NHS Highland

Highland Health Board

ANNUAL REPORT and ACCOUNTS

for

THE YEAR ENDED 31 MARCH 2019

Highland Health Board

INDEX

ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2019

THE PERFORMANCE REPORT

1. Overview

This overview summarises the key issues faced by NHS Highland in 2018/19, provides a broad description of the Board and its governance, looks at performance in the year towards the achievement of operational targets and looks ahead to the objectives to be addressed in 2019/20.

1.1 Chief Executive Statement

As expected, 2018/19 was a very challenging year for NHS Highland. The Board began the year with an anticipated financial deficit of £50.5m and ever increasing service demands due to the operational needs of serving a dispersed population across approximately 41% of the landmass of Scotland.

Nevertheless, due to a tight focus upon the prioritisation of essential expenditure, the identification and implementation of service efficiencies, an incredible amount of hard work and £18m of brokerage support from the Scottish Government, NHS Highland continued to provide first class health care to its population throughout the year.

Due to the scale of its financial challenges, NHS Highland has become one of four Boards escalated by the Scottish Government to level four on the NHS Scotland Governance Framework. This imposes special measures upon the Board and has required it to pursue a more structured and focused recovery programme, identifying the measures which will be taken to re-establish financial balance while at the same time fulfilling the Board's operational obligations. In response, NHS Highland has established a Programme Management Office to coordinate a far reaching and thorough review of all aspects of the Board's activities and to identify and implement service redesign initiatives aimed at modernising and increasing the efficiency of care delivery. This programme will involve as broad a spectrum of staff as possible and will be supported by external consultancy expertise so that lessons can be learned from successful change management programmes implemented elsewhere. The cost of this external support will be offset by efficiency savings actually achieved.

It has also been a time of difficulty in terms of how staff feel. It has been widely reported that, due to a number of allegations of a bullying culture within NHS Highland, John Sturrock QC was asked by Scottish Government to conduct an independent review into those allegations. The report was published on 9th May following a lengthy and thorough inquiry. I am very grateful to John Sturrock and to all of those who contributed to the compilation of this comprehensive report and I welcome its publication. The report contained a number of important conclusions and proposals which are currently being carefully considered and an action plan is being prepared. NHS Highland has taken a number of actions to reassure staff that it will not tolerate bullying and that everyone working within the service is important and worthy of respect. A separate review carried out by an independent expert, Sandy Gillanders, has already made a number of recommendations in relation to organisational development and these are also in the process of being implemented. As we go forward, our people will be central to our thinking. A recent audit on the culture within NHS Highland highlighted that our culture and communications are clear areas for management action. I am pleased to say that already with the appointment of a new Director of Corporate Communications; NHS Highland has seen the introduction of a number of initiatives to improve internal communications. This emphasis on people will continue until everyone within the Board feels valued and respected.

It has been a time of major organisational change with the departure of Chief Executive, Prof. Elaine Mead, in December 2018, interim leadership from Dr Gregor Smith in January prior to the arrival of Iain Stewart to take on the role of Chief Executive. February also saw the stepping down of previous Chair, David Alston, after 15 years of dedicated service to the Board who was

succeeded by Professor Boyd Robertson on an interim basis on 27th February pending the expected appointment of a permanent Chair later in 2019.

Dr. Rod Harvey announced his intended retirement on 31st August 2019. The Board has appointed Dr. Boyd Peters, previously Associate Medical Director as Interim Medical Director with effect from 1st April 2019 for six months, pending the identification and appointment of a permanent replacement. A number of other executive posts have been occupied during 2018/19 on an interim basis and, again, those will be substantively filled during 2019/20. These posts will form part of a wider reorganisation aimed at ensuring that the structure of the board is fit for the purpose of meeting the challenges ahead.

Throughout all of this change, staff across NHS Highland have consistently met the challenges placed before them and have demonstrated yet again that the NHS in Highland, Argyll & Bute is served by a dedicated and committed workforce of professionals in clinical and non-clinical roles.

NHS Highland has continued to demonstrate its commitment to quality improvement by working in accordance with its Highland Quality Approach (HQA). This enables the Board to deliver safe and effective care and, with its focus upon improvement, aims to embed new models of care which will be sustainable and meet future needs. It focuses on providing person-centred care while at the same time eliminating waste, reducing harm to patients and managing unwarranted variation in clinical practice. This approach places an explicit emphasis on how to optimise resources and is founded on the evidence that by focusing on quality and by being person centred, NHS Highland will achieve better health, better care and better value.

