

GRAMPIAN HEALTH BOARD
(commonly known as NHS Grampian)

ACCOUNTS 2006-2007

Authorised for issue as at 28 June 2007

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GRAMPIAN HEALTH BOARD ANNUAL REPORT

The Annual Report of Grampian Health Board for 2006/07 contains the following three sections: Directors' Report, Operating and Financial Review, and Remuneration Report.

DIRECTORS' REPORT

Accounting Convention

The Annual Accounts and Notes have been prepared under the historical cost convention modified to reflect changes in the value of fixed assets and in accordance with the Financial Reporting Manual (FReM). The accounts have been prepared under a direction issued by the Scottish Ministers, which is reproduced on page 52 of these accounts.

Accounting Policies

The statement of the accounting policies, which have been adopted, is shown at Note 1 to the Accounts.

From 1 April 2005, Grampian Health Board has complied with the FReM, with the Operating Cost Statement replacing an Income and Expenditure Account and the General Fund replacing capital and revenue reserves on the Balance Sheet, as previously directed in the Resource Accounting Manual (RAM).

Appointment of Auditors

The Public Finance and Accountability (Scotland) Act 2000 places personal responsibility on the Auditor General for Scotland to decide who is to undertake the audit of each health body in Scotland. For the financial years 2006/07 to 2010/11, the Auditor General appointed Gillian Woolman, Assistant Director (Health and Central Government) Audit Scotland, to undertake the audit of Grampian Health Board. The general duties of the auditors of health bodies, including their statutory duties, are set out in the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General.

Board Membership

Grampian NHS Board is a board of governance whose membership reflects the role and function of NHS Grampian, as detailed within the Operating and Financial Review on page 6.

Board members are selected and appointed through the public appointment process on the basis of their current organisational roles and particular expertise which enables them to contribute to the decision making process at a strategic level.

The Grampian NHS Board has collective responsibility for the performance of NHS Grampian as a whole, and reflects the partnership approach, which is essential to improving health and health care.

The following served as members of Grampian NHS Board during the year:

Non-executive members

Mr James Royan, Chairman
Councillor Raymond Bisset
Mrs Barbara Bruce
Ms Margaret Burns
Dr David Cameron
Councillor Katharine Dean
Professor Neva Haites
Mrs Judith Hendry
Professor Valerie Maehle
Mrs Elizabeth McDade
Councillor George McIntyre

Non-executive members (continued)

Mr Charles Muir (appointed 1 January 2007)
Mr Mike Scott (appointed 1 January 2007)
Mr Gordon Stephen
Mr Anthony Ward (resigned 30 September 2006)
Dr Stuart Watson

Executive members

Mr Richard Carey	Chief Executive
Dr Roelf Dijkhuizen	Medical Director
Mr Alan Gall	Director of Finance
Mrs Elinor Smith	Interim Nurse Director (resigned 31 October 2006) Nurse Director (appointed 1 November 2006)
Dr Lesley Wilkie	Director of Public Health (appointed 1 September 2006)

The board members' responsibilities in relation to the accounts are set out in a statement on page 18.

Board Members' Interests

The Register of Interests of Board Members is held at Summerfield House, 2 Eday Road, Aberdeen and may be inspected by members of the public by contacting the Assistant Board Secretary on 01224 558600. The Board Members declared in advance any potential business or other relationship, which they felt could influence, or could be seen to influence, the exercise of their judgement. During the year, no Board Member had to exempt themselves from any decision because of such a relationship.

Pension Liabilities

The accounting policy for pensions is provided in Note 1 to the Accounts and disclosure of the costs is shown within Note 25 and the Remuneration Report.

Related Party Transactions

During the year, NHS Grampian made payments of £1.3 million to Carden Medical Centre, in which Dr Stuart Watson, a non-executive member, is a partner. These payments were in respect of services provided by the Carden Medical Centre to NHS Grampian, as part of their General Medical Services contract. A balance of £41,000 was owed by NHS Grampian to the Carden Medical Centre at 31 March 2007.

Payment Policy

NHS Grampian makes every effort to comply with the principles of the Better Payment Practice Code by processing suppliers' invoices for payment without unnecessary delay and by settling them in a timely manner. In 2006/07, the average credit taken was 35 days (2005/06: 34 days). 82% of invoices by value and 68% of invoices by volume were paid within 30 days.

Corporate Governance

Grampian NHS Board meets regularly throughout the year to progress the business of NHS Grampian. The Board has adopted a schedule of matters reserved for its decisions and is supported by the work of committees reporting to the Board.

The main functions of the committees, which under SEHD guidance, must exist at unified NHS Board level, together with membership as at 31 March 2007, were as follows:

Clinical Governance Committee

The main duties of the Clinical Governance Committee are as follows:

- Provide a strategic oversight of systems and procedures for clinical governance arrangements;
- Support and monitor the implementation of dynamic clinical governance arrangements;
- Report regularly to the Board on the progress and effectiveness of the clinical governance arrangements; and
- Promote a fair and just culture to encourage continuous quality improvement within all of NHS Grampian's clinical services.

Membership: Councillor Raymond Bisset (Chair), Dr David Cameron, Councillor Katharine Dean, Professor Neva Haites and Mrs Judith Hendry.

Audit Committee

The Audit Committee meets approximately four times a year. Its main duties include:

- the regular review of the role, function and performance of NHS Grampian's Internal Audit service;
- the review of external audit arrangements;
- the review and monitoring of adherence to the Board's Standing Orders and Standing Financial Instructions; and
- ensuring that effective internal control systems are maintained and corporate governance matters are observed.

Membership: Ms Margaret Burns (Chair), Dr David Cameron, Professor Valerie Maehle, Councillor George McIntyre and Mr Gordon Stephen.

Staff Governance Committee

The committee has an important role in ensuring consistency of policy and equity of treatment of staff across the local NHS system, including remuneration issues, where they are not already covered by existing arrangements at national level. The Committee also oversees the implementation of the five staff governance standards and plans to achieve exemplar employer status in NHS Grampian.

The five standards entitle staff to be:

- Well informed;
- Appropriately trained;
- Involved in decisions that affect them;
- Treated fairly and consistently; and
- Provided with an improved and safe working environment.

Membership: Professor Valerie Maehle (Chair), Ms Margaret Burns, Mr Richard Carey, Councillor Katharine Dean, Mr Ian Hodge (staffside member), Mr James Royan and Mr Gordon Stephen.

Ethics Committees

Research Ethics Committee

The Grampian Research Ethics Committee (REC) operates as two committees reflecting the extent and detail of the workload and is convened to provide independent advice to participants, researchers, funders, sponsors, employers, care organisations and professionals on the extent to which proposals for research studies comply with recognised ethical standards. The purpose of a Research Ethics Committee in reviewing proposed studies is to protect the dignity, rights, safety and well being of all actual or potential research participants.

Each of the two committees is comprised of lay members, general practitioners, nurses, other clinicians, pharmacists and research scientists. Dr Melvin Morrison, a General Practitioner, chaired Committee One during 2006/07. Dr Sheila Simpson, Associate Specialist and Senior Lecturer in Clinical Genetics, chaired Committee Two.

Clinical Ethics Committee

The NHS Grampian Clinical Ethics Committee aims to provide advice to all professionals and organisations within NHS Grampian on ethical matters and to raise their awareness of ethics, as distinct from the specific issues of research ethics. The Committee provides ethical advice on clinical guidelines and helps in the development of policies for clinical care where there are ethical issues.

The Chair of the Committee is Mr Sam McClinton, Consultant Urologist. Membership is drawn from medical clinicians from primary and secondary care and public health; non medical clinicians; a non executive member of Grampian NHS Board; a member of the public; and members with expertise in ethics/philosophy and theology.

Other Committees

The following committees also report to the Grampian NHS Board:

eHealth Committee:

Acting Chairperson: Mr Ewan Robertson, Director of Performance Improvement

The eHealth Committee ensures that the NHS Grampian eHealth Strategy meets the requirements of the NHS Grampian Health Plan, Modernisation and Joint Future programmes, whilst also supporting the strategic priorities of the NHS in Scotland.

Endowment Committee:

Chairperson: Mrs Barbara Bruce

The Endowment Committee oversees the management of the NHS Grampian Endowment Fund, which has assets of around £32.5million.

Patient Focus and Public Involvement Committee

Chairperson: Mrs Elizabeth McDade

The Patient Focus and Public Involvement Committee ensures that the public is appropriately involved in the decision making process of NHS Grampian.

Performance Governance Committee

Chairperson: Mr James Royan

The Performance Governance Committee monitors and supports performance monitoring arrangements across NHS Grampian and promotes a culture of continuous, system wide performance improvement.

Service Strategy and Redesign Committee

Chairperson: Professor Neva Haites

The Service Strategy and Redesign Committee leads the development of service strategy for NHS Grampian and monitors the delivery of the organisational strategy.

Spiritual Care Committee

Chairperson: Mr James Royan

The Spiritual Care Committee supports the integrated planning and delivery of spiritual care services within NHS Grampian.

Human Resources

In an extremely challenging year for the Human Resources Directorate, NHS Grampian has made significant progress in the following areas:

- As part of the Pay Modernisation Programme, NHS Grampian has further developed its Benefits Realisation Plan to support the implementation and promotion of service redesign. In addition, NHS Grampian made good progress in meeting the national timescale for the assimilation and payment of substantive staff under Agenda for Change, the new national pay, terms and conditions system for the majority of NHS Staff. This was achieved through the significant effort and time commitment of those involved in implementing the new system. Some other staff including bank, leavers and those whose jobs have changed since October 2004, will be assimilated in 2007-08 as planned.
- Continued development of workforce planning through:
 - the strengthening of HR links with major service redesign projects;
 - improved availability of workforce information; and
 - an updated version of NHS Grampian's workforce plan, which will support new ways of working driven by the implementation of NHS Grampian's Health Plan and its Change and Innovation Programme.
- Implementation of the Staff Governance Action Plan has ensured progress in a range of areas including:
 - provision of information to staff on matters of interest to them;
 - implementation of the People Management Programme; and
 - further publicity on Partnership working to promote involvement of staff and their representatives in decisions which affect them at work.

