



PERTH & KINROSS INTEGRATION JOINT BOARD

WEDNESDAY 23 MARCH 2016

FINANCIAL REGULATIONS

Report by Chief Finance Officer

PURPOSE OF REPORT

The report seeks the Board to approve the attached Financial Regulations of the Partnership to ensure appropriate governance is in place to ensure the proper administration of the Board's finances

1. BACKGROUND

- 1.1 As a public body the Health and Social Care Partnership (IJB) requires to have appropriate governance arrangements in place. The Financial Regulations are a key component of the Board's governance arrangements. They set out the expectations on and the responsibilities of the Board and senior officers in relation to the proper administration of the Board's finances, as well as approving the role of Internal Audit and its rights of access across the Integration Joint Board.
- 1.2 The regulations were developed jointly by NHS Tayside, the 3 Tayside Councils and latterly the three Chief Finance Officers of the 3 Tayside IJB's. This has helped ensure a consistent approach whilst allowing scope for local variations within each IJB.

The Financial Regulations of the IJB will not supersede those of Perth and Kinross Council or the Standing Financial Instructions of NHS Tayside, it is an overarching document which will operate alongside these.

The draft Financial Regulations are attached at Appendix 1.

- 1.3 The Financial Regulations presented in Appendix 1 have been fully considered by the IJB Chief Internal Auditor.
- 1.4 There are no resource implications of approving these Financial Regulations.

2. CONCLUSION AND RECOMMENDATION

- 2.1 It is recommended that the board:
- (a) Approve the attached Financial Regulations

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Date of Paper: 1 March 2016

Perth and Kinross Integration Joint Board

Financial Regulations

Version 11 (1/3/16)

PREFACE

The Integration Scheme for Perth & Kinross was approved by Cabinet Secretary for Health, Wellbeing and Sport on 27 August 2015. An Order to establish the Integration Joint Board was laid before the Scottish Parliament on 4 September (The Public Bodies (Joint Working) (Integration Joint Board Establishment) (Scotland) Amendment (No.3) Order 2015). The Integration Joint Board was established on 3 October 2015.

Both NHS Tayside (NHST) and Perth and Kinross Council (PKC) have delegated functions and resources to the Perth Health and Social Care Partnership (The Perth Integrated Joint Board (IJB). The IJB will direct the Council and the Health Board on how resources will be spent in line with the approved Strategic plan, and allocate resources back to them in accordance with this direction.

Both PKC and NHST operate under Financial Regulations/Standing Orders for the operational delivery of services. As this service delivery will continue to be carried out within NHST and PKC, these Financial Regulations relate specifically to the affairs of the IJB, and, therefore are more limited and focused in scope. All operational and transactional finance matters for the delivery of services of the IJB will comply with the respective PKC Financial Regulations and NHST Standing Financial Instructions.

The IJB is accountable for the stewardship of public funds and is expected to operate under public sector best practice governance arrangements, proportionate to its transactions and responsibilities.

Under the Scottish Government Regulations, for all IJBs in Scotland, the Chief Officer, supported by the Chief Financial Officer must ensure that there are adequate systems and controls in place for the proper management of its financial affairs. These Financial Regulations detail the responsibilities of the IJB and serving members for its own financial affairs. The Chief Officer and the Chief Financial Officer and other officers supporting the IJB will follow these Regulations at all times in relation to the conduct of the IJB's own financial affairs.

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1 GENERAL

- 1.1 The preparation and circulation of Financial Regulations assists organisations in fulfilling their obligations in respect of corporate governance, ensuring that stakeholders have an understanding of their responsibilities and a framework within which to discharge them. For this reason, Financial Regulations must be relevant to the needs of users, kept up-to-date and allow for controlled flexibility. A process of ongoing review and monitoring will be maintained to ensure this (See 1.3). Clarification on the interpretation of the Financial Regulations will be issued as required and identified for inclusion in a subsequent review. Clarification of any matter concerning the Financial Regulations shall be undertaken in conjunction with the Integration Joint Board (IJB), Chief Officer (IJBCO) and Chief Finance Officer (IJBCFO).
- 1.2 Aspects of the operation of the IJB have been set out in an Integration Scheme, some of which is pertinent to the Financial Regulations. Wording in “quotations” within the Financial Regulations is taken from the Integration Scheme.
- 1.3 The IJBCFO will regularly review the IJB Financial Regulations, in consultation with NHS Tayside’s Director of Finance and the Council’s section 95 Officer, and where necessary submit recommendations to the IJB for amendments to be Financial Regulations. The IJB will review and consider any amendments considered necessary to these Financial Regulations as recommended and approve the periodic revisions and issue an updated version encompassing such amendments.

