

**GRAMPIAN HEALTH BOARD**  
**(commonly known as NHS Grampian)**

**ACCOUNTS 2007-2008**

**Authorised for issue as at 25 June 2008**

## Contents

1	Directors' Report
1	Directors' Report
6	Operating and Financial Review
12	Remuneration Report
15	Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Health Board
16	Statement of Health Board Members' Responsibilities in Respect of the Accounts
17	Statement on Internal Control
20	Independent Auditor's Report
22	Operating Cost Statement Summary of Revenue Resource Outturn
23	Statement of Recognised Gains and Losses
24	Balance Sheet
25	Cash Flow Statement
26	Notes to the Accounts
51	Accounts Direction

## **GRAMPIAN HEALTH BOARD ANNUAL ACCOUNTS**

### **DIRECTORS' REPORT**

#### **Naming Convention**

NHS Grampian is the common name of Grampian Health Board.

#### **Date of Issue**

Financial statements were approved and authorised for issue by the Board on the 25 June 2008.

#### **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 51 of these accounts.

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

As a result of changes to the NHS Accounting Guidance notes 4, 5 and 7 have been restated. These changes are presentational only and do not impact on the outturn reported in the previous year.

#### **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 2007/08 to 2010/11, the Auditor General appointed David McConnell, Assistant Director (Health) 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**

Councillor Lee Bell (appointed 2 July 2007)  
Councillor Raymond Bisset (term of office ended 30 April 2007)  
Mrs Barbara Bruce  
Ms Margaret Burns  
Dr David Cameron (Non Executive member and then appointed as Chair from 3 December 2007)  
Councillor Katharine Dean (term of office ended 30 April 2007 and reappointed from 2 July 2007)  
Professor Neva Haites (Non Executive member and then appointed as Interim Chair from 31 October to 3 December 2007)  
Mrs Judith Hendry  
Councillor Bill Howatson (appointed 2 July 2007)  
Mrs Elizabeth McDade  
Councillor George McIntyre (term of office ended 30 April 2007)  
Professor Valerie Maehle  
Mr Charles Muir  
Mr James Royan, Chairman (term of office ended 31 October 2007)  
Mr Michael Scott  
Mr Gordon Stephen  
Dr Stuart Watson (term of office ended 30 September 2007)

### **Executive members**

Mr Richard Carey	Chief Executive
Dr Roelf Dijkhuizen	Medical Director
Mr Alan Gall	Director of Finance
Mr Mark Sinclair	Director of Human Resources and Strategic Change (appointed 1 December 2007)
Mrs Elinor Smith	Nurse Director
Dr Lesley Wilkie	Director of Public Health

The board members' responsibilities in relation to the accounts are set out in a statement on page 16.

### **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 £1.2 million to Carden Medical Centre, in which Dr Stuart Watson, a non-executive member (until 30 September 2007), 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 £80,000 was owed by NHS Grampian to the Carden Medical Centre at 31 March 2008.

## **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 2007/08, the average credit taken was 38 days (2006/07: 35 days). 67% of invoices by value (2006/07 82%) and 60% of invoices by volume (2006/07 68%) were paid within 30 days. Payment performance has deteriorated during the year as a result of the implementation of new national systems and will improve in 2008/09 once the systems have bedded in.

## **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 decision and is supported by the work of committees reporting to the Board.

The main functions of the committees, which under SGHD guidance must exist at unified NHS Board level, together with membership as at 31 March 2008, were as follows:

### ***Clinical Governance Committee***

The Clinical Governance Committee meets four times per year. The main duties 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.
- Promote patient safety throughout NHS Grampian.

**Membership:** Mr Charles Muir (Chair), Dr David Cameron (up to 3 December 2007), Professor Neva Haites, Councillor Lee Bell, Mr Michael Scott and Professor Valerie Maehle.

### ***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), Mr Gordon Stephen, Councillor George McIntyre (last meeting 10 April 2007), Councillor Bill Howatson (from 25 September 2007), Mr Charles Muir (from 28 June 2007), Mrs Barbara Bruce (from 28 June until 18 December 2007) and Dr Stuart Watson (from 28 June to 25 September 2007).

### ***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 committee meets four times per year.

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:** Mr Michael Scott (Chair), Ms Margaret Burns, Mr Richard Carey, Councillor Katharine Dean, Mr Gordon Stephen, Mr James Royan (last meeting 14 August 2007), Mrs Judith Hendry, Dr David Cameron and Mr Angus Gordon (from 20 November 2007).

### **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. The committee meet approximately on a monthly basis.

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 up until July 2007. Dr Angus Thompson a Consultant Radiologist took over as Chair of Committee One in July 2007. 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 committee met nine times during the year.

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.

### **Patient Focus and Public Involvement Committee**

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

**Membership:** Mrs Elizabeth McDade (Chair), Councillor Bill Howatson (from October 2007), Mrs Judith Hendry, Mr Charles Muir, Mr Gordon Stephen and Mrs Laura Gray.

### **Other Committees**

The following committees, while not mandatory under SGHD guidance, also report directly to the Grampian NHS Board and are essential in supporting the Board to meet its objectives:-

#### **eHealth Committee:**

Chairperson: Mr James Royan (to 24 August 2007) and Councillor Katharine Dean thereafter.

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 had assets at 31 March 2008 valued at £30.2 million.

### ***Performance Governance Committee***

Chairperson: Mr James Royan (last meeting 20 September 2007)  
Interim Chairperson: Professor Neva Haites (for 20 November 2007 meeting)  
Chairperson: Dr David Cameron (from January 2008)

The Performance Governance Committee monitors and supports performance management 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: Mrs Elizabeth McDade (last meeting 10 May 2007), Mr James Royan (for 20 November 2007 meeting) and Dr David Cameron (from 19 January 2008).

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

### **Disclosure of Information to Auditors**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Board's auditors are unaware; and each director has taken all the steps that he/she ought reasonably to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Board's auditors are aware of that information.

### **Human Resources**

It has been an extremely challenging year for the Human Resources Directorate. Notable progress has been made in the following areas:

- The appointment at Board level of Mr Mark Sinclair as Director of Human Resources and Strategic Change on 1 December 2007, which brought to an end interim arrangements that had existed for some time.

Incorporating the Strategic Change and Health and Safety functions necessitated a restructuring of the Directorate as well as ensuring that the Human Resources agenda was taken forward at Strategic and Board levels within NHS Grampian. Evidence of this was the lead role undertaken by the Directorate in confirming the organisation's four Strategic Themes of:

- Patient Safety/Experience
- Change & Innovation
- Improving Health
- Empowering Staff

- Successful implementation of the Staff Governance Action Plan 2007/08 has ensured progress in a range of key areas including:
  - Development of a Learning Zone on the intranet to allow staff to access learning information
  - Development of the e-KSF (electronic Knowledge and Skills Framework) system which has been piloted in a number of areas
  - Roll out of Workforce Planning tools to assist in service redesign
  - Further development of Workforce Planning knowledge and expertise in service projects and plans
  - Review of Learning & Development Strategy completed and revision implemented
  - Staff management policy review and development in a range of issues including Attendance Management, Flexible Working, Employee Conduct and Employee Capability
  - Implementation of OHSextra (Occupational Health Service Extra) service across NHS Grampian
  - Further development of Dignity at Work initiatives, including recruitment and training of confidential contacts, mediation and conflict management
- Recruitment practices have been further reviewed 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.
- NHS Grampian provides employees with information on matters of concern to them as employees through a range of communication methods including Team Brief, Global e-mails and The Upfront Newspaper. The organisation consults employees or their representatives so their views are taken into account in decisions affecting their interests through the Grampian Partnership process.

## **DIRECTORS' REPORT**

### **OPERATING AND FINANCIAL REVIEW**

#### **Principal Activities and Review of the Year**

Grampian Health Board was established in 1974 under the National Health Services (Scotland) Act 1974. Commonly known as NHS Grampian, it is responsible for commissioning services for the residents of Grampian, a total population of over half a million people.