NHS Highland has created a staff award to promote the spirit and values captured in the Highland Quality Approach, highlighting individuals or teams who have epitomised the ideals of the scheme. Out of 25 nominations since April 2018, there have been three special merits, nine monthly HQA Awards and 10 certificates of Appreciation awarded to individuals and/or teams across NHS Highland.

As in previous years, NHS Highland has continued to experience difficulties in recruiting to some key clinical posts in both primary and secondary care. This has led to continued expenditure in the year in respect of medical locum services of around £15.6m. Efforts were made during the year to enable services to work more flexibly, making greater use of advanced nurse practitioners and other allied health professions.

The Board made considerable progress in the year towards the provision of new and redesigned hospital facilities.

The Full Business Case for the planned Elective Care Centre in Inverness was approved by the NHS Highland Board in March 2019 and has now received Planning Permission from The Highland Council. This is a significant investment by the Scottish Government and is being developed in partnership with the University of the Highlands & Islands and Highlands & Islands Enterprise, generating a different way of thinking about the delivery of care through research, development and local innovation. It will play a major part in ensuring that elective care can be provided all year round and will not be impacted upon by the demands of seasonal pressures.

Planning permission has been received for the building of the new Badenoch and Strathspey community hospital in Aviemore which will see the redesign of health and social care services in the area. The redesign involves the closure of Ian Charles Community Hospital (Grantown-On-Spey) and St Vincent's Community Hospital (Kingussie) with a new build Hospital and Medical Centre based in Aviemore, where the GP Practice will be co-located. Once completed, the new, modern facility will feature an innovative community hospital and health centre, bringing together inpatient services with Aviemore Medical Practice, the Scottish Ambulance Service and community health and care teams.

At the same time, and following engagement with local communities in Skye, Lochalsh and South West Ross, plans have moved ahead for the replacement of the hospital in Broadford with a new purpose built Community Hospital incorporating A&E facilities and expanded bed capacity. This is an innovative non-"By-Pass" A&E supported by Rural Practitioners (RPs) and supports the move towards bringing care closer to local people.

The Badenoch & Strathspey and Skye redesigns are bundled together as part of a capital funded Hub project and it is expected that work on the new community hospitals will commence in summer 2019 with a capital investment of around £40m.

With regard to service redesign, Sir Lewis Ritchie conducted a review of Out of Hours provision in the North of Skye where recruitment and accommodation issues had led to community concerns about the adequacy of service provision. Considerable community engagement took place and 15 themed recommendations were made to enhance the service provision for North Skye, alleviating some of the fears expressed by local people. Sir Lewis Ritchie revisited Skye on 28th May and noted that significant progress had been made in the implementation of his original recommendations for the Out-of-Hours health care provision in the area over the last six months.

As a direct consequence of the Ritchie review, NHS Highland has also now acted to augment and redesign GP and nurse provision on Raasay and Glenelg, facilitating better access to out of hours care. Successful recruitment is key to an effective implementation of these plans. Five new advanced nurse practitioners have now been recruited allowing for 24/7 Urgent Care provision at Portree Hospital. Adverts for 24/7 nursing provision on Raasay are soon to be posted and a second GP is to be recruited for Glenelg and Arnisdale.

Belford Hospital in Fort William has faced significant Medical and Surgical Consultant staffing problems for some years. Multiple recruitment campaigns have proved unsuccessful and there is a high dependency on Locums and so consultation has begun to look at the feasibility of developing a new hospital and wider redesign within Lochaber.

In January 2019, a detailed report was considered and recommendations approved at the Board summarising the output from a major consultation and engagement exercise into the potential redesign of health service provision for the Caithness area. The consultation has provided a way forward to develop ideas for the provision of hub care villages in Thurso and Wick linked to investment in Caithness General Hospital. The Caithness Redesign is one of a number of pathfinder projects shifting the balance of care and developing local care models across Scotland. The Scottish Government has approved the redesign plans. This now allows for the first step in the actual business case process to begin with the Initial Agreement being submitted to the Board meeting in the summer of 2019.