Recruitment practices have been further developed in 2006/07 and, as an equal opportunities employer, NHS Grampian welcomes applications for employment from disabled persons and actively seeks to provide an environment where they, and any employees who become disabled, can continue to contribute to the work of the Board.

ANNUAL REPORT

OPERATING AND FINANCIAL REVIEW

Principal Activities and Review of the Year

Grampian Health Board was established in 1974 and is commonly known as NHS Grampian. It is responsible for leading efforts to improve the health of the people in Grampian, and for providing the NHS health care services that people need. It is the fourth largest health board in Scotland by general funding allocation, and consists of three Community Health Partnerships (Aberdeen City, Aberdeenshire and Moray) and an Acute Sector, all supported by corporate services such as Finance. The Community Health Partnerships provide a focus for NHS Grampian to work in partnership with other agencies in the provision of integrated services to the local communities.

NHS Grampian provides services to over half a million people in Grampian, as well as the provision of specialist services to patients from other parts of Scotland, which accounts for 6% of its specialist activity.

NHS Grampian provides a local health system, with a single governing board responsible for effective and accountable governance, and the provision of strategic leadership and direction for the system as a whole.

The role of NHS Grampian is to:

- improve and protect the health of the local people;
- improve health services for local people;
- focus clearly on health outcomes and people's experience of their local NHS system;
- promote integrated health and community planning by working closely with other local organisations; and
- provide a single focus of accountability for the performance of the local NHS system.

The functions of NHS Grampian comprise:

- strategy development and implementation;
- resource allocation; and
- performance management.

2006/07 was once again a busy year for NHS Grampian, as it strived to build on its strengths and achievements, while taking on the challenges associated with building a modern and sustainable health service for the people of Grampian.

NHS Grampian continued to develop its Change and Innovation Programme in 2006/07 to move the balance of care within Grampian to the most appropriate setting for patients. This is being achieved through its strategy *Healthfit*, which aims to improve the health of the population of Grampian by strengthening local preventative services, with more support for self-care, more intensive case management for people with serious long term conditions, and more capacity for diagnosis and treatment in local communities. This will enable NHS Grampian's acute hospitals to focus on providing complex care and ensuring the most effective use of skills. NHS Grampian's *Healthfit* strategy is in line with the national strategy for the NHS in Scotland – *Delivering for Health*.

NHS Grampian remained in financial balance in 2006/07 and further information on its financial performance is included in the section on Financial Performance and Position on page 7. Performance against other key targets in 2006/07 was measured using key performance indicators set by the SEHD to hold Boards to account. Information on NHS Grampian's performance in relation to these indicators is detailed in the section on Performance against Key Targets on page 8.

Family Health Services

In 2006, NHSScotland Counter Fraud Services performed work to give an indication of the possible level of Family Health Services income lost due to incorrect claims by patients for exemption from NHS charges. Counter Fraud Services extrapolation of the sample results for NHS Grampian indicates that the level of income lost from prescription, dental and ophthalmic charges in the year to 31 December 2006 could amount potentially to £1.3million (2005: £1million).

Infrastructure and Equipment

NHS Grampian invested £26.9million during the year on capital programmes. The major areas of spend included £7.5million on medical equipment, £3.4million on Information Technology, £12.3million on infrastructure projects such as buildings, roads and refurbishments and £3.7million on capital grants to partner bodies.

Financial Performance and Position

The Scottish Executive continues to set three financial limits at a health board level on an annual basis. These limits are:

- Revenue resource limit – a resource budget for ongoing activity;
- Capital resource limit – a resource budget for net capital investment; and
- Cash requirement – a financing requirement to fund the cash consequences of the ongoing activity and net capital investment.

Health boards are required to contain their net expenditure within these limits, and will report on any variation from the limits as set. NHS Grampian's out-turn for the year against these limits was as follows:

	Limit as set by SEHD £000	Actual Out-turn £000	Variance (Over)/Under £000
Revenue Resource Limit	682,161	675,824	6,337
Capital Resource Limit	25,130	24,566	564
Cash Requirement	650,800	650,717	83

Memorandum for In Year Out-turn

	£000
Brought forward (surplus) from previous financial year	<u>(456)</u>
Saving against in year Revenue Resource Limit	<u>5,881</u>

NHS Grampian repaid its outstanding debt to the Scottish Executive Health Department during the 2005/06 financial year, carrying forward a small revenue surplus of £456,000. The surplus increased to £6.3 million by the end of the current financial year, thanks to financial benefit from the sale of assets surplus to requirements and the receipt of retrospective business rates rebates.

Cash releasing efficiencies exceeded £14 million in the year but must be repeated in 2007/08 where the target will be around £20 million in total. Acute hospital care continues to command the largest proportion of investment with over 30% of resources expended in that sector. Family Health Services, including drugs prescribed in the community, accounted for 23% of spend while Nursing pay costs at 19%, represented the largest single expenditure type.

Performance against Key Targets

NHS Grampian has developed a performance framework through which a culture of continuous performance improvement is supported, and implementation of the Local Health Plan, known as *Healthfit*, is ensured. The overall strategic direction of NHS Grampian is captured in a set of Corporate Objectives and, through a Balanced Scorecard approach, these are translated into key measures and targets, against which progress is monitored. Measures and targets include the key performance indicators used by the Scottish Executive Health Department (SEHD) to hold Health Boards to account. These key performance indicators are known as the HEAT indicators:

- **H** Health Improvement for people in Scotland;
- **E** Efficiency Improvements;
- **A** Access more quickly to service; and
- **T** Treatment appropriate for patient.

In 2006/07 these national measures were captured for the first time in a Local Delivery Plan representing the performance improvement agreement between NHS Grampian and the SEHD.

The SEHD assesses NHS Grampian's performance each year through the Annual Review process. The Annual Review consists of a meeting in public at which key areas of performance are discussed. The outcome is captured in a formal letter to the Grampian NHS Board, which then forms the basis of NHS Grampian's Annual Report, which is published in November of each year. A full performance report is made available to the public in advance of the Annual Review, which in 2007 is scheduled to take place on 20 August. The performance report and the review agenda are based around Local Delivery Plan commitments.

The following gives some information on Grampian's performance against key Local Delivery Plan (HEAT) targets in 2006/07.

Health Improvement for the People of Scotland

The proportion of adults smoking in Grampian has continued to reduce annually and the Scottish Health Survey (2005) showed Grampian to have a smoking prevalence of 20.3% which means the Scottish target of 22% by 2010 has already been delivered. However, NHS Grampian is not complacent and will continue to target activity to address the inequalities that exist, specifically around smoking in pregnancy, youth tobacco use and low income smokers.

Uptake of childhood vaccinations continues to rise and, with the exception of MMR, is above 95%. The rate for MMR vaccination (at aged 24 months) was 92.7% in the quarter for July to September 2006 exceeding the Local Delivery Plan target of 90%.

Mental Health is a health improvement priority for NHS Grampian and action currently being taken will contribute to sustained delivery of the national target for suicide prevention. Rates fluctuate annually and data for 2005 shows a marked reduction from previous years. To ensure focused activity to address suicide, NHS Grampian is an active partner in the implementation of the Choose Life initiative with specific action plans having been developed by the Choose Life multi-agency groups in Aberdeen City, Aberdeenshire and Moray.

Efficiency and Governance Improvements

As detailed elsewhere in this report, NHS Grampian met its financial targets in 2006/07, including the Revenue Resource Limit target, with a reported surplus for the year of £6.3million.

NHS Grampian remains committed to minimising staff absence rates and already experiences a low rate of absence when compared to other NHS bodies in Scotland. Its current absence rate is 5.1%, which represents a slight increase on the previous year. This is due to the impact of a number of workforce and recording changes that have taken place. However a number of initiatives are planned or are already in place to ensure delivery of the 4% national target by 2008. These include:

- Roll out of the Proactive Support for Sickness Absence Project across NHS Grampian;
- A revised Managing Attendance at Work Policy will be implemented within NHS Grampian from April 2007; and
- Continued development of work/life balance policies.

Access to Services

NHS Grampian continues to make good progress in reducing access times for patients in line with national targets. In 2006/07 this included:

- A continuing improvement in the percentage of children (aged 0-17) registered with an NHS Dentist (59.5%). The Community Dental service continues to deliver a significant part of dental care in Grampian and around a fifth of all Scottish community dental activity is undertaken in Grampian but is not reflected in the number of children registered with NHS dentists. The aim of the NHS in Scotland is to reduce the percentage of Primary 1 children with dental caries. A key initiative is dental health promotion and, as of December 2006, 39% of all Grampian nurseries were participating in a scheme to promote tooth-brushing, with a planned rollout to a further 112 nurseries, taking the total coverage to 65%;
- NHS Grampian met the target of no-one waiting longer than 18 weeks for inpatient or day case treatment by December 2006 and is making good progress towards delivering a similar target for outpatients by December 2007;
- Waiting times for selected diagnostic tests have improved in line with Local Delivery Plan targets including a reduction in the waiting times for MRI scans from 25 weeks to 6 weeks between March and December 2006;
- Sustainable improvements to Accident and Emergency waiting times are being delivered. In February 2007, the percentage of patients treated and discharged within 4 hours was 94%; and
- The proportion of urgent cancer referrals treated within 2 months (62 days) continues to increase. NHS Grampian delivered a higher than Scottish average of 85.6% compliance in the latest quarter (October to December 2006) for all cancers. For the 3 cancers covered by the 2006/07 Local Delivery Plan, breast cancer is sustaining 100% compliance, lung cancer over 90% but colorectal cancer is more variable at between 40-80%. Initiatives are in hand to ensure sustained improvement in the area of colorectal cancer.

Treatment Appropriate to Individuals

The 2006/07 target set for NHS Grampian and its partner agencies was that there should be no more than 38 patients awaiting discharge in excess of 6 weeks by 15 April 2007. Delivery of this was extremely challenging but was achieved. During 2006/07, NHS Grampian has worked with the national Joint Improvement Team to identify where further improvements can be made to ensure sustainability of performance and action plans are being produced to deliver maximum reductions in inappropriate hospital admissions and stays during 2007/08.