NHS Grampian 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 Boards form a local health system, with single governing boards responsible for improving the health of their local populations and delivering the healthcare they require. The overall purpose of NHS Grampian is to ensure the efficient, effective and accountable governance of the local NHS system and to provide 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;
- reduce health inequalities;
- 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;
- implementation of the Local Health Plan; and
- performance management.

2007/08 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 2007/08 to move the balance of care within Grampian to the most appropriate setting for patients.

Within the Acute Sector the focus has been on improving patient safety and access to services. There has been considerable work on whole system changes to make the pathways of care for unscheduled patients more efficient. For elective patients there has been considerable work undertaken to increase capacity to ensure the development of a sustainable service. The patient safety initiative has made an excellent start with a number of schemes already showing positive outcomes.

Within Community Health Partnerships (CHPs) Aberdeenshire CHP has established Birthing Units in Aboyne, Banff and Fraserburgh. This has permitted greater focus in community midwifery services through more efficient utilisation of staff resource and has enabled the development of Diagnostic and Treatment Services and Care of Older People developments.

Aberdeen City CHP has made progress in creating a focus for CHP led intermediate care facilities on the Woodend site with the first phase of bed moves being actioned between Aberdeen Royal Infirmary and Woodend Hospital. Work has continued on developing the Outline Business Case for the Aberdeen Community Health Village project which will replace services provided at Denburn and Woolmanhill.

Moray CHP has successfully continued to develop its dental provision with the dental co-location in the new Lossiemouth GP practice and new units in Buckie and Keith. Further expansion of the service will be delivered in the next fourteen months.

NHS Grampian remained in financial balance in 2007/08 and further information on its financial performance is included in the section on Financial Performance and Position on page 8. Performance against other key targets in 2007/08 was measured using key performance indicators set by the Health Directorate 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 Non Financial Targets on page 9.

### **Counter Fraud Services**

In 2007, NHS Scotland Counter Fraud Services performed work to give an indication of the possible level of Family Health Services income not generated 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 that could have been generated from prescription, dental and ophthalmic charges in the year to 31 December 2007 could amount potentially to £2.6 million (2006: £1.3 million).

### **Fixed Assets**

NHS Grampian invested £29.3 million during the year on capital programmes. The major areas of spend included £7.4 million on medical equipment, £6.2 million on Acute Specialist Services, £6.1 million on Infrastructure Investment, £2.9 million on Primary Care Modernisation, £2.1 million on Dental Modernisation and £1.9 million on eHealth Capital Projects.

Interim revaluations of new build and refurbished properties on completion of the scheme resulted in a reduction in value of £2.0 million. This reduction reflects the change to a depreciated replacement cost basis of valuation.

NHS Grampian carries out a revaluation of land annually and operates a rolling programme of building revaluation to ensure all properties are formally revalued over the five year programme. Interim valuation of properties, on the basis of indices, are made annually for the portion of the estate not included in that year's formal revaluation programme. The revaluation of properties as at 31 March 2008 resulted in an increase in value of £24.7 million.

### Financial Performance and Position

The Scottish Government Health Directorate 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:

	<b>Limit as set by SGHD £000</b>	<b>Actual Out-turn £000</b>	<b>Variance (Over)/Under £000</b>
Revenue Resource Limit	729,245	722,854	6,391
Capital Resource Limit	29,163	29,163	0
Cash Requirement	746,075	746,075	0

### Memorandum for In Year Out-turn

	<b>£000</b>
Brought forward (surplus) from previous financial year	<u>(6,337)</u>
Saving against in year Revenue Resource Limit	<u>54</u>

A cumulative surplus of £6.3 million was recorded for the year against a target of £6 million. This was due to higher than expected levels of earmarked funding being received from the Health Directorate in the final month of the financial year.

Total efficiency savings of £21.2 million were achieved against a requirement of £20.7million. Recurring savings amounted to £13.8 million whilst the recurring nature of £7.4 million savings remain to be confirmed.

## **Performance against Key Non Financial Targets**

NHS Grampian has developed a performance framework through which a culture of continuous performance improvement is supported and implementation of our Local Health Plan 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 Government Health Directorate to hold Boards to account. These are known as the HEAT indicators as they relate to:

- **H** Health Improvement
- **E** Efficiency and Governance
- **A** Access to Services
- **T** Treatment Appropriate to Individuals

NHS Grampian's planned performance against the HEAT indicators feature in the Board's Local Delivery Plan which represents the annual performance improvement agreement between the Board and the Scottish Government. This performance is reviewed in public each year at an Annual Review meeting. The outcome of the Annual Review is captured in a formal letter to the Board, which then forms the basis of the Board's Annual Report that is published each year in November. A full performance report is made available to the public in advance of the Annual Review which in 2008 is scheduled to take place on 27 August.

The following gives some information on Grampian's performance against key Local Delivery Plan (HEAT) targets as well as local targets in 2007/08.

### **Health Improvement**

Uptake of all childhood vaccinations continues to rise with the target of 95% MMR vaccination (at aged five years) delivered consistently throughout 2007/08.

The rate of death caused by intentional self harm has continued to reduce. NHS Grampian is an active partner in the implementation of the Choose Life multi-agency initiative. Plans are being implemented to ensure key frontline staff in mental health, substance misuse services, primary care and accident and emergency departments are trained in suicide assessment tools and prevention.

Considerable work has been undertaken nationally during 2007/08 to develop a suite of health improvement measures covering topics such as smoking, childhood obesity and alcohol. Performance against these will begin to be reported across Scotland during 2008/09.

### **Efficiency and Governance Improvements**

As detailed elsewhere in this report the Board met its key financial targets in 2007/08. Locally a target was set to reduce the level of expenditure on agency nurses and following investment in substantive posts expenditure began to fall from November 2007 onwards.

We remain committed to minimising staff absence rates and during 2007/08 developed and launched a new Attendance at Work policy. Current overall absence rates vary between 4-6% and have a strong seasonal pattern, dipping in summer and rising over winter. We remain committed to delivering the national target of 4% by March 2009.

There has been considerable focus on increasing the extent of surgery undertaken on a day case basis and within the community during 2007/08. A local target of 70% by March 2008 has been achieved and means Grampian is no longer an outlier in Scottish terms, although continuous improvement will increase the rate further.

## **Access to Services**

There have been significant improvements to patient access to services during 2007/08, delivered by the ongoing commitment and hard work of all staff groups as well as further investment in capacity.

A number of key targets were met in full by December 2007 deadlines and others were sustained. These included no patient waiting longer than eighteen weeks for inpatient or day case treatment or first outpatient appointment. At December 2007 the target of nine week maximum waits for diagnostic scans and investigations was delivered.

Ongoing improvements to accident and emergency waiting times were delivered throughout the year but the impact of pressures over winter meant the percentage treated and discharged within four hours in December to March fell just below the 98% target at 96-97%.

The proportion of urgent cancer referrals treated within two months (62 days) improved continually during 2007/08 with overall compliance achieving the 95% target by the third quarter of 2007/08.

## **Treatment Appropriate to Individuals**

The target set for NHS Grampian and partners that there should be no patient delayed discharge from hospital in excess of six weeks by 15 April 2008 has been achieved. This target has been a particular challenge and ongoing sustainability will remain the focus for 2008/09. Delivery is dependent on supporting people to live at home and in facilitating early discharge which requires continuous co-operation between the NHS and Local Authority partners.