Throughout 2018/19, NHS Highland continued to develop the integration of health and social care services through partnerships established with The Highland Council and with Argyll & Bute Council.

In Primary Care, efforts have been made to implement the new GP contract which came into force on the 1st April 2019. Supported by the Primary Care Improvement Fund, the North Highland Health and Social Care partnership received £2.1m in 2018/19 which accounts for 70% of the allocation with the Scottish Government retaining the remaining 30% until 2019/20. This welcome funding is expected to rise to £7.11m by 2021/22. In Argyll & Bute, the same Fund provided £848k in 2018/19 which in turn is expected to rise to £2.38m by 2021/22.

As with many other areas in Scotland, NHS Highland has a number of key challenges in the recruitment of certain posts into the Nursing, Midwifery and Allied Health Professions (NMAHP). These challenges are more acute in remote and rural areas and include professional groups such as Occupational Therapy and Radiography. A number of work streams are underway to help address these challenges including local, regional and national approaches, such as, working with The Highland Council education department to build on the successful "So you

want to be a doctor" approach by developing a programme to raise awareness of AHP careers and provide practical experience in the workplace.

In keeping with a renewed focus upon developing a more open and transparent organisation, additional focus has been placed upon improving the quality of communications both internally and externally.

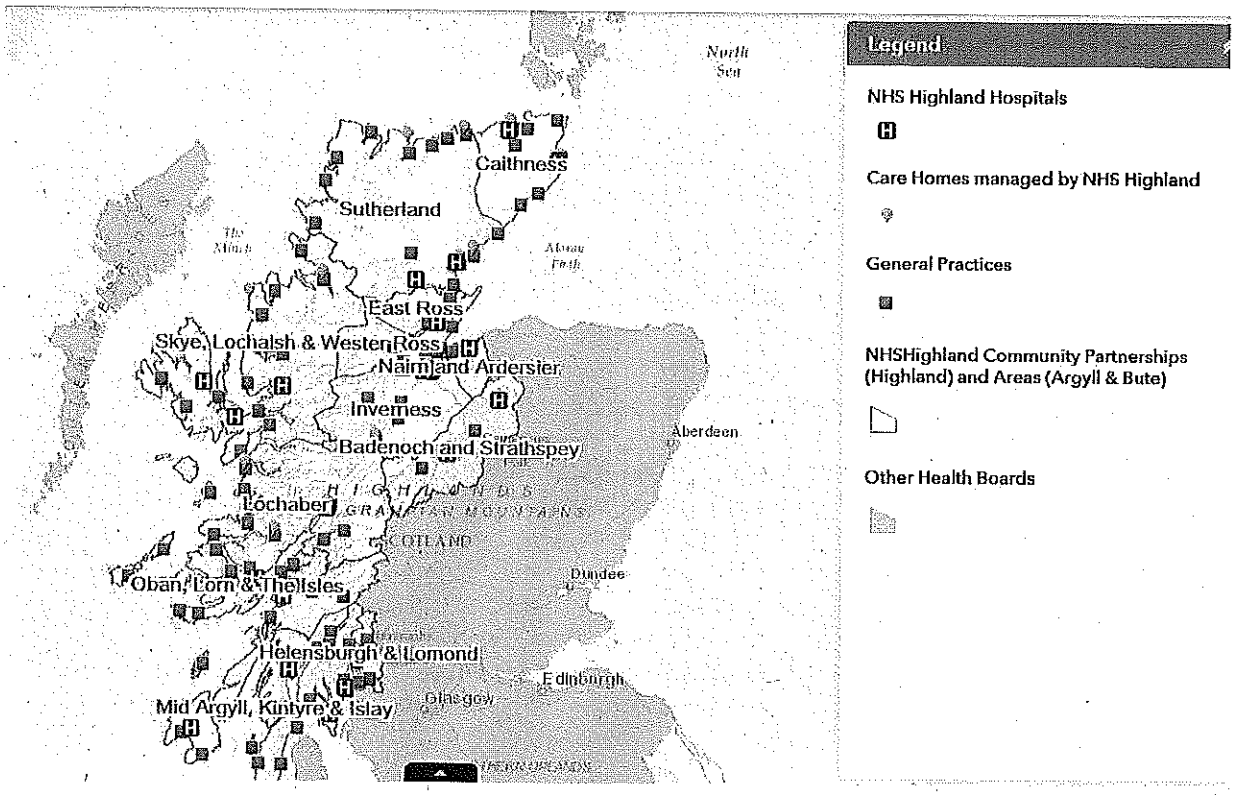
With the appointment of Jane McGirk as the new Director of Corporate Communications, a new team briefing system is already in place for all staff, a weekly Chief Executive bulletin has been introduced, a new magazine is in the pipeline and work is underway to update and expand the use of digital communications across the board.