NHS Grampian continues to perform well in Scottish terms against the national target for uptake of cervical screening of 80%. Whilst the uptake has fallen in recent years, the uptake in 2006 was 86%, above the Scottish average of 83.8%.

Sustainability and Environmental Reporting

In keeping with its Environmental Policy, NHS Grampian continues to promote sustainable practice at all levels of the organisation.

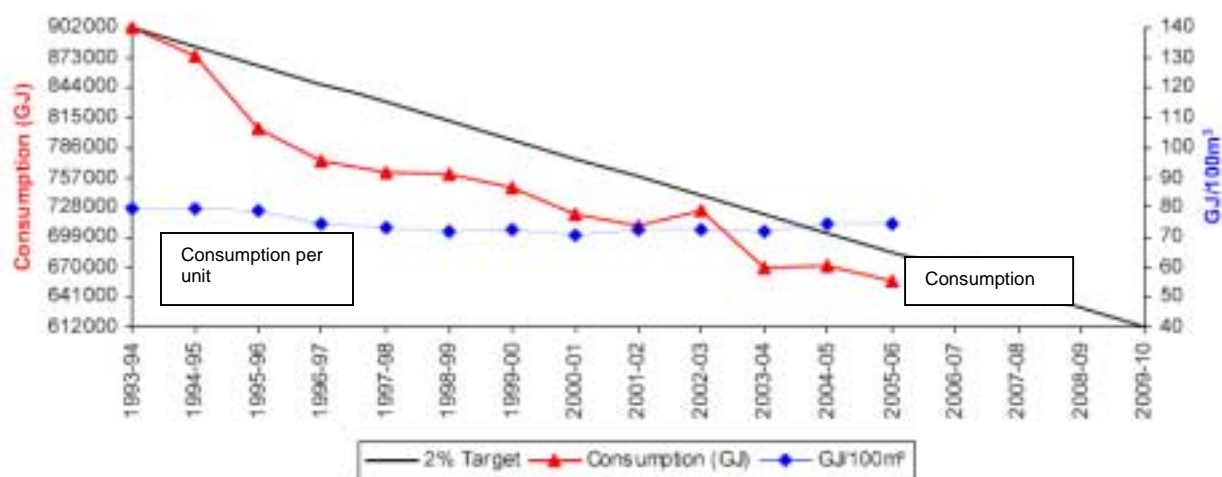
In 2006/07, NHS Grampian was a key participant in the Carbon Trust NHS Carbon Management Programme. This involved 10 NHS organisations from across the UK (NHS Grampian being the only Scottish NHS organisation). The programme output is a comprehensive Carbon Management Implementation Plan (CMIP) for NHS Grampian that sets out clear targets for carbon reduction and revenue savings. Current targets are a minimum of 2% carbon reduction per annum.

In the environmental setting, sustainability is an issue impacting not only on NHS Grampian but also on society as a whole. Sustainability seeks to ensure that finite resources are used in a manner that has zero impact on the ecosystem. NHS Grampian has therefore put in place the means to monitor and target effectively the consumption of utilities, of which fossil fuels and electricity are the major part.

In addition, NHS Grampian measures the output of CO₂, partly in response to the Emissions Trading regulations, and also as good environmental practice. In all environmental activity, the CO₂ index is the lowest common denominator and reference to this ensures the most efficient use of resources.

The diagram below, extracted from the annual Environmental Report published by Health Facilities Scotland, shows how NHS Grampian has taken seriously its commitment to sustainability which has resulted in a downward trend with regard to energy consumption.

NHS Grampian Energy Trends and Targets



Graph showing the NHS Grampian energy trend since 1993/94, including consumption over this period and energy used per 100 m². The fall in consumption is tracked against the target of a 2% reduction in consumption per annum.

While there is an overall fall in the consumption, the GJ/100M2 indicator (being the rate of consumption per unit area) has remained fairly steady. NHS Grampian is addressing this by embarking on a series of awareness presentations both at sector level and also targeted at facilities staff.

Whilst a downward trend in consumption is welcome, the associated costs of energy tariffs have risen dramatically in 2006/07 and, to some extent, will continue to do so in the near future, although the rate of increase is expected to slow compared to previous years.

Annual Report

REMUNERATION REPORT

FOR THE YEAR ENDED 31 MARCH 2007

Remuneration of:	Salary (bands of £5,000)	Real increase in pension at age 60 (bands of £5,000)	Total accrued pension at age 60 at 31 March 2007 (bands of £5,000)	Cash Equivalent Transfer Value (CETV) at 31 March 2006 £000	Cash Equivalent Transfer Value (CETV) at 31 March 2007 £000	Real increase in CETV in year (bands of £5,000)	Superannuable Service at 31 March 2007 No. of Years	Benefits in kind £000
Remuneration of: Executive Members								
Chief Executive								
- Mr Richard Carey	125-130	5-10	40-45	549	591	70-75	25	5
Medical Director								
- Dr Roelf Dijkhuizen	130-135	0-5	20-25	414	396	0-5	16	-
Director of Finance								
- Mr Alan Gall	85-90	0-5	10-15	255	235	5-10	12	3
Nurse Director								
- Mrs Elinor Smith (from 1/11/06)	30-35	0-5	20-25	348	358	35-40	19	1
Interim Nurse Director								
- Mrs Elinor Smith (to 1/11/06)	45-50	See above	See above	See above	See above	See above	See above	2
Director of Public Health								
- Dr Lesley Wilkie (from 1/9/06)	80-85	0-5	35-40	664	692	(0-5)	26	-
Non Executive Members								
The Chairman								
- Mr James Royan	30-35	N/a	N/a	N/a	N/a	N/a	N/a	-
Councillor Raymond Bisset	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mrs Barbara Bruce	10-15	N/a	N/a	N/a	N/a	N/a	N/a	-
Ms Margaret Burns	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Dr David Cameron	10-15	N/a	N/a	N/a	N/a	N/a	N/a	-
Councillor Katharine Dean	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Professor Neva Haites	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mrs Judith Hendry	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-

Annual Report

REMUNERATION REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2007

Non Executive Members (continued)	Salary (bands of £5,000)	Real increase in pension at age 60 (bands of £5,000)	Total accrued pension at age 60 at 31 March 2007 (bands of £5,000)	Cash Equivalent Transfer Value (CETV) at 31 March 2006 £000	Cash Equivalent Transfer Value (CETV) at 31 March 2007 £000	Real increase in CETV in year (bands of £5,000)	Superannuable Service at 31 March 2007 No. of Years	Benefits in kind £000
Professor Valerie Maehle	10-15	N/a	N/a	N/a	N/a	N/a	N/a	-
Mrs Elizabeth McDade	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Councillor George McIntyre	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mr Charles Muir (appointed 1/1/07)	0-5	N/a	N/a	N/a	N/a	N/a	N/a	-
Mr Mike Scott (appointed 1/1/07)	0-5	N/a	N/a	N/a	N/a	N/a	N/a	-
Mr Gordon Stephen*	50-55	0-5	15-20	355	363	(5-10)	36	-
Mr Anthony Ward (resigned 30/9/06)	0-5	N/a	N/a	N/a	N/a	N/a	N/a	-
Dr Stuart Watson	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Total								11

* Mr Gordon Stephen is a Non Executive Member of the Grampian NHS Board in his capacity as Employee Director of NHS Grampian. The salary disclosure above includes his remuneration for his substantive post within NHS Grampian, as well as his remuneration as a Non Executive Member. All of his time is currently dedicated to his role as Employee Director.

Mr Alexander Smith retired from the post of Interim Chief Executive of NHS Grampian on 17 January 2006. On 18 January 2006, he commenced a full time secondment from NHS Grampian to the Scottish Executive Health Department as their interim Director of Finance, and remains an employee of NHS Grampian. This secondment continued for the duration of 2006/07 and the required disclosure in relation to Mr Smith, as an outward secondee from NHS Grampian, is included in Note 2(a).

Annual Report

REMUNERATION REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2006

Remuneration of:	Salary (bands of £5,000)	Real increase in pension at age 60 (bands of £5,000)	Total accrued pension at age 60 at 31 March 2006 (bands of £5,000)	Cash Equivalent Transfer Value (CETV) at 31 March 2005 £000	Cash Equivalent Transfer Value (CETV) at 31 March 2006 £000	Real increase in CETV in year (bands of £5,000)	Superannuable Service at 31 March 2006 No. of Years	Benefits in kind £000
Executive Members								
Chief Executive								
- Mr Richard Carey (from 17/1/06)	20-25	0-5	30-35	405	549	50-55	24	2
Chief Operating Officer								
- Mr Richard Carey (to 17/1/06)	85-90	See above	See above	See above	See above	See above	See above	See above
Interim Chief Executive								
- Mr Alexander Smith (to 17/1/06*)	95-100	5-10	50-55	741	N/a	N/a	32	-
Director of Public Health								
- Dr Eric Baijal (resigned 8/5/05)	10-15	0-5	35-40	464	N/a	N/a	24	1
Medical Director								
- Dr Roelf Dijkhuizen	130-135	0-5	20-25	306	414	30-35	15	-
Director of Finance								
- Mr Alan Gall	85-90	0-5	10-15	178	255	20-25	11	3
Nurse Director								
- Mr David Benton (resigned 31/8/05)	35-40	0-5	0-5	54	N/a	N/a	3	-
Interim Nurse Director								
- Mrs Elinor Smith (from 1/9/05)	45-50	0-5	15-20	245	348	35-40	18	3
Non Executive Members								
The Chairman								
- Mr James Royan	30-35	N/a	N/a	N/a	N/a	N/a	N/a	-
Deputy Chair								
- Mrs Anne Campbell (term ended 31/3/06)	15-20	N/a	N/a	N/a	N/a	N/a	N/a	-
Councillor Raymond Bisset	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mrs Barbara Bruce	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Ms Margaret Burns	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Dr David Cameron	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Councillor Katharine Dean	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mr Angus Gordon (term ended 30/9/05)	0-5	N/a	N/a	N/a	N/a	N/a	N/a	-
Professor Neva Haites	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mrs Judith Hendry (appointed 1/4/05)	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-

Annual Report

REMUNERATION REPORT (continued)

FOR THE YEAR ENDED 31 MARCH 2006

	Salary (bands of £5,000)	Real increase in pension At age 60 (bands of £5,000)	Total accrued pension at age 60 at 31 March 2006 (bands of £5,000)	Cash Equivalent Transfer Value (CETV) at 31 March 2005 £000	Cash Equivalent Transfer Value (CETV) at 31 March 2006 £000	Real increase in CETV in year (bands of £5,000)	Superannuable Service at 31 March 2006 No. of Years	Benefits in kind £000
Non Executive Members (continued)								
Professor Valerie Maehle	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mrs Elizabeth McDade	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Councillor George McIntyre	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Mr Gordon Stephen (appointed 1/10/05)	0-5	N/a	N/a	N/a	N/a	N/a	N/a	-
Mr Anthony Ward	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Dr Stuart Watson	5-10	N/a	N/a	N/a	N/a	N/a	N/a	-
Total								9

* Mr Alexander Smith retired from the post of Interim Chief Executive of NHS Grampian on 17 January 2006. On 18 January 2006, he commenced a full time secondment from NHS Grampian to the Scottish Executive Health Department as their interim Director of Finance, and remains an employee of NHS Grampian. His salary for the period to 17 January 2006 is disclosed above.