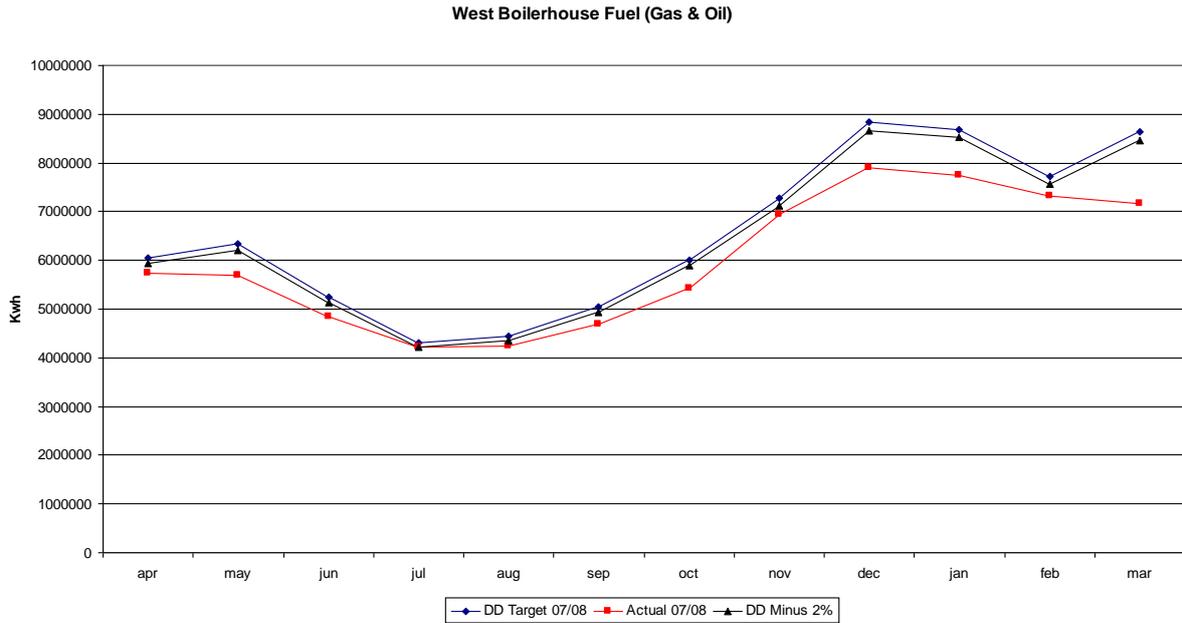
## **Sustainability and Environmental Reporting**

### **Overview**

NHS Grampian participated in, and successfully completed the first NHS Carbon Management Programme across the UK during 2007. This set targets for a ten year implementation programme with Grampian now in year one. The key targets over the ten years of the programme are to reduce our carbon impact by 2% year on year and by a minimum of 15% within five years. In meeting these ten year targets NHS Grampian would avoid costs totalling £6.9 million and avoid 61,000 tonnes of carbon dioxide emissions.

### **Key Achievements**

- All ideas identified as year one projects were fully funded and implemented. This has resulted in recurring carbon savings of over 1170 tonnes CO<sup>2</sup> per annum, and full-year recurring energy cost avoidance of £274,000 per annum. These savings required one-off capital investment of approximately £551,000.
- NHS Grampian was awarded first place in the NHS Scotland Energy and Environment Awards 2007 for its innovative work and approach to carbon management through our participation in the Carbon Trust programme.
- NHS Grampian created and leads a Grampian wide “public sector carbon management group”. This includes membership from the three local authorities, Grampian Police, Grampian Fire and Rescue Service and Scottish Ambulance Service. The remit of the group continues to evolve, but progress is already being made relating to sharing best practice and experience.
- A network of “Carbon Champions” continues to make progress across NHS Grampian. Contact is maintained with some twenty five or so staff volunteers who participate in the carbon champion group. This group continues to have a vital role in future carbon reduction idea generation and helping to ensure that day to day operations take carbon management into account wherever possible.
- Recycling initiatives in a number of areas have been implemented or extended.



Graph showing trend of actual gas and oil used against weather adjusted target and 2% saving target.

### Current Work

- We are continuing to progress the Outline Business Case for the replacement Foresterhill Campus energy centre. Two main options are being considered (a) a gas turbine solution and (b) a hybrid biomass renewable solution. Both solutions are combined heat and power plants (CHP) ie: where NHSG generates a proportion of its own electricity and uses the waste heat for heating and hot water. The capital costs for these two options are estimated at (a) £6 million and (b) £14 million with revenue savings of more than £1 million per annum. The carbon savings could be significant, particularly if the biomass option is implemented.
- We have secured further funding from the Carbon Trust in order to obtain independent “Sustainable Design Guidance” relating to the most imminent capital schemes at the Foresterhill Campus (ie: Emergency Care Centre, Ambulatory Care Centre, Dental School and Combined Heat and Power scheme). It is hoped that a key output from this process will be business cases that accurately reflect whole life cycle costs, including an assessment of carbon impact by each assessed option. Such an approach may require marginally higher capital investment on new build, although the revenue and carbon benefits over the life of the buildings are likely to be significant.

**Directors' Report  
REMUNERATION REPORT**

**FOR THE YEAR ENDED 31 MARCH 2008**

	Salary (bands of £5,000)	Real increase in pension at age 60 (bands of £2,500)	Total accrued pension at age 60 at 31 March 2008 (bands of £5,000)	Cash Equivalent Transfer Value (CETV) at 31 March 2007 £000	Cash Equivalent Transfer Value (CETV) at 31 March 2008 £000	Real increase in CETV in year (bands of £000)	Benefits in kind  £000
<b>Remuneration of:</b>							
<b>Executive Members</b>							
Chief Executive							
-Mr Richard Carey	135-140	2.5-5	45-50	591	695	53	2.0
Medical Director							
-Dr Roelf Dijkhuizen	140-145	2.5-5	25-30	396	465	34	-
Director of Finance							
-Mr Alan Gall	95-100	0-2.5	15-20	235	290	36	2.3
Nurse Director							
-Mrs Elinor Smith	90-95	0-2.5	20-25	358	415	33	1.4
Director of Public Health							
-Dr Lesley Wilkie	150-155	2.5-5	40-45	692	802	61	2.0
Director of Human Resources							
-Mr Mark Sinclair	35-40	*	*	*	*	*	14.6
<b>Non Executive Members</b>							
<b>The Chairman</b>							
Mr James Royan (to 31/10/07)	20-25	N/a	N/a	N/a	N/a	N/a	
Dr David Cameron (from 3/12/07)	15-20	N/a	N/a	N/a	N/a	N/a	
Cncllr Raymond Bissett (to 30/04/07)	0-5	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	
Ms Margaret Burns	5-10	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	
Professor Neva Haites	10-15	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	
Mrs Elizabeth McDade	5-10	N/a	N/a	N/a	N/a	N/a	
Mr George McIntyre (to 30/04/07)	0-5	N/a	N/a	N/a	N/a	N/a	
Professor Valerie Maehle	10-15	N/a	N/a	N/a	N/a	N/a	
Mr Charles Muir	5-10	N/a	N/a	N/a	N/a	N/a	
Mr Michael Scott	5-10	N/a	N/a	N/a	N/a	N/a	
Dr Stuart Watson	0-5	N/a	N/a	N/a	N/a	N/a	
Mr Lee Bell	5-10	N/a	N/a	N/a	N/a	N/a	
Councillor Bill Howatson	5-10	N/a	N/a	N/a	N/a	N/a	
Mr Gordon Stephen **	50-55	0-2.5	20-25	363	369	2	
<b>Total</b>							<b>22.3</b>

\* Mr. Mark Sinclair commenced on 01/12/2007 and we await pension information from the SPPA.

\*\* 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.

Note - Non Executive Boards Members who were Chairs of CHP Committees during the year received additional remuneration.