Externally, work has been done to establish and strengthen relationships with political and community stakeholders whose support will be vital as the board tackles the many challenges ahead.

1.2 About NHS Highland

NHS Highland is one of fourteen territorial boards in NHS Scotland and covers the largest and most sparsely populated area. It employs approximately 10,500 people and provides health and social care services to a resident population of 320,000 (Map 1). The diverse geography includes Inverness, one of the fastest growing cities in Western Europe and 36 populated islands (23 in Argyll & Bute and 13 in Highland, excluding the Island of Skye connected to the mainland by a road bridge since 1995).

Map 1 Location of NHS Highland Hospitals, Care Homes and General Practices



The resident population provides a wide range of social and demographic challenges including areas of deprivation and inequality and issues arising from fuel poverty and transport difficulties. Above all, the challenge of providing services to some of Scotland's most remote communities remains significant and is central to the strategic planning of the Board.

In many parts of Highland, the NHS and other public sector agencies are major employers, with changes to services adversely affect already fragile areas. As an important partner in maintaining the social and economic vibrancy of the areas, concerns around health service quality or changes can and do generate considerable attention from communities, politicians and staff.

NHS Highland has a higher proportion of older people in the population than the Scottish average. Seasonal work is common and in some parts of Highland there are considerable difficulties in recruiting to some roles.

1.3 Structure and Governance arrangements

NHS Highland is now at level 4 in the Scottish Government escalation framework. In 2018/19, £18m of brokerage was required to achieve the statutory targets. For 2019/20 the Board has identified a recurrent gap of £39.5 million, with an estimated savings delivery within the Annual Operational Plan of £28.1 million. For 2019/20, the Annual Operational Plan highlights that there will be a gap and brokerage will be required from the Scottish Government to fund the gap and support a break-even financial position.

At present savings plans are being developed to demonstrate how the financial gap can be closed. However, there are risks around the identification and achievement of the savings and uncertainty on the required funding and brokerage Scottish Government will provide to fund NHS Highland over the next three years.

There is also a lack of clarity over how and when brokerage obtained from 2019/20 onwards would be required to be re-paid and this would need to be achieved over and above the significant savings required. Arrangements for longer term funding, including brokerage still need to be agreed with Scottish Government Health and Social Care Directorate.

NHS Highland is managed by a Board of 20 members comprised of 15 Non-Executive and 6 Executive Directors who are accountable to the Scottish Government through the Cabinet Secretary for Health and Sport. Executive Directors who are also board members are the Chief Executive, Board Medical Director and Interim Board Medical Director, Deputy CEO & Interim Director of Finance, Board Nurse Director and Director of Public Health.

The Board is responsible for the strategic planning of health services and the development of measures to improve the health of the communities in the Highlands and Argyll & Bute and is underpinned by a number of committees, including: Audit, Staff Governance, Clinical Governance, Area Clinical Forum, Highland Partnership Forum, Finance Sub-Committee and Health and Safety.

Board meetings are held every two months, are open to the public and are webcast, to make it ever more open and accessible. The Board has an Annual Review which is also open to the public.

The Board area includes two Local Authority areas, Highland and Argyll & Bute. Operationally, activities are managed by the Highland Health and Social Care Partnership (co-terminous with The Highland Council area) and Argyll & Bute Health and Social Care Partnership. (co-terminous with Argyll & Bute Council area).

NHS Highland and Argyll & Bute Council have integrated all Adult, Children's and Criminal Justice health and social care services in the form of Argyll and Bute Health and Social Care Partnership (ABHSCP). The ABHSCP also includes all health services, including acute hospital contracted services (those that are purchased from NHS Greater Glasgow and Clyde via a Service Level Agreement) and all Adult and Children and Families work. The partnership went live on 1 April 2016 as a body corporate entity.