2. SCOPE AND OBSERVANCE

- 2.1 Voting members of the IJB together with non-voting members of the IJB have a duty to abide by the highest standards of probity in dealing with financial issues. This is achieved by ensuring everybody is clear about the standards to which they are working and the controls in place to ensure these standards are met.

- 2.2 The key controls and control objectives for financial management standards are:-
- the promotion of the highest standards of financial management by the IJB;
 - appropriate assurance mechanisms to ensure the compliance with the financial regulations;
 - comparisons of actual and forward projection of financial performance with planned/budgeted performance that are reported to the IJB; and
 - an audit committee – or other similar committee - of the IJB to fulfilling its duties to develop and maintain effective scrutiny arrangement on the decision making of the IJB.
- 2.3 In all matters to do with the management and administration of the Integrated Budget by the IJB and its officers exercising such delegated powers as the IJB has agreed in this regard, these Financial Regulations will apply in all circumstances.
- 2.4 Prior to any funding being passed by one of the Parties to the IJB as part of the Integrated Budget, the Financial Regulations or Standing Financial Instructions of the relevant Party will apply. Similarly, once funding has been approved from the Integrated Budget by the IJB and directed by it to the Council or the NHS for the purposes of service delivery, the Standing Financial Instructions or Financial Regulations of the relevant Party will then apply to the directed sum, which will be utilised in accordance with the priorities determined by the IJB in its Strategic Plan.

3 IJB MEMBERS RESPONSIBILITY

- 3.1 The members of the IJB are responsible for ensuring that proper accounting records are kept for the IJB, which disclose the true and fair financial position and enable the preparation of financial statements that comply with the applicable Code of Practice.

4 CHIEF OFFICER (IJBCO)/ FINANCE OFFICER (IJCFO) RESPONSIBILITIES

Joint Responsibilities

- 4.1 The IJBCO and IJCFO shall comply with the internal control procedures prevailing within their host organisation with regard to their operational activities e.g. segregation of duties, procurement of goods / services, control of assets, etc.
- 4.2 The IJBCO and IJCFO shall comply with the internal control procedures prevailing within their host organisation with regard to their personal work related activities e.g. travel and subsistence, codes of conduct, declarations, etc.
- 4.3 Where the IJBCO or IJCFO delegate any of their responsibilities the nature and extent of this should be set out in a Scheme of Delegation.

Chief Officer Responsibilities

- 4.4 The IJBCO will ensure that the decisions of the IJB are carried out and has a direct line of accountability to the Chief Executives of the Health Board and the Local Authority for the delivery of integrated services. The IJBCO is responsible for ensuring that service delivery is in accordance the Strategic Plan to support the national outcomes, any locally delegated responsibilities for health and wellbeing and for measuring, monitoring and reporting on the underpinning measures and indicators (including financial) that will demonstrate progress.
- 4.5 The IJBCO is the accountable officer of the IJB in all matters except finance. The IJBCO will discharge his/her duties in respect of the delegated resources by:-
- ensuring that the Strategic Plan meets the requirement for economy, efficiency and effectiveness in the use of the IJB resources; and
 - giving directions to the NHS and the Council that are designed to ensure resources are spent according to the Strategic Plan. It is the responsibility of the IJBCO to ensure that the provisions of the directions enable the

Parties to discharge their responsibilities with regard to the provisions of the directions.