**Directors' Report**  
**REMUNERATION REPORT (continued)**

**FOR THE YEAR ENDED 31 MARCH 2007**

	Salary (bands of £5,000)	Real increase in pension at age 60 (bands of £2,500)	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 £000)	Benefits in kind £000
<b>Remuneration of:</b>							
<b>Executive Members</b>							
Chief Executive							
- Mr Richard Carey	125-130	5-7.5	40-45	549	591	71	4.7
Medical Director							
- Dr Roelf Dijkhuizen	130-135	0-2.5	20-25	414	396	6	-
Director of Finance							
- Mr Alan Gall	85-90	0-2.5	10-15	255	235	8	3.0
Nurse Director							
- Mrs Elinor Smith (from 1/11/06)	30-35	2.5-5	20-25	348	358	38	1.0
Interim Nurse Director							
- Mrs Elinor Smith (to 1/11/06)	45-50	See above	See above	See above	See above	See above	1.5
Director of Public Health							
- Dr Lesley Wilkie (from 1/9/06)	80-85	0-2.5	35-40	664	692	(4)	-
<b>Non Executive Members</b>							
The Chairman							
- Mr James Royan	30-35	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	-
Mrs Barbara Bruce	10-15	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	-
Dr David Cameron	10-15	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	-
Professor Neva Haites	5-10	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	-
Professor Valerie Maehle	10-15	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	-
Councillor George McIntyre	5-10	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	-
Mr Michael Scott (appointed 1/1/07)	0-5	N/a	N/a	N/a	N/a	N/a	-
Mr Gordon Stephen*	50-55	0-2.5	15-20	355	363	(10)	-
Mr Anthony Ward (resigned 30/9/06)	0-5	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	-
<b>Total</b>							10.2

\* 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.

Note - Non Executive Boards Members who were Chairs of CHP Committees during the year received additional remuneration.

Note - The information in the above tables has been audited.

**Directors' Report**  
**REMUNERATION REPORT (continued)**

**Remuneration of Executive and Non-Executive Members**

The remuneration of Executive and Senior Management Cohort and Non-Executive Members is determined by the Scottish Government under Ministerial Direction and in accordance with HDL(2006)23, HDL(2006)59, HDL(2007)11, CEL(2007)4 and amended by CEL(2007)22.

**Business Interests**

Members of the Grampian NHS Board declare 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 Scottish Government.

**Membership:** Mr Michael Scott (Chair), Ms Margaret Burns, Councillor Katharine Dean, Dr David Cameron and Mr Gordon Stephen.

**Board Members Contracts of Employment**

The Executive Board members of NHS Grampian are employed on permanent contracts of employment. The Non-Executive members are ministerial appointments on contracts of between two and four years.

**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 and Senior Management Cohort is in accordance with HDL(2006)23, HDL(2006)54 and HDL(2006)59.

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 reviewed 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 Cabinet Secretary for Health and Wellbeing.

The progression of the Executive and Senior Management 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 Government, the effective and consistent application of pay and performance management arrangements for NHS Scotland Executives subject to Ministerial Direction.

**Mr Richard Carey**  
**Chief Executive**  
**Grampian Health Board**

**GRAMPIAN HEALTH BOARD**

**ANNUAL ACCOUNTS 2007/08**

**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 Government Health Directorate 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;
- for the economical, efficient and effective use of resources placed at the Board's disposal; and
- Safeguarding the assets of the board.

In preparing the accounts I am required to comply with the requirements of the Government's Financial Reporting Manual and in particular to:

- Observe the accounts direction issued by the Scottish Ministers including the relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis.
- Make judgements and estimates on a reasonable basis.
- State whether applicable accounting standards as set out in the Financial Reporting Manual have been followed and disclose and explain any material departures.
- Prepare the accounts on a going concern basis.

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**

**24 June 2008**

**GRAMPIAN HEALTH BOARD**

**ANNUAL ACCOUNTS 2007/08**

**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 2008 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 NHS Scotland by the Scottish Ministers.

Make judgements and estimates that are reasonable and prudent.

State where applicable accounting standards as set out in the Financial Reporting Manual 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 Government Health Directorate. 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.

.....

**Dr David Cameron**  
**Chairman**  
**Grampian Health Board**

.....

**Mr Alan Gall**  
**Director of Finance**  
**Grampian Health Board**

**24 June 2008**

**Date**

## **GRAMPIAN HEALTH BOARD**

### **STATEMENT ON INTERNAL CONTROL**

#### **Scope of Responsibility**

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 Non-Executive 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, 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 Government 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 Government Health Directorate.

#### **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 to identify and assess risks that fall within their remit;
- Risk Control 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 in line with our risk management strategy. Roll out of the system nears completion and this replaces manual incident reporting; 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 2008 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:

- Refocusing and prioritisation of the service design projects underpinning the change and innovation programme in order to address areas of financial pressure and/or support more effective delivery of patient care;
- Establishment of an action plan to support the organisation wide development of Clinical Governance and Risk Management, taking into consideration the recommendations arising from the NHS QiS peer review of progress against the National Clinical Governance and Risk Management Standards. The action plan was presented to the Audit Committee by the Head of Clinical Governance and Risk Management, with implementation being monitored by the Clinical Governance Committee;
- Implementation of cross system performance management arrangements and independent evaluation of these arrangements against the Citistat principles; and
- A programme of self evaluation reviews by all of the core governance committees of the Board. These reviews have led to the establishment of development points to further enhance our assurance and governance arrangements.

During the financial year ending 31 March 2009 we will continue to seek opportunities to enhance the Board's system of internal control with a specific focus on refreshing the Board's strategic direction and further developing the range of activities undertaken across NHS Grampian to secure and demonstrate best value and the effective use of resources.

### **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 Board 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 and 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 Counter Fraud Services (CFS) in relation to the possible level of Family Health Services income not generated 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 not generated in prescription, dental and ophthalmic charges for the year to 31 December 2007 could possibly amount to £2.6 million. It should however be emphasised that we have been provided with no assurances as to the likely accuracy of this estimate.

### **Disclosures**

During the year ended 31 March 2008, there were no significant control weaknesses or failure to achieve the standards set out in the guidance on the Statement on Internal Control.

.....

**Mr Richard Carey**  
**Chief Executive**  
**Grampian Health Board**

**24 June 2008**

**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 2008 under the National Health Service (Scotland) Act 1978. These comprise the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

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, which includes the Remuneration 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 the Health Board.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited 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 to you 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 report to you whether, in my opinion, the management commentary which comprises the directors' report and that part of the operating and financial review which covers principal activities and review of the year, and financial performance and position, included in the Annual Report, is consistent with the financial statements. 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.

In addition, I report to you if, in my opinion, 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 Government Health Directorate's guidance, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls, or 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 those elements of the operating and financial review other than principal activities and review for the year, and financial performance and position and that part of the remuneration report which is not subject to audit. 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. My 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 most 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.

### **Opinions**

#### *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 2008 and of its net operating cost position, total recognised gains and losses and cash flows for the year then ended;
- 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; and
- information which comprises the management commentary included with the Annual Report is consistent with the financial statements.