Since 1 April 2012, health and social care in the Highland region has been formally integrated through the lead agency model. NHSH is the lead agent for the delivery of adult services across health and social and The Highland Council the lead agency for children's services. The arrangements are managed through the Highland Health and Social Care Partnership (HHSCP) which is responsible for providing acute care, emergency care, primary care, community based care and social care services.

The Headquarters Office for the Board is in Inverness, currently in Assynt House, 'Beechwood Park with facilities and local offices across all of the Board districts.

1.4 Priorities and Approach

All of the high profile issues identified above have led to a change in approach by NHS Highland. Looking forward, the case for change is undeniable and the coming year will see significant focus upon service transformation, financial balance and above all, people – those who are cared for and those delivering that care.

NHS Highland has established three core priority areas and its objectives throughout 2019/20 and beyond, outlined in the Board's Annual Operating Plan, will be focused upon these:

- **Patients & performance**: Ensuring that patients are at the heart of everything the Board does and that those receiving the care are fully engaged in determining how it is delivered.

- **People:** Ensuring that colleagues feel fully valued and are properly informed about the service within which they work.

- **Pounds and Pence**: Ensuring that NHS Highland continues to deliver its full range of services but at the same time achieves financial balance.

1.5 Objectives for 2019/20

In order to deliver the priorities, the key objectives described in the Annual Operating Plan as "next steps" are:

1. To support the financial recovery of the organisation. As this programme progresses through 2019/20 other key elements of the plan will be developed to address initial combined target of £39.5m of recurring savings.

2. To restructure the Senior Management Team and reorganising responsibilities and accountabilities. The Annual Operating Plan will be used to identify the key objectives with an increased focus on accountability, governance, strategy and performance management as the organisation moves forward.

3. Agreed tangible actions across the priority areas of improving waiting times, investment in mental health, greater pace and progress in integration of Health and Social Care couple with the need to identify good financial stewardship.

4. The development of a Service Delivery Strategy during 2019/20 to identify a sustainable operating model for NHS Highland which will help us achieve financial balance in the short-term and sustain quality, safe provision of healthcare services to our population into the future.

5. To work closely with North of Scotland Boards (NHS Grampian, NHS Orkney, NHS Shetland, NHS Tayside & NHS Western Isles) to deliver the Regional Delivery Plan once approved.

1.6 Key issues and risks

The key issues and risks facing NHS Highland are:

- **Financial balance** – The achievement of financial balance is entirely dependent upon the success of the Board's Recovery Plan and in particular the ability to engage the hearts and minds of staff across the Board and the many stakeholder partners who play a part in shaping services.

- **Service transformation and redesign** – It is widely recognised and accepted that services will have to be provided differently in the future. Nevertheless, communities can often be concerned about proposed service changes and there is a significant work to be done to reassure people that proposed changes will benefit rather than diminish service provision.

- **Workforce development** – The Board will have to review and implement the recommendations of the Sturrock Review into alleged bullying. A significant effort will to be made to ensure that everyone working within NHS Highland feels valued, respected and listened to.

- **Staff recruitment and retention** – Recognising that particular areas have particular problems in attracting healthcare professionals, further effort is required to identify innovative and flexible new models of care. More generally, actions taken to address workforce development should create a more attractive working environment within NHS Highland thereby attracting more professionals to want to work here.

1.7 Performance Summary

NHS Highland has not managed to fully meet the treatment time targets set by the Scottish Government. In elective care, as of March 2019, 54.4% of patients were treated within the 12 week target specified as compared to a national average of 68.4%. This has been affected by reduced capacity due to major upgrading works to theatres at Raigmore Hospital which are due to be complete in January 2020. However, in February 2019, following consultations with 42 different specialties, plans were adopted to improve this situation and those are described in the Annual Operational Plan. An additional mobile operating theatre is now in place to provide additional operating capacity.

In relation to cancer treatment waiting times, NHS Highland performance was 92.7 % for the month of March 2019, compared to the National position of 95.7% in respect to the 31 day Standard for the time taken from the decision to treat to the first treatment. The main pressures with the 31 day standard is in urology, particularly in Upper Tract surgery where the Board is reliant on a single handed practitioner. An additional Consultant Colorectal Surgery has recently taken up post.