Annual Report

REMUNERATION REPORT (continued)

Remuneration of Executive and Non Executive Members

The remuneration of Executive and Non Executive Members is determined by the Scottish Executive Health Department (SEHD) under Ministerial Direction and in accordance with HDL(2006)23, HDL(2006)59 and HDL(2007)11. NHS Grampian has implemented new pay arrangements for the Executive Cohort and is in the process of implementing new pay arrangements for the Senior Management Cohort as detailed in HDL(2006)23 and HDL(2006)59.

Business Interests

Members of the Grampian NHS Board declare any business interests in a Register of Interests and this is amended when any new interests are declared or existing interests cease. The Register may be inspected by members of the public by contacting the Assistant Board Secretary on 01224 558600.

Remuneration Committee

The Remuneration Committee meets approximately four times a year. Its main duties are as follows:

- to agree terms and conditions of employment for the Executive Cohort of the Grampian NHS Board;
- to monitor arrangements for the pay and conditions of service of the Senior Management Cohort, being those reporting to Executive Members and other Directors; and
- to regularly review NHS Grampian's policy for the remuneration and performance of the Executive Cohort and Senior Management Cohort in the light of guidance issued by the SEHD.

Membership: Professor Valerie Maehle (Chair), Ms Margaret Burns, Councillor Katharine Dean, Mr James Royan and Mr Gordon Stephen.

Assessment of Performance

The performance assessment process requires each board member to set objectives for the year. Performance in relation to the achievement of these objectives is monitored, culminating in a final review meeting that takes place at the end of the year. The performance assessment process for the Executive Cohort is in accordance with HDL(2007)15.

Performance management and appraisal arrangements follow the nationally prescribed format and are directly linked to the improved performance of NHS Grampian in the delivery of its objectives. Written evidence relating to the performance ratings for executive members is undertaken by the Chief Executive and is made available to the Remuneration Committee for approval. For non-executive members, the process is undertaken by the Chairman and written evidence is submitted to the Minister for Health and Community Care.

The progression of the Executive Cohort through the pay range is subject to, as a minimum, the fully acceptable performance of the individual. A National Performance Management Committee has been established as detailed in HDL(2006)54 to ensure, on behalf of the Scottish Executive Health Department, the effective and consistent application of pay and performance management arrangements for NHS Scotland Executives subject to Ministerial Direction.

The Annual Report of Grampian Health Board as set out on pages 1 to 16 was adopted by the Board on 28 June 2007.

Mr Richard Carey
Chief Executive
Grampian Health Board

GRAMPIAN HEALTH BOARD

ANNUAL ACCOUNTS 2006/07

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTABLE OFFICER OF THE HEALTH BOARD

Under Section 15 of the Public Finance and Accountability (Scotland) Act, 2000, the Principal Accountable Officer (PAO) of the Scottish Executive has appointed me as Accountable Officer of Grampian Health Board.

This designation carries with it, responsibility for the propriety and regularity of financial transactions under my control and for the economical, efficient and effective use of resources placed at the Board's disposal.

I am responsible for ensuring proper records are maintained and that the Accounts are prepared under the principles and in the format directed by Scottish Ministers. To the best of my knowledge and belief, I have properly discharged my responsibilities as Accountable Officer as intimated in the Departmental Accountable Officer's letter to me of the 13 January 2006.

.....

Mr Richard Carey
Chief Executive
Grampian Health Board

28 June 2007

Date

GRAMPIAN HEALTH BOARD

ANNUAL ACCOUNTS 2006/07

STATEMENT OF HEALTH BOARD MEMBERS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Under the National Health Service (Scotland) Act 1978, the Health Board is required to prepare accounts in accordance with the directions of Scottish Ministers which require that those accounts give a true and fair view of the state of affairs of the Health Board as at 31 March 2007 and of its operating costs for the year then ended. In preparing these accounts the Directors are required to:

Apply on a consistent basis the accounting policies and standards approved for the NHSScotland by Scottish Ministers.

Make judgements and estimates that are reasonable and prudent.

State where applicable accounting standards have not been followed where the effect of the departure is material.

Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Board will continue to operate.

The Health Board members are responsible for ensuring that proper accounting records are maintained which disclose with reasonable accuracy at any time the financial position of the Board and enable them to ensure that the accounts comply with the National Health Service (Scotland) Act 1978 and the requirements of the Scottish Executive Health Department. They are also responsible for safeguarding the assets of the Board and hence taking reasonable steps for the prevention of fraud and other irregularities.

The NHS Board members confirm they have discharged the above responsibilities during the financial year and in preparing the accounts.

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Mr James Royan
Chairman
Grampian Health Board

.....

Mr Alan Gall
Director of Finance
Grampian Health Board

28 June 2007

Date

GRAMPIAN HEALTH BOARD

STATEMENT ON INTERNAL CONTROL

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by Scottish Ministers, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

In terms of enabling me to discharge my responsibilities as Accountable Officer, the following arrangements and processes were in place throughout the financial year to manage risk within the organisation:

- A Board which meets regularly to consider the plans and strategic direction of the organisation (the Board comprises the senior management of the organisation and external independent members);
- Single system governance and risk management arrangements with clear supporting lines of accountability and agreed scheme of delegation and standing orders;
- The consideration by the Board of periodic reports from the chairs of the performance governance committee, staff governance, clinical governance and audit committees, concerning any significant matters on governance, risk and internal controls; and
- The implementation of a unified Risk Management Strategy and robust prioritisation methodology based on risk ranking.

The Scottish Public Finance Manual (SPFM) is issued by the Scottish Ministers to provide guidance to the Scottish Executive and other relevant bodies on the proper handling of public funds. It is mainly designed to ensure compliance with statutory and parliamentary requirements, promote value for money and high standards of propriety, and secure effective accountability and good systems of internal control.

Purpose of the System of Internal Control

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve the organisation's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the principal risks to the achievement of the organisation's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. This process has been in place for the year up to the date of approval of the annual report and accounts and accords with guidance from the Scottish Executive Health Department.

Risk and Control Framework

All NHS Scotland bodies are subject to the requirements of the SPFM and must operate a risk management strategy in accordance with relevant guidance issued by the Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

- The risk management strategy clearly sets out the importance of risk management to the delivery of our objectives, the responsibilities of staff across NHS Grampian and the supporting organisational arrangements for the identification, assessment and reporting of risks and the steps to be taken to develop and implement mitigating action;
- We have developed an assurance framework to assist each of the core governance committees identify and assess risks that fall within their remit;

- Risk management action plans have been established for each sector which set out the steps being taken to manage risks linked to delivery of corporate objectives, performance targets and key strategic projects;
- We have procured an IT web enabled system to facilitate the electronic recording, assessment and reporting of risks and incidents and this is being rolled out across NHS Grampian in line with our risk management strategy. This will replace the existing manual incident reporting system; and
- Commitment to the continuation of our programme of raising risk awareness amongst all staff on an ongoing basis.

More generally, the organisation is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area. In particular, in the period covering the year to 31 March 2007 and up to the signing of the accounts, the organisation has implemented the following actions to further enhance the Board's system of internal control:

- A comprehensive self assessment of our risk management and clinical governance arrangements against the national NHS QiS standards.
- Continued development of the governance and management oversight arrangements within NHS Grampian, *for example* - the establishment of the Workforce Management Steering Group, chaired by the Chief Executive, to provide senior management oversight over pressures on staff resources and costs.
- Commitment to ongoing continuous improvement as evidenced by the development of detailed plans to support the National Procurement and Logistics Project and development of our Nursing Workforce, including actions to address the findings in the Audit Scotland Report: - Planning Ward Nursing and the commissioning of an independent review of our Change and Innovation Programme; and

During the financial year ending 31 March 2007, the following actions were also commenced to further enhance the Board's system of internal control:

- Continued progression of the change and innovation programme to deliver service re-design in known areas of resource and financial pressure;
- Proactive development of an action plan to take forward the recommendations arising from the NHS QiS peer review of our progress in implementing the National Clinical Governance and Risk Management Standards; and
- Implementation of performance management arrangements based on the Citistat approach. NHS Grampian is one of five pilot organisations across NHS Scotland adopting this methodology.

Review of Effectiveness

As Accountable Officer, I also have responsibility for reviewing the effectiveness of the system of internal control.

My review of the effectiveness of the system of internal control is informed by:

- the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- the work of the internal auditors, who submit to the organisation's Audit Committee regular reports which include their independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement;

- and comments made by the external auditors in their management letters and other reports.

In addition to the above, the processes that have been applied in maintaining and reviewing the effectiveness of the system of internal control, include:

- The approval of annual statements of assurance from each of the core governance committees of the Board;
- Independent consideration of the statement on internal control and its disclosures by Internal Audit, the Audit Committee and the Assurance Framework Steering Group; and
- Consideration and approval of the annual accounts, including the Statement of Internal Control by the Board. During the year, minutes of the meetings of the core governance committees were provided to all Board members. At each meeting the Chairs of these governance committees are given the opportunity to raise or highlight any significant matters.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Patient Exemption Checking

The Board receives information on the checks carried out by the Counter Fraud Services (CFS) in relation to the possible level of Family Health Services income lost due to incorrect claims by patients for exemption from NHS charges. CFS report the results of these checks and this information is presented to the Audit Committee. The extrapolation of the sample results for NHS Grampian indicates that the level of income lost in prescription, dental and ophthalmic charges for the year to 31 December 2006 could possibly amount to £1.3million. It should however be emphasised that we have been provided with no assurances as to the likely accuracy of this estimate.