#### *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.

David McConnell  
Assistant Director of Audit (Health)  
Audit Scotland  
7<sup>th</sup> floor, Plaza Tower  
EAST KILBRIDE

June 2008

## OPERATING COST STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	Note	2007-08 £000	2006-07 £000
<b>Clinical Services Costs</b>			
Hospital and Community	4	634,630	602,798
Less: Hospital and Community Income	8	(14,570)	(11,952)
		<u>620,060</u>	<u>590,846</u>
Family Health	5	202,284	194,296
Less: Family Health Income	8	(10,034)	(9,165)
		<u>192,250</u>	<u>185,131</u>
<b>Total Clinical Services Costs</b>		<u>812,310</u>	<u>775,977</u>
Administration Costs	6	4,157	3,668
Other Non-Clinical Services	7	11,661	17,717
Less: Other Operating Income	8	(66,751)	(85,933)
		<u>(55,090)</u>	<u>(68,216)</u>
<b>Net Operating Costs</b>		<u>761,377</u>	<u>711,429</u>

## SUMMARY OF REVENUE RESOURCE OUTTURN

<b>Net Operating Costs (per above)</b>		<b>761,377</b>	711,429
Less: Capital Grants to Public Bodies	9	(464)	(3,668)
Less: Disposal of Fixed Assets	9	(163)	0
Less: Annually Managed Expenditure (Write Downs)		(2,174)	0
Less: FHS Non Discretionary Allocation		(35,722)	(31,937)
<b>Net Resource Outturn</b>		<b>722,854</b>	675,824
Revenue Resource Limit		<b>729,245</b>	682,161
<b>Saving against Revenue Resource Limit</b>		<u>6,391</u>	<u>6,337</u>

**STATEMENT OF RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2008**

	<b>Note</b>	<b>2007-08 £000</b>	<b>2006-07 £000</b>
Net Gain on Revaluation of Tangible Fixed Assets	11	<b>26,813</b>	26,265
Net (Loss)/Gain on Revaluation of Intangible Fixed Assets	10	<b>(63)</b>	(812)
Movement in Donated Asset Reserve due to Receipts	20	<b>106</b>	324
<b>Total Recognised Gains for the Year</b>		<b>26,856</b>	<b>25,777</b>

## BALANCE SHEET AS AT 31 MARCH 2008

	Note	As at 31/3/2008 £000	As at 31/3/2007 £000
<b>FIXED ASSETS</b>			
Intangible Fixed Assets	10	21	97
Tangible Fixed Assets	11	404,165	373,099
<b>Total Fixed Assets</b>		<u>404,186</u>	<u>373,196</u>
<b>Debtors falling due after more than one year</b>	13	11,175	13,558
<b>CURRENT ASSETS</b>			
Stocks	12	5,040	4,981
Debtors	13	26,947	25,590
Investments	14	1	1
Cash at bank and in hand	15	1,346	3,281
		<u>33,334</u>	<u>33,853</u>
<b>CURRENT LIABILITIES:</b>			
Creditors due within one year	16	<u>(126,239)</u>	<u>(115,623)</u>
<b>NET CURRENT (LIABILITIES)</b>		<u>(92,905)</u>	<u>(81,770)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>322,456</b>	304,984
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	17	<b>(16,845)</b>	(21,509)
		<u>305,611</u>	<u>283,475</u>
<b>FINANCED BY:</b>			
General Fund	19	186,608	190,621
Revaluation Reserve	20	103,729	78,399
Donated Asset Reserve	20	15,274	14,455
		<u>305,611</u>	<u>283,475</u>

Adopted by the Board on 24 June 2008

**Mr Richard Carey**  
Chief Executive

**Mr Alan Gall**  
Director of Finance

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2008

	Note	2007-08 £000	2007-08 £000	2006-07 £000	2006-07 £000
<b>NET OPERATING CASHFLOW</b>					
Net cash outflow from operating activities			(719,298)		(667,986)
<b>CAPITAL EXPENDITURE</b>					
Payments to acquire fixed assets		(29,261)		(22,435)	
Receipts from sale of fixed assets		623		10,508	
Net cash (outflow)inflow for capital expenditure			(28,638)		(11,927)
<b>Net cash (outflow) before Financing</b>			<b>(747,936)</b>		<b>(679,913)</b>
<b>FINANCING</b>					
Funding	19	747,936		679,913	
Movement in general fund working capital		(1,935)		1,623	
Cash drawn down		746,001		681,536	
<b>Net cash inflow from financing</b>			<b>746,001</b>		<b>681,536</b>
<b>Increase/(decrease) in cash in year</b>			<b>(1,935)</b>		<b>1,623</b>
<b>NOTES</b>					
<b>1. Reconciliation of operating cost to operating cash flow</b>					
Net Operating Cost for the year			(761,377)		(711,429)
Expenditure not involving payment of cash	3		33,286		19,751
Net movement on working capital	18		8,793		23,692
<b>Operating cash outflow</b>			<b>(719,298)</b>		<b>(667,986)</b>
<b>2. Reconciliation of net cash flow to movement in net debt/cash</b>					
Increase/(decrease) in cash in year	15		(1,935)		1,623
Net debt/cash at 1 April	15		3,281		1,658
<b>Net debt/cash at 31 March</b>			<b>1,346</b>		<b>3,281</b>

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### a) Authority

These accounts have been prepared in accordance with the Financial Reporting Manual (FRoM) 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 FRoM 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.

#### c) 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.

#### d) Funding

Most of the expenditure of the Health Board as Commissioner is met from funds advanced by the Scottish Government Health Directorate 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 Government Health Directorate. 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 Government funding.

Non discretionary funding in excess of the RRL is allocated to match actual expenditure incurred for the provision of specific pharmaceutical, dental or ophthalmic services identified by the Scottish Government. 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 Government Health Directorate is credited to the general fund when cash is drawn down.

#### e) Fixed Assets

The treatment of fixed assets in the accounts (capitalisation, valuation, depreciation, particulars concerning donated assets) is in accordance with the NHS 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 ten years;
- Intangible assets which 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.
- 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.

## **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 five 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 Government Health Directorate.

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 under 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 Government Health Directorate 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 over the estimated life of the asset.

Depreciation is charged on a straight-line basis.

The following asset lives have been used:

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

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 NHS 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 is recognised for the obligation to deliver allowances equal to emissions that have been made. It is 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.

**f) Research and Development**

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

**g) 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 2008 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 SGHD. 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 SGHD.

**h) 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.

**i) 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.

**j) Pension Costs**

The Board participates in the NHS Superannuation Scheme providing benefits based on a final pensionable pay. The assets and liabilities of the scheme are held separately from those of the Board. The Board is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 "Retirement Benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the operating cost statement represents the contributions payable to the scheme in respect of the year.

**k) Clinical and Medical Negligence Costs**

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

**l) Related Party Transactions**

Material related party transactions are disclosed in the directors' report in line with the requirements of FRS 8. Transactions with other NHS bodies for the commissioning of health care are summarised in Note 4.

**m) 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.

**n) 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.

**o) 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.

**p) 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.

**q) 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 2007/08

	Executive Board Members £000	Non Executive Members £000	Permanent Staff £000	Inward Secondees £000	Other Staff £000	Outward Secondees £000	Total £000	2006-07 Total £000
<b>STAFF COSTS</b>								
Salaries and wages	661	189	358,534	-	-	(405)	<b>358,979</b>	346,283
Social security costs	75	13	28,767	-	-	-	<b>28,855</b>	26,367
NHS Superannuation Scheme: employer's costs	88	6	41,587	-	-	-	<b>41,681</b>	37,601
Inward secondees	-	-	-	273	-	-	<b>273</b>	-
Agency staff	-	-	-	-	2,170	-	<b>2,170</b>	2,464
<b>TOTAL</b>	<b>824</b>	<b>208</b>	<b>428,888</b>	<b>273</b>	<b>2,170</b>	<b>(405)</b>	<b>431,958</b>	<b>412,715</b>

<b>STAFF NUMBERS * (AVERAGE NUMBER OF EMPLOYEES)</b>	<b>2007-08 No.</b>	<b>2006-07 No.</b>
Administration **	42.7	44.9
Hospital and Community Services	8,210.6	8,191.8
Non Clinical Services	3,489.4	3,508.4
Other, including recharge Trading Accounts	0.0	0.1
Inward Secondees	7.8	2.0
Outward Secondees	(7.5)	(16.8)
<b>Total Average Staff</b>	<b>11,743.0</b>	<b>11,730.4</b>
<b>Disabled Staff</b>	<b>111.0</b>	<b>43.0</b>

\* Numbers provided are whole time equivalent.

\*\* 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 26 to the Accounts.