In relation to the 62 day Standard for the time taken from urgent referral of suspected cancer to first treatment, NHS Highland has achieved 69.4% compliance in March 2019 compared with the national average of 81.6% due mostly to a lack of capacity in urology and all tumour types requiring a scope investigation. Increased demand has also been experienced following the introduction of the FIT test (faecal immunochemical test) as part of the national bowel screening programme. Partly in response to continued consultancy vacancies in Urology, an Advanced Nurse Practitioner has been appointed, one of the first such posts in Scotland. The Board is developing a urology strategy and is working regionally and nationally to improve patient pathways.

The target for outpatients is for 95% of all patients to have their appointment 12 weeks after referral and as of March 2019, NHS Highland achieved 74.5% compliance which compares favourably with a national average of 74.7%. Nevertheless, a programme of transformation in outpatients is underway to improve performance, e.g. patients could be seen by a non consultant clinician, such as an Allied Health Professional or Nurse Specialist, facilitating

redesigned patient pathways and creating extra capacity. A number of other initiatives such as reducing patient travel times, providing weekend clinics and streamlining the management of data will enable compliance to be improved.

NHS Highland has four Emergency Departments - Raigmore, Lorn and Islands, Belford Hospital and Caithness General Hospital. The board treated 95.6% of its emergency department patients within four hours as compared to a national target of 95% in March 2019. All four sites are experiencing increasing demand year on year so an Oversight Group was established in 2018 to monitor compliance of the four hour target. A structure was developed to deliver the required improvements which involve implementation groups based around the four departments with support from the local hospital and community teams who are charged with delivering this work in order to sustain the target. This is supported by the six Essential Actions Oversight Group which is made up of senior management personnel with the authority to unblock any barriers to progress.

In diagnostics, there has been an improvement in performance in relation to the Referral to Treatment target of 6 weeks for endoscopy and radiology. For radiology, the improved position has been a result of a mobile CT unit, mobile MRI unit, additional sessions with in-house team, recruitment of trainee sonographer and review of session templates to increase capacity. For endoscopy, there has been investment in nurse validation of waiting lists, increased session utilisation and additional weekend sessions.

Summary

In conclusion, it is clear that there is much to celebrate in terms of how NHS Highland has responded to the many challenges it has faced during the past year. Thanks are due to all of those people across the organisation who have worked tirelessly to ensure that the best possible care has always been available despite the many difficulties faced in delivering that care.

It is equally clear that much still remains to be done, particularly in terms of addressing the recommendations of the Sturrock Report and achieving financial balance. The new management team at NHS Highland will be focused in the year ahead upon rising to the many challenges it faces. The key to all of the challenges lies in creating a working environment which fully embraces service transformation and respects the needs of everyone involved in the provision of NHS services. In the year ahead, NHS Highland has an ideal opportunity to build upon the goodwill of its many stakeholders, both externally and internally, to create a genuine partnership which truly meets the needs of the population right across Highland and Argyll & Bute.

2 Performance Analysis

Annual Operational Plan 2018/19

The NHS Board measures its progress toward achieving the Scottish Government's 9 national health and wellbeing outcomes and the strategic improvement priority areas identified in the Annual Operational Plan (AOP) using a suite of performance indicators. The AOP gives detailed targets and trends for a number of key performance indicators towards achieving these outcomes. The Board also measures its performance against the financial targets set by the Scottish Government Health and Social Care Directorate. Performance against these targets is monitored by the management team and reported to the Board a quarterly basis.

As explained in more detail in the Governance Statement, the NHS Board has a formal system of risk identification and evaluation embedded throughout the organisation which seeks to manage risk and uncertainty. The Audit & Risk committee reviews and monitors all risks which are identified to it and produces an annual risk report. This has identified a number of corporate risks which the Board is currently managing and mitigating to ensure the achievement of the objectives of the AOP.

In addition we use a range of local measures and targets to encourage and track improvement. Performance is also reviewed in public each year at an Annual Review Meeting. The most recent AOP scorecard for NHS Highland can be found here The most recent Health & Wellbeing Outcomes for NHS North Highland can be found here for the Argyll & Bute Integrated Joint Board can be found here

Financial Performance

The Scottish Government set 3 budget limits at a health board level on an annual basis. These limits are:

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

Health boards are expected to contain their net expenditure within these limits, and will report on any variation from the limits as set.