4.6 In his/her operational role within the NHS and the Council, the IJBCO has no “accountable officer” status but is:-

- accountable to the Chief Executive of the Council and Chief Executive of the NHS for the operational performance of the services managed by the IJBCO.
- accountable to the Chief Executive of the NHS for financial management of the operational budget, and is advised by the NHS Director of Finance;
- accountable to the Chief Financial Officer (section 95 officer) of the Council for financial management of the operational budget; and

Chief Finance Officer Responsibilities

4.7 The Integration Scheme notes that the IJBCFO is “accountable to the Chief Officer and the Integration Joint IJB for the Annual Accounts, Financial Plan (including the Annual Financial Statement as required under Section 39 of the Act) and providing financial advice to the Integration Joint IJB. The IJBCFO will provide financial advice and support to the IJBCO and the IJB and will be responsible for preparing the IJB’s medium-term financial plan to be incorporated into the Strategic Plan”. In pursuit of this the IJBCFO will ensure that suitable accounting records are maintained, that resources are utilised in accordance with the Strategic Plan and that the Strategic Plan delivers Best Value.

4.8 At the point when the IJB provides Direction to the Parties, for the operational delivery of services, the Health Boards Director of Finance and local authority’s Section 95 officer are responsible for ensuring governance of these resources in accordance with their own organisation’s financial governance documents.

5 BUDGET PREPARATION

The Integrated Budget

- 5.1 The resources within scope of the IJB's Integrated Budget are those local authority social care services, health primary, community healthcare and hospital services delegated in accordance with the Integration Scheme. The Integrated Budget will be the aggregate of payments to the IJB for services delegated by PKC and NHST.

The Strategic Budget

- 5.2 The resources within scope of the IJB's Strategic Budget are those within the Integrated Budget together with those in respect of large hospitals set aside in accordance with the Integration Scheme, termed "Large Hospital Services". The NHS can choose whether the budget for Large Hospital services is included within the IJB's Integrated Budget or retained for direction via the Strategic Plan and this has been set out in the Integration Scheme. Future changes agreed by the IJB and NHST will determine the movement between the Integrated Budget and the Large Hospital "Set Aside".

The Strategic Plan

- 5.3 The IJBCO will submit annually to the IJB a Strategic Plan setting out proposals for the delivery of services within the remit of the IJB for, at minimum, the next 3 years. This will include the Integrated Budget and the notional budget for directed hospital services i.e. the Strategic Budget.
- 5.4 The Strategic Plan will detail the reason for any projected surplus or deficit and how this will be used / addressed. The Strategic Plan will confirm the Integrated Budget, includes the resources previously subject to resource transfer.
- 5.5 The Strategic Plan will clarify the Strategic Budget includes the full cost of the "Set Aside" including overheads.

Budget Preparation / Requisitions

- 5.6 In accordance with the Integration Scheme the IJBCO “will make annual proposed budget Requisitions to the Parties in the format reflected within their respective budget guidance and to align with their respective budget setting timetables. The proposed budget Requisitions will be calculated with initial reference to the pertinent year of the latest Strategic Plan agreed by the IJB”.
- 5.7 “Thereafter, the IJBCO will give consideration to areas of adjustment of budget requisitions in light of actual or projected performance (where applicable for each Party) and taking into account the Parties Corporate Financial Plans. Where any adjustments are made from the proposals/assumptions contained in the Strategic plan this will be made clear in the budget requisition made by the IJBCO to the Parties”.
- 5.8 “The IJBCO and IJBCFO will meet with PKC and NHST senior finance officers to review and, if necessary, revise the budget Requisition in line with locally agreed budget setting timetables”.
- 5.9 The Partners (PKC and NHST) will consider these proposed budget Requisitions through their respective budget setting processes and will confirm the actual budget Requisition to the IJB the day after the Council Tax legally requires to be set each year”.

Directions

- 5.10 Following agreement of the Strategic Plan by the IJB, and confirmation of the requisitions from the Parties, in accordance with the Integration Scheme the IJB “will approve and provide Direction to the Parties before the start of the IJB financial year regarding the functions that are being directed, how they are to be delivered and the resources to be used in delivery”. This direction is with a view to ensuring that resources are utilised in accordance with the objectives of the Strategic Plan.

- 5.10 The Integration Scheme notes that in “the event that a material calculation error in the spending Directions provided by the IJB to the Parties is discovered this will be adjusted for and revised Directions issued to the Parties”.