## 2. (b) HIGHER PAID EMPLOYEES REMUNERATION

Other employees whose remuneration fell within the following ranges:

	<b>2007-08</b>	<b>2006-07</b>
	<b>No.</b>	<b>No.</b>
<b>Clinicians</b>		
£50,000 to £60,000	<b>137</b>	134
£60,001 to £70,000	<b>100</b>	100
£70,001 to £80,000	<b>65</b>	76
£80,001 to £90,000	<b>49</b>	42
£90,001 to £100,000	<b>45</b>	69
£100,001 to £110,000	<b>76</b>	71
£110,001 to £120,000	<b>43</b>	47
£120,001 to £130,000	<b>36</b>	32
£130,001 to 140,000	<b>27</b>	29
£140,001 to 150,000	<b>35</b>	20
£150,001 and above	<b>50</b>	35
<b>Other</b>		
£50,000 to £60,000	<b>94</b>	51
£60,001 to £70,000	<b>41</b>	22
£70,001 to £80,000	<b>15</b>	3
£80,001 to £90,000	<b>7</b>	3
£90,001 to £100,000	<b>4</b>	1
£100,001 to £110,000	<b>3</b>	1
£110,001 to £120,000	<b>1</b>	-
£120,001 to £130,000	<b>1</b>	-
£130,001 to £140,000	-	-
£140,001 to £150,000	-	-
£150,001 and above	-	-

### 3. OTHER OPERATING COSTS

	Note	2007-08 £000	2006-07 £000
<b>Expenditure Not Paid in Cash</b>			
Depreciation	11	20,997	18,192
Cost of capital	19	9,391	8,919
Impairments - Charge	11	2,016	866
Revaluation loss on fixed assets charged to the Operating Cost Statement		590	105
Revaluation of EC Carbon Emissions taken to Deferred Income		63	707
Loss on disposal of intangible fixed assets		1	1
(Profit) on disposal of purchased fixed assets		162	(9,038)
Other non cash costs		66	(1)
<b>Total Expenditure Not Paid in Cash</b>		<u>33,286</u>	<u>19,751</u>
<b>Travel, Subsistence and Hospitality</b>		<u>5,189</u>	<u>4,853</u>
<b>Operating Lease Rentals</b>			
Hire of equipment (including vehicles)		1,899	1,738
Other operating leases		1,291	1,322
<b>Total</b>		<u>3,190</u>	<u>3,060</u>
<b>Statutory Audit</b>			
External auditor's remuneration and expenses		<u>293</u>	<u>289</u>
<b>PFI/PPP and Similar Contracts</b>			
Service charge relating to off-balance sheet PFI/PPP contracts		1,733	1,846
<b>Total</b>		<u>1,733</u>	<u>1,846</u>

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

#### 4. HOSPITAL AND COMMUNITY HEALTH SERVICES

	2007-08	2006-07
	£000	£000
<b>BY PROVIDER</b>		
Treatment in Board area of NHSScotland Patients	584,196	551,496
Other NHSScotland Bodies	9,847	10,292
Health Bodies outside Scotland	611	775
Primary Care Bodies	44	41
Private Sector*	2,905	5,291
<b>Community Care</b>		
Resource Transfer	30,511	29,575
Contributions to Voluntary Bodies	5,406	4,480
<b>Total NHSScotland Patients</b>	<b>633,520</b>	601,950
Treatment of UK residents based outside Scotland	1,110	848
<b>Total Hospital &amp; Community Health Service</b>	<b>634,630</b>	602,798
<b>BY SERVICE CATEGORY</b>		
Acute Services	375,553	359,027
Maternity Services	32,102	29,107
Geriatric Assessment	16,932	15,600
Mental Health Services	71,948	68,237
Learning Disability	7,394	6,985
Geriatric Long Stay	17,514	16,718
Other Community Services	43,086	40,417
Other Services	50,685	48,886
<b>Total Care Expenditure</b>	<b>615,214</b>	584,977
Additional Costs of Teaching	11,102	10,016
Research & Development	7,204	6,957
UK Residents based outside Scotland	1,110	848
<b>Total as Above</b>	<b>634,630</b>	602,798

\*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 set by the SGHD 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 2007-08 £000	Total 2006-07 £000
Primary Medical Services	76,177	-	76,177	73,387
Pharmaceutical Services	86,506	11,492	97,998	96,693
General Dental Services	258	20,062	20,320	17,939
General Ophthalmic Services	53	7,736	7,789	6,277
<b>Total</b>	<b>162,994</b>	<b>39,290</b>	<b>202,284</b>	<b>194,296</b>

## 6. ADMINISTRATION COSTS

	2007-08 £000	2006-07 £000
Board Members' Remuneration	1,032	844
Administration of Board Meetings and Committees	200	197
Corporate Governance and Statutory Reporting	626	641
Health Planning, Commissioning and Performance Reporting	1,247	996
Treasury Management and Financial Planning	448	405
Public Relations	604	585
<b>Total Administration Costs</b>	<b>4,157</b>	<b>3,668</b>

## 7. OTHER SERVICES

	2007-08 £000	2006-07 £000
Closed hospital charges	0	7
Compensation payments – Clinical	1,015	10,893
Compensation payments – Other	402	227
Pension enhancement & redundancy	1,184	960
Patients' Travel Attending Hospitals	245	246
Patients' Travel Highlands and Islands scheme	8	14
Health Promotion	3,778	2,805
Public Health	3,011	2,236
Public Health Medicine Trainees	146	205
Emergency Planning	68	59
Loss on disposal of fixed assets	202	12
Other	1,602	53
<b>Total Other Services</b>	<b>11,661</b>	<b>17,717</b>

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).

<b>8. OPERATING INCOME</b>	<b>2007-08</b>	<b>2006-07</b>
	<b>£000</b>	<b>£000</b>
<b>HCH Income</b>		
<b>NHSScotland Bodies</b>		
Boards	<b>11,386</b>	10,235
<b>Non NHS</b>		
Private Patients	<b>930</b>	1,056
Compensation Income	<b>1,144</b>	661
Other HCH Income	<b>1,110</b>	0
<b>Total HCH Income</b>	<b>14,570</b>	<u>11,952</u>
<b>FHS Income</b>		
Unified	<b>6,464</b>	6,283
<b>Non Discretionary</b>		
General Dental Services	<b>3,570</b>	2,882
<b>Total FHS Income</b>	<b>10,034</b>	<u>9,165</u>
<b>Other Operating Income</b>		
NHS Scottish Bodies	<b>43,517</b>	39,461
Contributions in respect of Clinical/Medical negligence claims	<b>542</b>	10,660
Profit on disposal of fixed assets	<b>40</b>	9,048
Transfer from Donated Asset Reserve in respect of Depreciation	<b>796</b>	816
Interest Received	<b>2</b>	1
Other	<b>21,854</b>	25,947
<b>Total Other Operating Income</b>	<b>66,751</b>	<u>85,933</u>
<b>Total Income</b>	<b>91,355</b>	<u>107,050</u>
<b>Of the above, the amount derived from NHS bodies is</b>	<b>54,903</b>	<u>49,696</u>

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

<b>9. ANALYSIS OF CAPITAL EXPENDITURE</b>	<b>Note</b>	<b>2008 £000</b>	<b>2007 £000</b>
<b>EXPENDITURE</b>			
Acquisition of Intangible Fixed Assets	10	-	189
Acquisition of Tangible Fixed Assets	11	<b>28,843</b>	23,063
Capital Grants to Public Bodies		<b>464</b>	3,668
Profit/Loss on disposal of fixed assets		<b>163</b>	-
<b>Gross Capital Expenditure</b>		<b>29,470</b>	26,920
<b>INCOME</b>			
Net book value of disposal of Intangible Fixed Assets	<b>10</b>	<b>1</b>	1
Net book value of disposal of Tangible Fixed Assets	<b>11</b>	<b>306</b>	2,353
<b>Capital Income</b>		<b>307</b>	2,354
<b>Net Capital Expenditure</b>		<b>29,163</b>	24,566
<b>SUMMARY OF CAPITAL RESOURCE OUTTURN</b>			
Net capital expenditure as above		<b>29,163</b>	24,566
Capital Resource Limit		<b>29,163</b>	25,130
<b>Savings against Capital Resource Limit</b>		-	564