Disclosures

No material internal controls weaknesses were identified by management or our internal and external auditors which would impact upon the ability of NHS Grampian to meet its corporate objectives as set out in the Local Delivery Plan

.....

Mr Richard Carey
Chief Executive
Grampian Health Board

28 June 2007

Date

Independent Auditor's Report

Independent auditor's report to the members of Grampian Health Board, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of NHS Grampian for the year ended 31 March 2007 under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement, the Balance Sheet, the Cash Flow Statement and Statement of Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the board, Accountable Officer and auditor

The board and Accountable Officer are responsible for preparing the Annual Report and the financial statements in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and income. These responsibilities are set out in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of NHS Grampian.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers. I also report whether in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. I also report if, in my opinion, the Directors' Report is not consistent with the financial statements, if the body has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the board's compliance with the Scottish Executive Health Department's guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Operating and Financial Review and the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and income included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinion

Financial statements

- In my opinion the financial statements give a true and fair view, in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers, of the state of affairs of the board as at 31 March 2007 and of its net operating cost position, recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Regularity

In my opinion in all material respects the expenditure and income shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Gillian Woolman
Assistant Director of Audit
Audit Scotland
1/5 Osborne House
Osborne Terrace
Edinburgh
EH12 5HG

June 2007

OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006-07 £000	2005-06 £000
Clinical Services Costs			
Hospital and Community	4	592,072	564,503
Less: Hospital and Community Income	8	<u>(11,952)</u>	<u>(11,347)</u>
		<u>580,120</u>	<u>553,156</u>
Family Health	5	201,743	189,429
Less: Family Health Income	8	<u>(8,532)</u>	<u>(9,411)</u>
		<u>193,211</u>	<u>180,018</u>
Total Clinical Services Costs		<u>773,331</u>	<u>733,174</u>
Administration Costs	6	<u>3,668</u>	<u>3,850</u>
Other Services	7	20,363	11,610
Less: Other Operating Income	8	<u>(85,933)</u>	<u>(71,281)</u>
		<u>(65,570)</u>	<u>(59,671)</u>
Net Operating Costs		<u>711,429</u>	<u>677,353</u>
SUMMARY OF REVENUE RESOURCE OUTTURN			
Net Operating Costs (per above)		711,429	677,353
Less: Capital Grants to Public Bodies	9	<u>(3,668)</u>	-
Less: FHS Non Discretionary Allocation		<u>(31,937)</u>	<u>(25,735)</u>
		<u>675,824</u>	<u>651,618</u>
Net Resource Outturn		<u>675,824</u>	<u>651,618</u>
Revenue Resource Limit		<u>682,161</u>	<u>652,074</u>
Saving against Revenue Resource Limit		<u>6,337</u>	<u>456</u>

STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006-07 £000	2005-06 £000
Net Gain on Revaluation of Tangible Fixed Assets	11	26,265	2,310
Net (Loss)/Gain on Revaluation of Intangible Fixed Assets	10	(812)	266
Movement in Donated Asset Reserve due to Receipts	20	324	427
Total Recognised Gains for the Year		25,777	3,003

BALANCE SHEET AS AT 31 MARCH 2007

	Note	As at 31/3/2007 £000	As at 31/3/2006 £000
FIXED ASSETS			
Intangible Fixed Assets	10	97	728
Tangible Fixed Assets	11	373,099	345,664
Total Fixed Assets		<u>373,196</u>	<u>346,392</u>
Debtors falling due after more than one year	13	13,558	4,749
CURRENT ASSETS			
Stocks	12	4,981	5,334
Debtors	13	25,590	21,986
Investments	14	1	-
Cash at bank and in hand	15	3,281	1,658
		<u>33,853</u>	<u>28,978</u>
CURRENT LIABILITIES:			
Creditors due within one year	16	<u>(115,623)</u>	<u>(87,613)</u>
NET CURRENT (LIABILITIES)		<u>(81,770)</u>	<u>(58,635)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		304,984	292,506
PROVISIONS FOR LIABILITIES AND CHARGES	17	(21,509)	(12,210)
		<u>283,475</u>	<u>280,296</u>
FINANCED BY:			
General Fund	19	190,621	212,559
Revaluation Reserve	20	78,399	53,532
Donated Asset Reserve	20	14,455	14,205
		<u>283,475</u>	<u>280,296</u>

Adopted by the Board on 28 June 2007

Mr Richard Carey
Chief Executive

Mr Alan Gall
Director of Finance

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2007

	Note	2006-07 £000	2006-07 £000	2005-06 £000	2005-06 £000
NET OPERATING CASHFLOW					
Net cash outflow from operating activities			(667,986)		(645,079)
CAPITAL EXPENDITURE					
Payments to acquire fixed assets		(22,435)		(17,392)	
Receipts from sale of fixed assets		10,508		18,134	
Net cash (outflow)inflow for capital expenditure			(11,927)		742
Net cash (outflow) before Financing			(679,913)		(644,337)
FINANCING					
Funding	19	679,913		644,337	
Movement in general fund working capital		1,623		650	
Cash drawn down		681,536		644,987	
Net cash inflow from financing			681,536		644,987
Increase in cash in year			1,623		650
NOTES					
1. Reconciliation of operating cost to operating cash flow					
Net Operating Cost for the year			(711,429)		(677,353)
Expenditure not involving payment of cash	3		19,751		14,401
Net movement on working capital	18		23,692		17,873
Operating cash outflow			(667,986)		(645,079)
2. Reconciliation of net cash flow to movement in net debt/cash					
Increase in cash in year	15		1,623		650
Net cash at 1 April	15		1,658		1,008
Net cash at 31 March			3,281		1,658

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

a) Authority

These accounts have been prepared in accordance with the Financial Reporting Manual (FRm) issued by HM Treasury. The particular accounting policies adopted by NHS Grampian follow UK generally accepted accounting practice (UK GAAP), as applied to the public sector in the FRm to the extent that they are meaningful and appropriate and are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

b) Going Concern

The accounts are prepared on the going concern basis, which provides that the entity will continue in operational existence for the foreseeable future.

Accounting Convention

The accounts are prepared on a historical cost basis modified to reflect changes in the value of fixed assets at their value to the business by reference to their current costs.

c) Funding

Most of the expenditure of the Health Board is met from funds advanced by the Scottish Executive Health Department within an approved revenue resource limit (RRL). If the Board underspends against the approved revenue resource limit, the balance may be carried forward to the following year, subject to restraints imposed by the Scottish Executive Health Department. Cash drawn down to fund expenditure within this approved revenue resource limit will be credited to the general fund.

Miscellaneous Income is income receivable by the Board that is not classed as funding.

Non discretionary funding outwith the RRL is allocated to match actual expenditure incurred for the provision of specific pharmaceutical, dental or ophthalmic services identified by the Scottish Executive. Non discretionary expenditure is disclosed in the accounts and deducted from operating costs charged against the RRL in the Statement of Resource Outturn.

Funding for the acquisition of fixed assets received from the Scottish Executive Health Department is credited to the general fund.

d) Fixed Assets

The treatment of fixed assets in the accounts (capitalisation, valuation, depreciation, particulars concerning donated assets) is in accordance with the Capital Accounting Manual.

Title to the properties included in the accounts is held by the Scottish Ministers.

i) Capitalisation

All assets falling into the following categories are capitalised:

- Tangible assets which are capable of being used for a period which could exceed one year, and have a cost equal to or greater than £5,000;

- In cases where a new hospital would face an exceptional write off of items of equipment costing individually less than £5,000, the Board has the option to capitalise initial revenue equipment costs with a standard life of 10 years;
- Assets of lesser value may be capitalised where they form part of a group of similar assets purchased at approximately the same time, and cost over £20,000 in total, or where they are part of the initial costs of equipping a new development and total over £20,000;
- Intangible assets that can be valued, are capable of being used in a Board's activities for more than one year, and have a replacement cost equal to or greater than £5,000.

ii) Valuation

Fixed assets are valued as follows:

Specialised NHS land, buildings, installations and fittings are stated at their depreciated replacement cost, other than surplus land and buildings which are stated at their open market value. Non specialised land and buildings, such as offices, are stated at market value, disregarding any potential alternative uses for the property.

Valuations of all land and building assets are assessed by valuers under a 5-year rolling programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. The valuations are carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Executive Health Department.

Equipment is valued at the lower of its net replacement cost or recoverable amount. The net replacement cost is the replacement cost of the asset as new, depreciated in respect of its remaining useful life. The recoverable amount will only be used when the decision has been made to dispose of the asset.

Assets in the course of construction are valued at current cost. This is calculated by the expenditure incurred to which an appropriate index is applied to arrive at current value.

To meet the underlying objectives established by the Scottish Executive Health Department the following accepted variations of the RICS Appraisal and Valuation Manual have been required:

Specialised operational assets have been valued on a modified replacement cost basis to take account of modern substitute building materials only;

No adjustment has been made to the cost figures of operational assets in respect of dilapidations; and

Additional alternative Open Market Value figures have only been supplied for specialised operational assets scheduled for imminent closure and subsequent disposal.

Impairment:

Losses in value reflected in valuations are accounted for in accordance with Financial Reporting Standard 11. The consumption of economic benefits is charged to the operating cost statement and is described as impairments. Decreases in asset value that relate to fluctuations in market prices are first charged to the element of the revaluation reserve relating to the asset and that amount is recognised in the Statement of Recognised Gains and Losses. Further losses, beyond the level of the revaluation reserve relating to that asset, are charged to the operating cost statement, except where it is anticipated that the reduction in value will reverse in the foreseeable future.

iii) Depreciation

Depreciation is charged on each main class of tangible asset as follows:

- a) Freehold land and assets in the course of construction are not depreciated.
- b) Buildings, installations, and fittings are depreciated on their current value over the estimated remaining life of the asset as advised by the appointed valuer. The actual remaining lives of the building elements are assessed in the context of the maximum useful lives for building elements.
- c) Equipment is depreciated on current cost over the estimated life of the asset.

