction.
Outturn	The final financial position, which could be the actual or forecast position.

Private Finance Initiative (PFI)/Public Private Partnerships (PPP)	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.
Real terms	Figures that have been adjusted for changes in inflation. The effect of inflation has been removed to allow any underlying changes to be shown clearly.
Recurring savings	Savings which represent a permanent cost reduction.
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.
Revenue spending	Revenue expenditure consists of day-to-day running costs including staff wages and salaries.
Scottish Government Health and Social Care Directorates (SGHSCD)	One of seven directorates within the Scottish Government. It comprises corporate service teams and professional groups to help further the Scottish Government objectives in this portfolio area. Includes the Health Finance team.
Special board	NHS organisations providing national support services to territorial boards.
Stewardship	The responsible management and planning of resources.
Surplus	The excess of income over expenditure.
Territorial board	NHS boards providing hospital and community services to local populations. There are 14 territorial boards, of which three are island boards (NHS Orkney, Shetland, and Western Isles).
Transparency	Timely, meaningful and reliable disclosures about an NHS board's financial performance.
Underlying recurring deficit	The ongoing financial gap in an NHS board area between the money received to provide health services (representing a regular income stream) and the costs of providing these services.
Voluntary severance scheme	Mutually agreed and voluntary early departure from employment.
Whole-time equivalent (wte)	The number of employees in an organisation adjusted to take part-time staff into account.

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AUDIT SCOTLAND

Audit Scotland, 110 George Street, Edinburgh EH2 4LH
T: 0845 146 1010 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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