6 BUDGET MONITORING AND CONTROL

Budget Monitoring

- 6.1 In accordance with the Integration Scheme the IJBCFO will “ensure routine financial reports are available to the IJBCO and the IJB on a timely monthly basis and include as a minimum actual to date, annual budget, full year outturn projection and commentary on material variances. All Integration Joint IJB reports will be shared with the Parties simultaneously. The frequency, form and content of reports will be agreed by the IJB. These monthly reports will cover the financial performance of the Integrated Budget and the Strategic Budget together with projections for the full financial year and any implications for the following financial years.
- 6.2 “Where a year end overspend in the IJB’s budget is projected the IJBCO and the IJBCFO must present a recovery plan to the Parties and the IJB to address in year overspends and any recurring overspends for future financial years”.

IJB Reports

- 6.3 The IJBCFO will be consulted on all reports being submitted to the IJB to ensure that any financial implications arising have been considered. Each IJB report should include a Financial Implications section.
- 6.4 It is a requirement of the Public Bodies (Joint Working) (Scotland) Act 2014 that an Annual Performance Report is presented to the IJB which will include provisions on the financial performance and Best Value.

- 6.5 It will be the responsibility of the IJBCO AND IJBCO to provide relevant information and reports to ensure the PKC and NHST performance reporting arrangements are complied with.

Virement (Between Financial Years)

- 6.6 The Strategic Plan and budget Requisitions will detail the budget virement that is proposed to be undertaken between each financial year in respect of both the Integrated Budget and large hospital services set aside. The extent of virements will be confirmed following completion of the IJB annual accounts.

Virement (In Year) – Integrated Budget

- 6.7 The IJBCO, in consultation with the IJBCFO, can undertake budget virement of up to and including £100,000 under delegated authority subject to this virement not impacting upon current IJB, Council or NHS policies. Individual virements in excess of £10,000 must subsequently be reported to the IJB for noting through the budget monitoring reports. Budget virement in excess of this sum requires approval of the IJB.
- 6.8 It will be necessary for the IJBCO to issue a revised direction to the Parties in light of in-year budget virement.

Virement (In Year) – Large Hospital Services

- 6.9 All budget virement in respect of Large Hospital services will require approval of the IJB and the NHST and the reasons for this virement will be detailed in such a request e.g. changes in the timing of planned capacity changes from that outlined in the Strategic Plan.

Year End Budget Variances

6.10 Any surplus or deficit arising at the financial year end on the Strategic Budget will be addressed in accordance with the provisions for this detailed within the Integration Scheme as follows:-

Deficit

- Uncommitted Reserves held by the IJB would firstly be used to address any overspend;
- Via the risk sharing provisions between the Parties as set out in the Integration Scheme.

Surplus

- Retained in Reserves unless either a clear error has been made in calculating the budget Requisition or in other circumstances agreed through a tripartite agreement between the Parties and the IJB.

Reserves

6.11 The IJB is able to retain Reserves albeit these will be notional as the IJB will not hold cash balances. The IJB is required to set out and agree, therefore, a Reserves policy and strategy in the Strategic Plan.

7 ANNUAL ACCOUNTS

7.1 The annual accounts for the IJB are required to be prepared subject to the provisions of Section 106 of the Local Government (Scotland) Act 1973. As such the annual accounts – including a Governance Statement and Best Value Statement - will be undertaken in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

7.2 The IJBCFO will arrange for the preparation and submission of the IJBs annual accounts by the statutory deadline and sign the annual accounts.

7.3 The draft annual accounts and final accounts should be submitted to the IJB and Audit Committee (if applicable) for their scrutiny and review.

8 EXTERNAL AUDIT

8.1 The IJB will be subject of external audit by auditors appointed by the Accounts Commission. The IJB, IJBCO and IJBCFO are required to comply with all reasonable requests made by the auditors in completion of their external audit.

8.2 The IJBCFO will be the initial point of contact with external auditors for all matters in relation of the IJB's annual accounts.

9 TREASURY MANAGEMENT

9.1 The IJB will not undertake any cash transactions but rather these will be on a notional basis through the direction of expenditure undertaken by the Parties. Any cash correction arising as a result of variance between the Requisitions from and Directions to the Parties will be undertaken directly between the Parties without any adjustment for interest.