Depreciation is charged on a straight-line basis.

The following asset lives have been used:

	Useful Life
Buildings (Structure)	31-75
Buildings (Engineering)	15-35
Moveable engineering plant and equipment and long life medical equipment	10
Furniture and medium life medical equipment	5-10
Mainframe information technology installations	7
Vehicles and soft furnishings	7
Office, information technology, short life medical and other equipment	2-5

Intangible assets are amortised over the estimated lives of the assets, where applicable.

iv) Donated Assets

Fixed assets that are donated or purchased using donated funds are included in the Balance Sheet initially at the full replacement cost of the asset. The value of donated assets is credited to the Donated Asset Reserve, and the accounting treatment, including the method of valuation, follows the rules in the Capital Accounting Manual. Where a donation covers only part of the total cost of the asset concerned, only that part element is included in the Donated Asset Reserve.

v) Sale of Fixed Assets

Disposal of fixed assets is accounted for as a reduction to the value of fixed assets equal to the net book value of the assets disposed. When set against any sales proceeds, the resulting gain or loss on disposal will be recorded in the Operating Cost Statement.

Where assets are scheduled for disposal and their net book value exceeds their open market value, accelerated depreciation is applied so that the asset reaches open market value at the point at which the asset is taken out of operational use.

vi) Leasing

Rentals under operating leases are charged on a straight-line basis.

vii) Intangible Assets

Intangible assets, such as software licences, are capitalised when they are capable of being used in a Board's activities for more than one year, they can be valued and they have a cost of at least £5,000.

Intangible fixed assets held for operational use are valued at historical cost and are depreciated over the estimated life of the asset on a straight-line basis. The carrying value of intangible assets is reviewed for impairments at the end of the first full year following acquisition and in other periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred. They are amortised over the shorter term of the licence and their useful economic lives.

viii) Carbon Emissions (Intangible Assets)

A cap and trade scheme gives rise to an asset for allowances held, a government grant (income) and a liability for the obligation to deliver allowances equal to emissions that have been made.

Intangible Assets, such as EU Greenhouse Gas Emission Allowances, intended to be held for use on a continuing basis, whether allocated by government or purchased, should be classified as intangible assets. Allowances that are issued for less than their fair value shall be measured initially at their fair value.

When allowances are issued for less than their fair value, the difference between the amount paid and fair value is revaluation and charged to deferred income. The deferred income account should be charged with the same proportion of the amount of the revaluation, which the amount of the grant bears to the acquisition cost of the asset.

A provision should be recognised for the obligation to deliver allowances equal to emissions that have been made. It should be measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. This will usually be the present market price of the number of allowances required to cover emissions made up to the balance sheet date.

e) Research and Development

Expenditure on Research and Development is written off to revenue as it is incurred.

f) Debtors and Creditors

Debtors and Creditors have been assessed on the basis of goods and services supplied or received up to and including 31 March 2007 for which payment had not been received or made by that date. Where the Health Board has a positive net cash book balance at the year end, a corresponding creditor is created and the general fund debited with the same amount to indicate that this cash is repayable to the SEHD. Where the Health Board has a net overdrawn cash position at the year end, a corresponding debtor is created and the general fund credited with the same amount to indicate that additional cash is to be drawn down from the SEHD.

g) Stocks

Taking into account the high turnover of NHS stocks, the use of average purchase price is deemed to represent the lower of cost and net realisable value.

h) Losses and Special Payments

Operating expenditure includes certain losses which would have been made good through insurance cover had the NHS not been bearing its own risks. Had the NHS provided insurance cover, the insurance premiums would have been included as normal revenue expenditure.

i) Pension Costs

The Board contributes to the NHS Superannuation Scheme for Scotland. Contributions to this Scheme and other schemes are determined on the basis of recommendations made by the Government Actuary. The pension cost charged to the Operating Cost Statement is based on an actuarial assessment of the cost to be borne by the NHS Board.

j) Medical and Clinical Negligence Costs

Employing health bodies in Scotland are responsible for meeting medical negligence costs up to an annual limit based on the revenue allocation. Costs above this limit are reimbursed to employing authorities from a central fund held by the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) on behalf of the Scottish Executive Health Department. Clinical negligence costs may also be reimbursed in part by the SEHD.

k) Related Party Transactions

FRS 8 requires disclosure of material related party transactions. Transactions with other NHS bodies for the commissioning of health care are summarised in Note 4. Other transactions with NHS health bodies are disclosed within other NHS bodies, e.g. sharing administration costs, or with individuals are disclosed if material.

l) Liquid Resources

Net cash at bank, including deposits and overdrafts, is disclosed in the cash flow statement. The amounts shown in the balance sheet are analysed between Cash at Bank and In Hand and Overdrafts, which are included in creditors. The amount shown in the cash flow statement includes deposits, cash and credit balances less overdrafts.

m) Value Added Tax

Most of the activities of the Board are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

n) PFI Schemes

The NHS follows HM Treasury's Technical Note 1 (Revised) 'How to Account for PFI Transactions' which provides practical guidance for the application of the FRS 5 amendment.

Where the balance of the risks and rewards of ownership of the PFI property are borne by the PFI operator, the PFI payments are recorded as an operating expense.

o) Provisions

The Board provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using the discount rate prescribed by HM Treasury.

p) Corresponding Amounts

Corresponding amounts are shown for the primary statements and notes to the financial statements. Where the corresponding amounts are not directly comparable with the amount to be shown in respect of the current financial year, FRS 28 'Corresponding Amounts' requires that they should be adjusted and the basis for adjustment disclosed in a note to the financial statements.

2. (a) STAFF NUMBERS AND COSTS 2006/07

	Executive Board Members £000	Non Executive Members £000	Permanent Staff £000	Inward Secondees £000	Other Staff £000	Outward Secondees £000	Total £000	2005-06 Total £000
STAFF COSTS								
Salaries and wages	512	187	345,970	20	-	(406)	346,283	327,946
Social security costs	58	13	26,296	-	-	-	26,367	24,947
NHS Superannuation Scheme: employers' costs	68	6	37,527	-	-	-	37,601	36,012
Agency staff	-	-	-	-	2,464	-	2,464	1,663
TOTAL	638	206	409,793	20	2,464	(406)	412,715	390,568

STAFF NUMBERS (AVERAGE NUMBER OF EMPLOYEES)	2006-07 No.	2005-06 No.
Administration*	45	47
Hospital and Community Services	8,192	8,186
Other Services	3,508	3,287
Inward Secondees	2	-
Outward Secondees	(17)	(17)
Total Average Staff	11,730	11,503
Disabled Staff	43	47

* This category includes staff employed in those functions, as detailed in Note 6 to the Accounts.

Note: Staff pension benefits are provided through the NHS Superannuation Scheme for Scotland. Details of the scheme are given in Note 25 to the Accounts.

2. (b) HIGHER PAID EMPLOYEES REMUNERATION

Other employees whose remuneration fell within the following ranges:

	2006-07 No.	2005-06 No.
Clinicians		
£50,000 to £60,000	134	135
£60,001 to £70,000	100	90
£70,001 to £80,000	76	73
£80,001 to £90,000	42	31
£90,001 to £100,000	69	68
£100,001 to £110,000	71	69
£110,001 to £120,000	47	39
£120,001 to £130,000	32	41
£130,001 to 140,000	29	27
£140,001 to 150,000	20	21
£150,001 and above	35	28
Other		
£50,000 to £60,000	51	53
£60,001 to £70,000	22	24
£70,001 to £80,000	3	4
£80,001 to £90,000	3	3
£90,001 to £100,000	1	2
£100,001 to £110,000	1	-

3. OTHER OPERATING COSTS

	2006-07	2005-06
	£000	£000
Expenditure Not Paid in Cash		
Depreciation	18,192	16,820
Cost of capital	8,919	9,655
Impairments - Charge	866	-
Revaluation loss on fixed assets charged to the Operating Cost Statement	105	-
Revaluation of EC Carbon Emissions taken to Deferred Income	707	(266)
Loss on disposal of intangible fixed assets	1	-
(Profit) on disposal of purchased fixed assets	(9,038)	(11,812)
Other non cash costs	(1)	4
Total Expenditure Not Paid in Cash	19,751	14,401
Travel, Subsistence and Hospitality	4,853	4,916
Operating Lease Rentals		
Hire of equipment (including vehicles)	1,738	1,786
Other operating leases	1,322	1,052
Total	3,060	2,838
Statutory Audit		
External auditor's remuneration and expenses	289	294
PFI/PPP and Similar Contracts		
Service charge relating to off-balance sheet PFI/PPP contracts	1,846	1,805

The categories of spend disclosed above are included within the Net Operating Costs within the Operating Cost Statement.

4. HOSPITAL AND COMMUNITY HEALTH SERVICES

	2006-07	2005-06
	£000	£000
Treatment Costs By Provider		
NHSScotland Patients treated in Grampian	540,770	515,945
Grampian Patients treated by other NHSScotland Bodies	10,292	10,747
Grampian Patients treated by Health Bodies outside Scotland	775	720
Primary Care Bodies	41	56
Private Sector*	5,291	3,687
Community Care		
Resource Transfer	29,575	28,795
Donations to Voluntary Bodies	710	743
Other Health Care, including Charities	3,770	3,038
Total NHSScotland Patients	591,224	563,731
Treatment of UK residents based outside Scotland	848	772
Total Hospital & Community Health Service	592,072	564,503
BY SERVICE CATEGORY		
Acute Services	348,301	331,082
Maternity Services	29,107	28,064
Geriatric Assessment	15,600	14,881
Mental Health Services	68,237	67,461
Learning Disability	6,985	6,491
Geriatric Long Stay	16,718	16,871
Other Community Services	40,417	35,372
Other Services	48,886	47,364
Total Care Expenditure	574,251	547,586
Additional Costs of Teaching	10,016	9,341
Research & Development	6,957	6,804
UK Residents based outside Scotland	848	772
Total as Above	592,072	564,503

*Private sector costs relate to the use of private sector hospitals, services and treatment facilities including mobile theatres. Such costs are incurred specifically to assist in meeting access targets and in the treatment of eating disorders, mental health problems and drug and alcohol addiction.