<b>10. INTANGIBLE FIXED ASSETS</b>	<b>Software Licences £000</b>	<b>EC Carbon Emissions £000</b>	<b>Total £000</b>
<b>Cost or Valuation :</b>			
As at 1 April 2007	40	64	104
Additions	-	-	-
Disposals	-	(1)	(1)
Revaluation	-	(63)	(63)
<b>At 31 March 2008</b>	<b>40</b>	-	<b>40</b>
<b>Amortisation</b>			
At 1 April 2007	7	-	7
Provided during the year	12	-	12
<b>At 31 March 2008</b>	<b>19</b>	-	<b>19</b>
Net Book Value at 1 April 2007	33	64	97
<b>Net Book Value at 31 March 2008</b>	<b>21</b>	-	<b>21</b>

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)	Dwellings	Transport Equipment	Plant and Machinery	Information Technology	Furniture and Fittings	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or valuation</b>								
At 1 April 2007	321,639	12,488	3,532	76,651	16,813	5,954	2,434	439,511
Additions	9,983	-	142	11,148	2,265	70	5,235	28,843
Completions	1,192	-	-	-	-	-	(1,192)	-
Revaluation	19,473	990	-	(2)	-	-	-	20,461
Impairment Charge	(2,016)	-	-	-	-	-	-	(2,016)
Disposals	(138)	-	(97)	(4,429)	(151)	(246)	-	(5,061)
<b>At 31 March 2008</b>	<b>350,133</b>	<b>13,478</b>	<b>3,577</b>	<b>83,368</b>	<b>18,927</b>	<b>5,778</b>	<b>6,477</b>	<b>481,738</b>
<b>Depreciation</b>								
At 1 April 2007	19,978	597	2,774	40,955	11,282	5,281	-	80,867
Provided during the year	13,096	462	243	5,598	1,435	151	-	20,985
Revaluation	(4,036)	(214)	-	-	-	-	-	(4,250)
Disposals	(17)	-	(93)	(4,250)	(150)	(245)	-	(4,755)
<b>At 31 March 2008</b>	<b>29,021</b>	<b>845</b>	<b>2,924</b>	<b>42,303</b>	<b>12,567</b>	<b>5,187</b>	<b>0</b>	<b>92,847</b>
Net Book Value of Purchased Assets at 1 April 2007	301,661	11,891	758	35,696	5,531	673	2,434	358,644
<b>Net Book Value of Purchased Assets at 31 March 2008</b>	<b>321,112</b>	<b>12,633</b>	<b>653</b>	<b>41,065</b>	<b>6,360</b>	<b>591</b>	<b>6,477</b>	<b>388,891</b>
Open Market Value of Land and Dwellings Included Above	1,268	-						

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

	<b>Land &amp; Buildings (excluding dwellings) £000</b>	<b>Transport Equipment £000</b>	<b>Plant and Machinery £000</b>	<b>Information Technology £000</b>	<b>Furniture and Fittings £000</b>	<b>Total £000</b>
<b>Cost or valuation</b>						
At 1 April 2007	13,409	174	5,336	90	44	19,053
Additions	-	-	106	-	-	106
Revaluation	1,057	-	1	-	-	1,058
Disposals	-	(19)	(375)	-	-	(394)
<b>At 31 March 2008</b>	<b>14,466</b>	<b>155</b>	<b>5,068</b>	<b>90</b>	<b>44</b>	<b>19,823</b>
<b>Depreciation</b>						
At 1 April 2007	886	145	3,450	90	27	4,598
Provided during the year	447	11	335	-	3	796
Revaluation	(454)	-	-	-	-	(454)
Disposals	-	(19)	(372)	-	-	(391)
<b>At 31 March 2008</b>	<b>879</b>	<b>137</b>	<b>3,413</b>	<b>90</b>	<b>30</b>	<b>4,549</b>
Net Book Value of Donated Assets at 1 April 2007	12,523	29	1,886	-	17	14,455
<b>Net Book Value of Donated Assets at 31 March 2008</b>	<b>13,587</b>	<b>18</b>	<b>1,655</b>	<b>-</b>	<b>14</b>	<b>15,274</b>

<b>11. (c) FIXED ASSET DISCLOSURES</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Net book value of tangible fixed assets at 31 March</b>		
Purchased	<b>388,891</b>	358,644
Donated	<b>15,274</b>	14,455
<b>Total</b>	<b><u>404,165</u></b>	<u>373,099</u>
<b>Net book value related to land valued at open market value at 31 March</b>	<b><u>1,268</u></b>	<u>893</u>
<b>Net book value related to buildings valued at open market value at 31 March</b>	<b><u>3,018</u></b>	<u>2,815</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 2008. Other tangible fixed assets were revalued on the basis of indices at 31 March 2008.

The net impact of the rolling revaluation programme was an increase in value of £11.8 million, which was credited to the revaluation reserve and a charge to the operating Cost Statement of £86,000.

The VOA also carried out a number of interim valuations on new build properties or others which had received significant investment to upgrade facilities. These interim valuations resulted in a charge to the revaluation reserve of £36,000 and a charge to the Operating Cost Statement of £1,876,000.

## **12. STOCKS**

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Raw Materials and Consumables	<b><u>5,040</u></b>	<u>4,981</u>

### 13. DEBTORS

	2008 £000	2008 £000	2007 £000	2007 £000
<b>Debtors due within 1 year:</b>				
<b>NHS Scotland</b>				
- SGHD	185		1,191	
- Boards	4,002		4,123	
<b>Total NHSScotland Debtors</b>	<u>4,187</u>		<u>5,314</u>	
NHS Non-Scottish Bodies		577		772
VAT recoverable		1,141		662
Prepayments and Accrued Income		5,445		5,307
Other Debtors		12,930		10,008
Reimbursement of Provisions		2,393		3,079
Other Public Sector Bodies		274		448
<b>Total Debtors due within one year</b>		<u>26,947</u>		<u>25,590</u>
<b>Debtors due after more than one year</b>				
Prepayments and Accrued Income		1,603		1,243
Reimbursement of Provisions		9,572		12,315
<b>Total balances due after more than one year</b>		<u>11,175</u>		<u>13,558</u>
<b>Total Debtors</b>		<u>38,122</u>		<u>39,148</u>

The above balances are net of a provision for bad debts of £124,000 (2007: £174,000)

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

	2008 £000	2007 £000
Other Investments	<u>1</u>	<u>1</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 01/04/07 £000	Cash Flow £000	At 31/03/08 £000
OPG account balance	3,242	(1,959)	1,283
Cash at bank and in hand	39	24	63
<b>Total cash – balance sheet</b>	<u>3,281</u>	<u>(1,935)</u>	<u>1,346</u>
<b>Total cash – cash flow statement</b>	<u>3,281</u>	<u>(1,935)</u>	<u>1,346</u>

## 16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £000	2008 £000	2007 £000	2007 £000
<b>NHSScotland</b>				
-Boards	2,424		2,882	
<b>Total NHSScotland Creditors</b>	<u>2,424</u>		<u>2,882</u>	
NHS Non-Scottish Bodies		343		629
General Fund Creditor		1,346		3,281
FHS Practitioners		28,852		25,160
Trade Creditors		22,808		13,784
Accruals and Deferred Income		23,163		23,047
Income Tax & Social Security		9,253		8,732
Superannuation		5,300		4,726
Other Public Sector Bodies		4,088		858
EC Carbon Emissions Grant		0		14
Other Creditors		2,192		1,482
Other Significant Creditors: Agenda for Change		26,470		31,028
<b>Total Creditors due within one year</b>		<u>126,239</u>		<u>115,623</u>