9.2 In light of the above the IJB will not operate a bank account.

10 PROCUREMENT

10.1 The Public Bodies (Joint Working) (Scotland) Act 2014 provides that the IJB may be empowered to contract itself to carry out the functions delegated to it.

10.2 Until such agreement is available, procurement activity will be undertaken by the respective Parties and in accordance with the guidance prevailing in the organisation to which the IJB has given operational direction for the use of financial resources. The IJBCO and IJBCFO will give ongoing consideration to whether there are financial or other benefits for either of the Parties to be directed to undertake particular areas of spends.

11 CHARGES FOR SERVICES

11.1 The IJB will not charge for services. These will rather be undertaken by the organisation to which the IJB has given operational Direction to deliver the services for which a charge is made in accordance with local policy and national guidance.

12 VALUE ADDED TAX (VAT)

12.1 The IJB is not currently delivering any supplies that are within the scope of VAT and is, therefore, not registered for VAT.

12.2 The IJBCO and IJBCFO must remain cognisant of possible VAT implications arising from the delivery of the Strategic Plan. The Parties will be consulted in early course on proposals which may have VAT related implications.

13 INSURANCE AND RISK MANAGEMENT

13.1 The IJB must establish a system of risk management for the functions delegated to it and maintain a Risk Register. This will ensure that risks faced by the IJB are identified and quantified and that effective measures are taken to reduce, eliminate or insure against them.

- 13.2 The IJB must make appropriate provision for insurance according to the extent of risk exposure of the IJB itself and in light of the risk management strategy applied by the IJB. These should be reviewed periodically.
- 13.3 The IJB will notify the IJB as soon as reasonably possible of any incidents of loss, damage or injury, which may give rise to a claim by or against the IJB.

14 INTERNAL AUDIT

- 14.1 The IJB shall establish adequate and proportionate internal audit arrangements for review of the adequacy of the arrangements for risk management, governance and control of the allocated resources,. This will include determining who will provide the internal audit service for the IJB and nominating a Chief Internal Auditor.
- 14.2 The Provision of internal audit services within the NHS and the Council will be contained within their respective and established arrangements.
- 14.3 The Internal Audit Service will undertake its work in compliance with the Public Sector Internal Audit Standards.
- 14.4 On or before the start of each financial year, the IJB's Chief Internal Auditor will prepare and submit a strategic risk based audit plan to the Audit Committee – or similar committee undertaking the functions - for approval. It is recommended this is shared for information with the relevant committee of the NHS and the Council.
- 14.5 The IJB's Chief Internal Auditor will submit an annual audit report of the Internal Audit function to the Chief Officer and the IJB (or Audit Committee) indicating the extent of audit cover achieved, a summary of audit activity during the year, and providing an opinion on the framework of internal control / assurance on the adequacy and effectiveness of internal controls. As a minimum the annual audit report and IJB Chief Internal Auditor's opinion will also be reported to the audit committee of the NHS Board and the Audit and Governance Panel of the Council.

14.6 The IJB, IJBCO and IJBCFO have a duty to inform the Council's Chief Internal Auditor and the NHS Counter Fraud Service of any suspicion of fraud, irregularity or any other matter concerning the contravention of the Financial Regulations affecting assets of the IJB or the Parties. The Chief Internal Auditor of the IJB will be notified by the Partners to be aware of any control weaknesses.

15 BREACH OF REGULATIONS

15.1 A breach of these Financial Regulations must be reported immediately to the Chief Officer, who may then discuss the matter with the NHS's Chief Executive, the Council's Chief Executive or another nominated or authorised person as appropriate to decide what action to take.

15.2 The Audit Committee - or similar committee discharging the function of an audit committee – will be notified of any material breach of the Financial Regulations.

16 BOARD MEMBERS' EXPENSES

16.1 This Financial Regulation details the IJB's requirements for the payment of IJB Board Members expenses.

16.2 Payment of voting Board Members' allowances, travel and subsistence expenses will be the responsibility of the Members' individual Council or NHST, and will be made in accordance with their own Schemes.