5. FAMILY HEALTH SERVICE EXPENDITURE

	Unified Budget £000	Non Discretionary £000	Total 2006-07 £000	Total 2005-06 £000
Primary Medical Services	80,887	-	80,887	78,231
Pharmaceutical Services	85,868	10,825	96,693	91,270
General Dental Services	170	17,769	17,939	16,296
General Ophthalmic Services	-	6,224	6,224	3,632
Total	166,925	34,818	201,743	189,429

6. ADMINISTRATION COSTS

	2006-07 £000	2005-06 £000
Board Members' Remuneration	844	822
Administration of Board Meetings and Committees	197	269
Corporate Governance and Statutory Reporting	641	675
Health Planning, Commissioning and Performance Reporting	996	1,123
Treasury Management and Financial Planning	405	404
Patient and Public Involvement	585	557
Total Administration Costs	3,668	3,850

7. OTHER SERVICES

	2006-07 £000	2005-06 £000
Occupational Health	1,621	1,572
Closed hospital charges	7	106
Compensation payments – Clinical	10,893	1,510
Compensation payments – Other	227	479
Pension enhancement & redundancy	960	1,126
Patients' Travel Attending Hospitals	246	246
Patients' Travel Highlands and Islands scheme	14	14
Clinical Audit	1,025	887
Health Promotion	2,805	2,760
Public Health	2,236	2,281
Public Health Medicine Trainees	205	146
Emergency Planning	59	33
Loss on disposal of fixed assets	12	21
Other	53	429
Total Other Services	20,363	11,610

Costs in relation to compensation payments include amounts charged to expenditure to create a provision against unsettled claims. Costs are shown gross and where applicable amounts recoverable from insurers are shown as income (see note 8).

8. OPERATING INCOME	2006-07	2005-06
	£000	£000
HCH Income		
NHSScotland Bodies		
-Boards	10,235	9,499
Non NHS		
Private Patients	1,056	1,120
RTA Income	661	728
Total HCH Income	<u>11,952</u>	<u>11,347</u>
FHS Income		
Discretionary	5,650	5,489
Non Discretionary		
General Dental Services	2,882	3,922
Total FHS Income	<u>8,532</u>	<u>9,411</u>
Other Operating Income		
NHS Bodies	39,461	36,499
Contributions in respect of Clinical/Medical negligence claims	10,660	725
Profit on disposal of fixed assets	9,048	11,833
Transfer from Donated Asset Reserve in respect of Depreciation	816	782
Interest Received	1	10
Other	25,947	21,432
Total Other Operating Income	<u>85,933</u>	<u>71,281</u>
Total Income	<u>106,417</u>	<u>92,039</u>
Of the above, the amount derived from NHS bodies is	<u>49,696</u>	<u>45,999</u>

Income disclosed as Contributions in respect of Clinical/ Medical negligence claims, represent amounts recoverable from insurers for claims against NHS Grampian.

9. ANALYSIS OF CAPITAL EXPENDITURE	2007	2006
	£000	£000
EXPENDITURE		
Acquisition of Intangible Fixed Assets	189	462
Acquisition of Tangible Fixed Assets	23,063	16,048
Capital Grants to Public Bodies	3,668	-
Gross Capital Expenditure	26,920	16,510
INCOME		
Net book value of disposal of Intangible Fixed Assets	(1)	-
Net book value of disposal of Tangible Fixed Assets	(2,353)	(6,042)
Capital Income	(2,354)	(6,042)
Net Capital Expenditure	24,566	10,468
SUMMARY OF CAPITAL RESOURCE OUTTURN		
Net capital expenditure as above	24,566	10,468
Capital Resource Limit	25,130	10,468
Savings against Capital Resource Limit	564	-

NHS Grampian has confirmed with the Scottish Executive Health Department that the saving of £564,000 may be carried forward for utilisation in 2007/08.

10. INTANGIBLE FIXED ASSETS	Software Licences	EC Carbon Emissions	Total
	£000	£000	£000
Cost or Valuation :			
As at 1 April 2006	35	693	728
Additions	-	189	189
Disposals	-	(1)	(1)
Revaluation	-	(812)	(812)
At 31 March 2007	35	69	104
Amortisation			
At 1 April 2006	-	-	-
Provided during the year	7	-	7
At 31 March 2007	7	-	7
Net Book Value at 1 April 2006	35	693	728
Net Book Value at 31 March 2007	28	69	97

The EC Carbon Emissions relate to allowances granted to NHS Grampian under the European Greenhouse Gas Emissions Trading Scheme.

11. (a) TANGIBLE FIXED ASSETS (Purchased Assets)

	Land & Buildings (excluding dwellings) £000	Dwellings £000	Transport Equipment £000	Plant and Machinery £000	Information Technology £000	Furniture and Fittings £000	Assets Under Construction £000	Total £000
Cost or valuation								
At 1 April 2006	295,198	11,711	3,455	69,434	13,451	6,129	4,995	404,373
Additions	5,739	141	186	10,771	3,759	238	2,229	23,063
Completions	4,127	-	-	557	-	-	(4,684)	-
Revaluation	19,792	636	52	1,380	-	-	(106)	21,754
Impairments	(866)	-	-	-	-	-	-	(866)
Disposals	(2,351)	-	(161)	(5,491)	(397)	(413)	-	(8,813)
At 31 March 2007	321,639	12,488	3,532	76,651	16,813	5,954	2,434	439,511
Depreciation								
At 1 April 2006	12,857	136	2,647	41,008	10,745	5,521	-	72,914
Provided during the year	11,715	431	247	4,684	935	173	-	18,185
Revaluation	(4,575)	30	41	732	-	-	-	(3,772)
Disposals	(19)	-	(161)	(5,469)	(398)	(413)	-	(6,460)
At 31 March 2007	19,978	597	2,774	40,955	11,282	5,281	-	80,867
Net Book Value of Purchased Assets at 1 April 2006	282,341	11,575	808	28,426	2,706	608	4,995	331,459
Net Book Value of Purchased Assets at 31 March 2007	301,661	11,891	758	35,696	5,531	673	2,434	358,644
Open Market Value of Land and Dwellings Included Above	3,708	-						

11. (b) TANGIBLE FIXED ASSETS (Donated Assets)

	Land & Buildings (excluding dwellings) £000	Transport Equipment £000	Plant and Machinery £000	Information Technology £000	Furniture and Fittings £000	Total £000
Cost or valuation						
At 1 April 2006	12,659	171	5,130	97	44	18,101
Additions	30	-	294	-	-	324
Revaluation	720	3	95	-	-	818
Disposals	-	-	(183)	(7)	-	(190)
At 31 March 2007	13,409	174	5,336	90	44	19,053
Depreciation						
At 1 April 2006	467	132	3,177	96	24	3,896
Provided during the year	403	11	395	1	3	813
Revaluation	16	2	61	-	-	79
Disposals	-	-	(183)	(7)	-	(190)
At 31 March 2007	886	145	3,450	90	27	4,598
Net Book Value of Donated Assets at 1 April 2006	12,192	39	1,953	1	20	14,205
Net Book Value of Donated Assets at 31 March 2007	12,523	29	1,886	-	17	14,455

11. (c) FIXED ASSET DISCLOSURES	2007	2006
	£000	£000
Net book value of tangible fixed assets at 31 March		
Purchased	358,644	331,459
Donated	14,455	14,205
Total	<u>373,099</u>	<u>345,664</u>
Net book value related to land valued at open market value at 31 March	<u>893</u>	<u>3,028</u>
Net book value related to buildings valued at open market value at 31 March	<u>2,815</u>	<u>2,872</u>

Land and buildings were fully revalued by the Valuation Office Agency (VOA) at 31 March 2004 on the basis of depreciated replacement cost, existing use or market value, where no longer in use. NHS Grampian has introduced a rolling programme of revaluation to cover all properties over a five-year period. As part of that programme, the VOA carried out a revaluation of a portion of the estate as at 31 March 2007. Other tangible fixed assets were revalued on the basis of indices at 31 March 2007.

The net impact was an increase in value of £13.9million, which was credited to the revaluation reserve.

12. STOCKS

	2007	2006
	£000	£000
Raw Materials and Consumables	<u>4,981</u>	<u>5,334</u>

13. DEBTORS

	2007 £000	2007 £000	2006 £000	2006 £000
Debtors due within 1 year:				
NHS Scotland				
- SEHD	1,191		1	
- Boards	4,123		2,956	
Total NHSScotland Debtors	<u> </u>	5,314	<u> </u>	2,957
VAT recoverable		662		539
Prepayments and accrued income		5,307		5,432
Other debtors		10,008		10,663
Reimbursement of provisions		3,079		970
Other Public Sector bodies		1,220		1,425
Total Debtors due within one year		<u>25,590</u>		<u>21,986</u>
Debtors due after more than one year				
Prepayments and accrued income		1,243		866
Reimbursement of provisions		12,315		3,883
Total balances due after more than one year		<u>13,558</u>		<u>4,749</u>
Total Debtors		<u>39,148</u>		<u>26,735</u>

The above balances are net of a provision for bad debts of £174,000 (2006: £122,000)

Amounts disclosed under Reimbursement of Provisions represent the value of negligence claims, which have been provided against (see note 17) and which are recoverable from insurers.

14. Investments

	2007 £000	2006 £000
Other Investments	<u>1</u>	<u>-</u>

The investment represents a shareholding in TMRI Ltd, a company established by a partnership of Scottish Enterprise, four Scottish Universities and four Scottish Health Boards. The purpose of TMRI Ltd is to exploit opportunities for research in the field of translational medicine.