		Limit as set by SGHSCD £000	Actual Outturn £000	Variance Underspend £000
	Revenue Resource Limit			
1	Core	714,703	714,559	144
	Non-core	27,216	27,216	0
	Capital Resource Limit			
2	Core	19,675	19,675	0
	Non-core	0	0	0
3	Cash Requirement	769,509	769,509	0

Memorandum For In Year Outturn	**£000**
Brought forward surplus from previous financial year	366
(Deficit) against in year total Revenue Resource Limit	(222)

2018/19 was further year of financial challenge for NHS Highland, with an initial financial gap totalling £50.5m. This compares to a target of £48m in 2017/18 and equated to around 8.3% of its baseline budget and 7.2% on its baseline plus Adult Services Quantum (a more meaningful comparison).

In recognition of the size of the challenge, NHS Highland set a deficit budget of £19m, leaving a savings target of £31.5m and indicated in the Annual Operational Plan (AOP) submitted to Government, that revenue brokerage would again be required and would likely be in the range of between £19m-£23m.

A number of cost pressures continued to be experienced during the year, including medical locum costs (£15m) and the cost of new drugs. In addition, there were significant increases in cost within the Service Level Agreement between Argyll & Bute and Greater Glasgow and Clyde Health Board.

At the end of the year, £26.7m of savings had been achieved, £4.8m short of the target set and £17.1m of this related to recurrent savings with a full year effect of £18.1m and financial break-

even was only achieved with the aid of financial brokerage of £18m from the Scottish Government.

The cumulative impact of non-recurrent savings plus the deficit budget set resulted in a carry forward of savings into 2019/20 of £32.4m, up from £26.7m the previous year. This is before any inflation or additional costs are factored into position.

In November 2018, the Board was escalated to level 4 on the on the NHS Scotland Governance Framework. This escalation has been the catalyst for a number of positive interventions including a major contribution from NHS Scotland to enhance the capacity and capability of NHS Highland to address the financial challenges, with the initial focus on 2019/20.

This has included a range of interventions and assistance including the commissioning of highly experienced external consultancy to provide support, capacity and expertise in the financial recovery process and the creation of a Programme Management Office (PMO) resource which is being established.

Ignoring brokerage, the Board's final outturn would have been an overspend on Revenue Resource Limit (RRL) of £17.9m however, the allocation of £18m of revenue brokerage allowed the Board to deliver its financial targets with an underspend of £144k on RRL and break even on Capital Resource Limit.

The outlook for 2019/20 remains challenging and the board faces a savings target of £39.5m (compared with £51.5m in 2018/19).

Considerable amounts of work are currently underway to develop plans and new ways of working to bring the Board back into financial balance. The pace of change is such that the plan is continually evolving and NHS Highland is currently predicting further brokerage required in 2019/20 of around £11m.

Bad debt provision of £631,000 this year (prior year £673,000) is based on all non-government debt outstanding greater than one year old except for Road Traffic Accidents reclaims which have been provided for if more than four years old. This is based on historical patterns of recovery for these debts.

Public Finance Initiative/Public Private Partnerships

Provision of Easter Ross Primary Care Resource Centre
Start date February 2005 ending January 2030.
This scheme is a redevelopment of County Hospital, Invergordon, into a Primary Care Centre and combines a community hospital and a health centre, integrating primary and community care into one community health resource. There is a twenty five year contract with an estimated capital value of £8.8 million and the PFI property will revert to the board at the end of the contract.

Provision of New Craigs Hospital
Start date July 2000 ending June 2025.
This scheme is a replacement for the Craig Dunain Hospital, Inverness, and provides in-Patients' facilities for adults with Mental Health needs or Learning Disabilities. There is a 25 year contract with an estimated capital value of £14.4 million. There are several options available to the board at the end of the contract but no decision has been made yet whether to extend, buy or terminate the agreement.

Provision of Mid Argyll Community Hospital and Integrated Care Centre, Lochgilphead
We financed the development of Mid Argyll Community Hospital and Integrated Care Centre in Lochgilphead by way of a PFI scheme. The period of the contract runs from June 2006 to May

NHS Highland has a zero tolerance approach to bribery and its commitment to the Bribery Act 2010 is set out within the Fraud Policy, Code of Conduct and a range of Board policies and procedures.