The Other Significant Creditor balance above represents 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 £000	Clinical & Medical £000	EC Carbon Emissions £000	Total £000
As at 1 April 2007	4,251	17,206	52	21,509
Arising during the year	478	1,015	0	1,493
Utilised during the year	0	(1,647)	(52)	(1,699)
Reversed Unutilised	0	(4,458)	0	(4,458)
<b>As at 31 March 2008</b>	<b>4,729</b>	<b>12,116</b>	<b>0</b>	<b>16,845</b>

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 £000	Closing Balances £000	Net Movement £000
<b>STOCK</b>	4,981	5,040	
<b>Net (Increase)</b>			<b>(59)</b>
<b>DEBTORS</b>			
Due within one year	25,590	26,947	
Due after more than one year	13,558	11,175	
	39,148	38,122	
Less: Capital included in above	(979)	(500)	
	38,169	37,622	
<b>Net (Decrease)</b>			<b>547</b>
<b>CREDITORS</b>			
Due within one year	115,623	126,239	
Less: Capital included in above	(1,734)	(1,316)	
Less: General Fund Creditor included in above	(3,281)	(1,346)	
	110,608	123,577	
<b>Net Increase</b>			<b>12,969</b>
<b>PROVISIONS</b>	21,509	16,845	
<b>Net (Decrease)</b>			<b>(4,664)</b>
<b>NET MOVEMENT Increase</b>			<b>8,793</b>

<b>19. GENERAL FUND</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>General Fund at 1 April</b>	<u><b>190,621</b></u>	<u>212,559</u>
Opening General Fund Creditor	<b>3,281</b>	1,658
Add: Cash Drawn Down	<b>746,001</b>	681,536
(Less): Closing General Fund (Creditor)	<u><b>(1,346)</b></u>	<u>(3,281)</u>
<b>Net Funding</b>	<u><b>747,936</b></u>	<u>679,913</u>
Net Operating Cost for the Year	<b>(761,377)</b>	(711,429)
Cost of Capital	<b>9,391</b>	8,919
Transfer of Realised Element of Revaluation Reserve	<b>34</b>	659
Proceeds from Sale of Donated Assets	<b>3</b>	-
<b>Net (Decrease) in General Fund</b>	<u><b>(4,013)</b></u>	<u>(21,938)</u>
<b>General Fund at 31 March</b>	<u><b>186,608</b></u>	<u>190,621</u>
<b>20. MOVEMENTS ON RESERVES</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Revaluation Reserve</b>		
Balance at 1 April	<b>78,399</b>	53,532
Indexation/ revaluation of fixed assets	<b>25,364</b>	25,526
Transfer of realised element to general fund	<b>(34)</b>	(659)
<b>Balance at 31 March</b>	<u><b>103,729</b></u>	<u>78,399</u>
<b>Donated Asset Reserve</b>		
Balance at 1 April	<b>14,455</b>	14,205
Indexation/ revaluation of fixed assets	<b>1,512</b>	739
Additions of donated assets	<b>106</b>	324
Release to the Operating Cost Statement	<b>(796)</b>	(813)
Transfer of realised element to general fund	<b>(3)</b>	-
<b>Balance at 31 March</b>	<u><b>15,274</b></u>	<u>14,455</u>

## 21 . CONTINGENT LIABILITIES/ASSETS

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

<b>Nature</b>	<b>Value £000</b>
<b>Clinical, medical and employer's liability compensation payments</b>	1,050

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 Government 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 Government Health Department estimates there is a low risk of NHS Grampian having to make a settlement.

### **Equal Pay Claims**

NHS Grampian has received 404 claims under the Equal Pay Act 1970 mainly from women seeking compensation for past inequalities with male colleagues, under the pay arrangements that preceded Agenda for Change. NHS Scotland has chosen to deal with the cases to date on a pan-Scotland basis, with the NSS Central Legal Office co-ordinating a response on all claims.

The basis of claims is as follows:

- The claimant's job has been rated as being of the same value as their comparator using a valid Job Evaluation Study.
- Their comparator is currently paid or has been paid more than them.
- They claim equal pay, back pay and interest.
- Back pay is claimed for the statutory maximum of five years.

The claims are framed generically, which does not provide much information about the claimants or their potential comparators. In addition cases are being pursued that comprise a challenge to the Agenda for Change pay evaluation system on the basis that it perpetuates discrimination. No Scottish cases are currently being progressed actively by the Central Office of Employment Tribunals in Scotland pending the outcome of this challenge.

Progress of these claims is therefore not judged to be sufficiently advanced to determine the likelihood of their success nor to estimate what their value could be. It is therefore not possible to make an estimate of any financial impact that may arise.

### **The Waste Electronic and Electrical Equipment Regulations 2006**

The Waste Electronic and Electrical Equipment Regulations 2006 came 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.

## Contingent Assets

The following contingent assets have not been recognised in the Accounts, as explained below:

Nature	Value £000
<b>Clinical, medical and employer's liability compensation recoveries</b>	768

These contingent assets represent the amounts of the contingent liability disclosed above which NHS Grampian could recover under the Clinical Negligence and Other Risks Indemnity Scheme should these liabilities become payable.

<b>22. COMMITMENTS</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>

**Capital Commitments**

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

Contracted	<u>13,158</u>	<u>5,565</u>
Authorised but not Contracted	<u>4,255</u>	<u>10,832</u>

Included within capital commitments that have been contracted for are:

- £1.25 million towards a joint venture with Aberdeenshire Council and Maud Village Trust, for the development of the Central Buchan Resource Centre;
- £4.3 million for the implementation of a Grampian PAC (image management) System for the radiology service;
- £2.2 million for the development of Nursery provision;
- £1.9 million for the development of the Laurencekirk Medical Centre;
- £1.8 million for Elgin dental facility development and
- £1.7 million for the redevelopment of Ashgrove House on the Foresterhill site

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

- £2.0 million for the upgrade of Fraserburgh Hospital ;
- £1.9 million towards the development, with Aberdeen City Council, of an Integrated Care Planning and Stabilisation Service on behalf of the Integrated Drug Service Management Team and
- £0.4 million for the development of an Eating Disorders Unit on the Royal Cornhill Hospital site.

**23. COMMITMENTS UNDER LEASES**

**Operating Leases**

Commitments under operating leases to pay rentals during 2008/09 are analysed, according to the period in which the leases expire, as follows :

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Obligations under operating leases comprise:</b>		
<b>Land and Buildings</b>		
After five years	<u>423</u>	<u>436</u>
<b>Other</b>		
Within one year	174	220
Between two and five years (inclusive)	1,128	970
After five years	0	31
	<u>1,302</u>	<u>1,221</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 expired on 3 March 2008 after a term of ten years.

#### Future Commitments

There are no future commitments following expiry of the above contract.

	<b>31 March 2008</b> <b>£000</b>	<b>31 March 2007</b> <b>£000</b>
Expiry within one year	-	<b>1,846</b>
	<u>-</u>	<u><b>1,846</b></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 2007-08, normal employer contributions of £41,681,000 were payable to the SPPA (prior year £37,601,000) at the rate of 14% of total pensionable salaries. In addition, during the accounting period NHS Grampian incurred additional costs of £72,000 (prior year £236,000) 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 £4,729,000 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 ten years. Child allowances are payable according to the number of dependent 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 two years service. Where service exceeds five years, the pension is calculated using specially enhanced service, with a maximum enhancement of ten years.

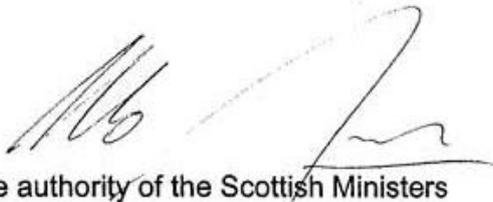
Members aged 50 or above may take voluntary early retirement and receive a reduced pension. Alternatively, if the employer agrees to this, the member will be able to retire on the full pension and lump sum which they have earned.



## 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 (FRoM) 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 19/2/2006