15. CASH AT BANK AND IN HAND

	At 01/04/06 £000	Cash Flow £000	At 31/03/07 £000
OPG account balance	1,618	1,624	3,242
Cash at bank and in hand	40	(1)	39
Total cash – balance sheet	<u>1,658</u>	<u>1,623</u>	<u>3,281</u>
Total cash – cash flow statement	<u>1,658</u>	<u>1,623</u>	<u>3,281</u>

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £000	2007 £000	2006 £000	2006 £000
NHSScotland				
-SEHD	-		37	
-Boards	2,882		3,598	
Total NHSScotland Creditors	<u>2,882</u>	<u>2,882</u>	<u>3,635</u>	
General Fund Creditor		3,281		1,658
FHS Practitioners		25,160		25,941
Trade Creditors		13,784		8,294
Accruals and Deferred Income		54,075		33,489
Income Tax & Social Security		8,732		8,132
Other Public Sector Bodies		6,213		5,152
EC Carbon Emissions Grant		14		260
Other creditors		1,482		1,052
Total Creditors due within one year		<u>115,623</u>		<u>87,613</u>

The accrual balance above includes an estimate of the liability for the level of payments yet to be made to staff under the Agenda for Change pay award, backdated to 1 October 2004. The accrual has been calculated using best estimates based on payments that have already been made for those staff who have been assimilated to date and is considered to be sufficient to meet the backdated costs of the pay award.

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Pensions	Clinical & Medical	EC Carbon Emissions	Other	Total
	£000	£000	£000	£000	£000
As at 1 April 2006	4,202	6,592	517	899	12,210
Arising during the year	582	11,075	23	-	11,680
Utilised during the year	(326)	(213)	-	-	(539)
Reversed Unutilised	(207)	(248)	(488)	(899)	(1,842)
As at 31 March 2007	4,251	17,206	52	-	21,509

The amounts shown above are stated gross and the amount of any expected reimbursements is separately disclosed as debtors in note 13.

18. MOVEMENT ON WORKING CAPITAL BALANCES

	Opening Balances	Closing Balances	Net Movement
	£000	£000	£000
STOCK	5,334	4,981	
Net Decrease			353
DEBTORS			
Due within one year	21,986	25,590	
Due after more than one year	4,749	13,558	
	26,735	39,148	
Less: Capital included in above	(96)	(979)	
	26,639	38,169	
Net (Increase)			(11,530)
CREDITORS			
Due within one year	87,613	115,623	
Less: Capital included in above	(917)	(1,734)	
Less: General Fund Creditor included in above	(1,658)	(3,281)	
	85,038	110,608	
Net Increase			25,570
PROVISIONS	12,210	21,509	
Net Increase			9,299
NET MOVEMENT Increase			23,692

19. GENERAL FUND	2007 £000	2006 £000
General Fund at 1 April	<u>212,559</u>	<u>231,246</u>
Opening General Fund Creditor	1,658	1,008
Add: Cash Drawn Down	681,536	644,987
(Less): Closing General Fund (Creditor)	<u>(3,281)</u>	<u>(1,658)</u>
Net Funding	679,913	644,337
Net Operating Cost for the Year	(711,429)	(677,353)
Cost of Capital	8,919	9,655
Transfer of Realised Element of Revaluation Reserve	659	4,669
Proceeds from Sale of Donated Assets	-	5
Net (decrease) in General Fund	<u>(21,938)</u>	<u>(18,687)</u>
General Fund at 31 March	<u>190,621</u>	<u>212,559</u>
20. MOVEMENTS ON RESERVES	2007 £000	2006 £000
Revaluation Reserve		
Balance at 1 April	53,532	56,291
Indexation/Revaluation of fixed assets	25,526	1,910
Transfer of realised element to general fund	(659)	(4,669)
Balance at 31 March	<u>78,399</u>	<u>53,532</u>
Donated Asset Reserve		
Balance at 1 April	14,205	14,166
Indexation/Revaluation of fixed assets	739	400
Additions of donated assets	324	427
Release to the Operating Cost Statement	(813)	(783)
Transfer of realised element to general fund	-	(5)
Balance at 31 March	<u>14,455</u>	<u>14,205</u>

21 . CONTINGENT LIABILITIES

The following contingent liabilities have not been provided for in the Accounts, as explained below:

Nature	Value £000
Clinical, medical and employer's liability compensation payments	907

A number of claims for clinical negligence and employer's liability against NHS Grampian, which have not been fully provided for, and which the Central Legal Office of the Scottish Executive Health Department estimates there is a medium risk of NHS Grampian having to make settlement.

There are also further claims against NHS Grampian that the Central Legal Office of the Scottish Executive Health Department estimates there is a low risk of NHS Grampian having to make a settlement.

Equal Pay Claims

NHS Grampian has received 359 claims for backdated pay increases in relation to an Equal Pay Directive emanating from Article 141 of the Treaty of Rome which seeks to eliminate pay discrimination between men and women carrying out equal work. These claims have been passed to the Central Legal Office, the Board's legal advisers, for consideration. While the introduction of Agenda for Change, the national pay contract for most NHS workers in the UK, may have eliminated equal pay discrimination, it is still possible that some claims could represent a financial liability to the Board. It has not been possible to date to obtain from the Central Legal Office any estimate of potential liability that might arise.

The Waste Electronic and Electrical Equipment Regulations 2006

The Waste Electronic and Electrical Equipment Regulations 2006 come into force on 1 July 2007. Where waste arises from assets obtained prior to 13 August 2005, the Board will be responsible for the costs of collection, treatment, recovery and environmentally sound disposal after 1 July 2007, unless a direct replacement is purchased, when the costs fall on the suppliers. The Board's current accounting policy is to incur such costs as they fall due. It is not possible to quantify the potential additional costs that the Board might be exposed to in respect of disposal of equipment purchased prior to 13 August 2005, as there is no reliable disposal cost per item of equipment and it is unknown what items will be directly replaced.

22. COMMITMENTS	2007	2006
	£000	£000

Capital Commitments

NHS Grampian has the following Capital Commitments which have not been provided for in the accounts:

Contracted	<u>5,565</u>	<u>5,158</u>
Authorised but not Contracted	<u>10,832</u>	<u>14,475</u>

Included within capital commitments that have been contracted for are:

- £1.25m towards a joint venture with Aberdeenshire Council and Maud Village Trust, for the development of the Central Buchan Resource Centre and
- £3.3m for the implementation of a Grampian PAC (image management) System for the radiology service.

Included within capital commitments that have been authorised but not contracted for are:

- £2.9m for the development of a new Cardiac Catheterisation facility on the Foresterhill site ;
- £2.2m for the provision of new Nursery facilities on the Royal Cornhill site, to replace existing facilities at Royal Cornhill and Foresterhill sites;
- £1.9m for the development of a new medical centre at Laurencekirk ;
- £2.0m for the upgrade of Fraserburgh Hospital ;
- £1.9m towards the development, with Aberdeen City Council, of an Integrated Care Planning and Stabilisation Service on behalf of the Integrated Drug Service Management Team.

23. COMMITMENTS UNDER LEASES

Operating Leases

Commitments under operating leases to pay rentals during 2007/08 are analysed, according to the period in which the leases expire, as follows :

	2007	2006
	£000	£000
Obligations under operating leases comprise:		
Land and Buildings		
After five years	<u>436</u>	<u>447</u>
Other		
Within one year	220	157
Between two and five years (inclusive)	970	977
After five years	31	36
	<u>1,221</u>	<u>1,170</u>

24. COMMITMENTS UNDER PFI CONTRACTS

NHS Grampian has entered into the following PFI contract.

OFF BALANCE SHEET

Kincardine Community Hospital

In 1997, NHS Grampian contracted with CHS (Kincardine) Ltd for the provision of nursing home beds and facilities management at the Kincardine Community Hospital in Stonehaven. The service contract commenced in March 1998 and expires in March 2008 after a term of 10 years. NHS Grampian has no interest in the buildings on the site but retains ownership of the land.

Future Commitments

At 31 March 2007, NHS Grampian is committed to the following payments in 2007/08 in respect of the above contract, analysed by the period during which the commitment expires:

	31 March 2007 £000	31 March 2006 £000
Expiry within 1 year	1,846	-
Expiry within 2 to 5 years	-	1,805
	<u>1,846</u>	<u>1,805</u>

25. PENSION COSTS

NHS Grampian participates in the National Health Service Superannuation Scheme for Scotland which is a notional defined benefit scheme where contributions are credited to the Exchequer and the balance in the account is deemed to be invested in a portfolio of Government securities. The pension cost is assessed every five years by the Government Actuary; details of the most recent actuarial valuation can be found in the separate statement of the Scottish Public Pensions Agency (SPPA).

The National Health Service Superannuation Scheme for Scotland is a multi-employer scheme where the share of the assets and liabilities applicable to each employer is not identified. NHS Grampian will therefore account for its pension costs on a defined contribution basis as permitted by Financial Reporting Standard 17.

For 2006-07, normal employer contributions of £37,601,000 were payable to the SPPA (prior year £36,012,000) at the rate of 14% of total pensionable salaries. In addition, during the accounting period NHS Grampian incurred additional costs of £236,000 (prior year nil) arising from the early retirement of staff. The most recent actuarial valuation discloses a balance of £934 million to be met by future contributions from employing authorities.

Provisions amounting to £4,251,000 are included in the Balance Sheet and reflect the difference between the amounts charged to the Operating Cost Statement and the amounts paid directly.

The scheme provides benefits on a 'final salary' basis at a normal retirement age of 60. Annual benefits are normally based on $1/80^{\text{th}}$ of the best of the last three years pensionable pay for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay contributions of 6% (5% for manual staff) of pensionable earnings. Pensions are increased in line with Retail Prices Index.

On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump-sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Child allowances are payable according to the number of dependant children and whether there is a surviving parent who will get a scheme widow/widower's pension. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately where the member has more than 2 years service. Where service exceeds 5 years, the pension is calculated using specially enhanced service, with a maximum enhancement of 10 years.

Members aged 50 or above may take voluntary early retirement and receive a reduced pension. Alternatively, if the employer agrees to this the member will be able to retire on the full pension and lump sum which they have earned.



Grampian Health Board

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of sections 86(1), (1B) and (3) of the National Health Services (Scotland) Act 1978, hereby give the following direction.
2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.
3. Subject to the foregoing requirements, the accounts shall also comply with any accounts format, disclosure and accounting requirements issued by the Scottish Ministers from time to time.
4. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.
5. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 30 December 2002 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 10/2/2006