16.3 Non-voting members of the IJB will be the responsibility of the individual organisations, and will be made in accordance with their own Schemes for payment of travel and subsistence expenses.

16.4 Non-voting members are required to submit claims to the individual Council or NHST, and made in accordance with their own Schemes and/or arrangements as part of services agreed in their capacity as the role they are discharging e.g. Lead Clinician, third sector representative.

GLOSSARY

“The Act” means the Public Bodies (Joint Working) (Scotland) Act 2014;

Integration Scheme – this is a document agreed jointly by x Council and NHS Tayside which details the joint working procedures to be followed by Integrated Joint IJB

Parties – these are x Council and NHS Tayside

“Integrated Functions” means those functions and services delegated to the IJB by virtue of this Scheme;

“Integration Joint Board Order” means the Public Bodies (Joint Working) (Proceedings, Membership and General Powers of Integration Joint IJBs) (Scotland) Order 2014;

“IJB” means the Integration Joint IJB to be established by Order under section 9 of the Act, abbreviated to **“IJB”**

IJB Chief Officer (IJBCO) – that individual appointed by the Integrated Joint IJB to ensure delivery of the IJB’s Strategic Plan

IJB Finance Officer (IJBCFO) – that individual appointed by the Integrated Joint IJB to ensure governance of the IJB’s financial resources and provide financial advice to the IJBCO and IJB

Local Authority Section 95 Officer – this is the individual occupying the post within the local authority with responsibility for governance of financial resources in accordance with Section 95 of the Local Government (Scotland) Act 1973

Health Director Of Finance – that individual occupying the post within NHS Tayside with accountability for governance of financial resources

Requisition – this is the financial resources devolved by each of the Parties to the Integrated Joint IJB

Direction – this is the instruction from the IJB to each of the Parties to undertaken operational provision of services and the related financial resource level to undertake this (issued under section 26 of the Act)

“Payment” Term used in the legislation to describe the Integrated Budget contribution to the Integration Joint Board and does not require that a bank transaction is made. In addition the term used to describe the resources paid by the Integration Joint Board to the Health Board and the Local Authority for carrying out the directed functions.

Integrated Budget: Budget for the delegated resources for the functions set out in the Integration Scheme as specified in legislation (See “notional budget”).

Notional Budget: Activity based budget for commissioned hospital services used by the IJB population as set out in the Strategic Plan. This is the amount required to be set aside by the Health Board for use by the IJB.

Strategic Plan – means the plan which the IJB is required to prepare and implement in relation to the delegated provision of health and social care services to adults in accordance with section 29 of the Act.

Virement – the transfer of an under spend on one budget head to finance additional spending on another budget head. For the purposes of the IJB, represents the transfer of budget one are of “subjective” spend to another, i.e. staff costs, employee costs, property costs, etc. or the transfer of budget between Parties.

“Acute services” means those services set out in Part 2 of Annex 1 to the Scheme which are delivered within Ninewells Hospital and Perth Royal Infirmary, except medicine for the elderly services delivered at Perth Royal Infirmary (for which the Integration joint IJB will have operational delivery responsibility);

“Large Hospitals” means those hospitals which fall within the definition set out in section 1(14) of the Act; Means the functions that a Health Board proposes to delegate under an integration scheme which are carried out in the area of the Health Board and are provided for the areas of two or more local authorities. **(Section 1 (14))**. Note that it is possible that this definition could be interpreted as referring to community hospitals that provide care to people from more than local authority but this is not the intention of the legislation and will be clarified in the explanatory notes.

“Outcomes” means the Health and Wellbeing Outcomes prescribed by the Scottish Ministers in Regulations under section 5(1) of the Act;

“Perth and Kinross” means the local government area of Perth and Kinross as defined in the Local Government Etc. (Scotland) Act 1994;

VAT: Health Boards and Local Authorities have a different VAT status under the VAT Act 1994. Local Authorities have Section 33 status whereby they can recover VAT on non-business activities; and Health Boards have Section 41 status, whereby they can typically only recover VAT incurred on services (in accordance with contracted out services regulations). Local Authorities typically recover a greater proportion of VAT than Health Boards.