NHS Highland has developed and publicised a Whistleblowing Policy and is committed to ensuring that no member of staff who raises a genuine concern in good faith will be victimised or suffer for doing so. The Whistleblowing policy and process is subject to a national review which will further support the culture of speaking up.

Sustainability and Environmental Reporting

"The Climate Change (Scotland) Act 2009 set outs measures adopted by the Scottish Government to reduce emissions in Scotland by at least 80% by 2050. In 2015, an Order was introduced requiring all designated Major Players (of which NHS Highland is one) to submit an annual report to the Sustainable Scotland Network detailing compliance with the climate change duties imposed by the Act. The information returned by the Board is compiled into a national analysis report, published annually and superseding the prior requirement for public bodies to publish individual sustainability reports.

Further information on the Scottish Government's approach can be found in the Climate Change Plan 2018-2032 while national reports can be found at the following resource here

Events after the end of the reporting period
There are no events to report.

25 JUNE 2019 ..... Chief Executive

2036 at which point the ownership of the asset will transfer to the board. The estimated capital value of the project is £19.2 million.

Provision of Tain Health Centre

We have a service concession agreement with HUB North of Scotland Ltd for occupancy of the Tain Health Centre effective 24th May 2014. Under the terms of the agreement NHS Highland have a legal commitment to occupy the building for a period of 25 years and will incur annual charges for occupancy, maintenance and running costs. The ownership of the asset will transfer to the Board at the end of the 25 year agreement.

Family Health Services

In 2018, 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 Highland indicates that the level of income that could have been generated from dental and ophthalmic charges in the year to 31 December 2018 could potentially amount to £258,223.

Payment Policy

NHS Highland is committed to supporting the Scottish Government in helping businesses during the current economic situation by paying bills more quickly. The intention is to achieve payment of all undisputed invoices within 10 working days, across all public bodies.

The target has been communicated to all non-departmental public bodies, who are working towards the accelerated payment target of 10 working days.

Prior to this, the Board did endeavour 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.

	2018/19	2017/18
Average period of credit taken	11 days	11 days
Percentage of invoices paid within 30 days:		
- by volume	92.59%	91.19%
- by value	94.58%	92.29%
Percentage of invoices paid within 10 days:		
- by volume	84.92%	82.74%
- by value	86.07%	83.21%

Although the performance of meeting the 10 day target for taking credit (currently 11 days) has not been met, the number and value of invoices being paid within the 10 day period has improved. With improving performance during the latter part of 2018/19 and continuing into early 2019/20, the 10 day target is expected to be achieved in 2019/20.

Pension Liabilities

The accounting policy note for pensions is provided in Note 1 and disclosure of the costs is shown within Note 19 and the remuneration report.

Social Matters

NHS Highland is committed to leading and promoting Equality and Diversity, equal opportunities and supporting human rights in terms of the provision of health services for the community it serves and in its practice as an exemplar employer.

B THE ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

The Directors Report

The Directors present their report and the audited financial statements for the year ended 31 March 2019.

Date of Issue

Financial statements were approved by the Board and authorised for issue on 25 June 2019.

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 2016/17 to 2020/21 the Auditor General appointed, Grant Thornton UK LLP to undertake the audit of NHS Highland. 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

Under the terms of the Scottish Health Plan, the Health Board is a board of governance whose membership will be conditioned by the functions of the Board. Members of Health Boards are selected on the basis of their position or the particular expertise which enables them to contribute to the decision making process at a strategic level.

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

Non-Executive Members

David Alston	Board Chair - until 28 February 2019
James Brander	Non Executive Director
Alasdair Christie	Non Executive Director
Sarah Compton-Bishop	Non Executive Director
Robin Creelman	Non Executive Director – Until 31 March 2019 Chair of Argyll and Bute IJB
Ann Clark	Non Executive Director – Chair Highland Health and Social Care Committee from 29 January 2019
Mary Jean Devon	Argyll and Bute Council Local Authority Member
Michael Foxley	Non-Executive Member until 28 May 2018
Alasdair Lawton	Non-Executive Member
Deirdre MacKay	Highland Council Local Authority Member
Margaret Moss	Chair Area Clinical Forum from 29 May 2018 until 28 May 2022
Melanie Newdick	Non-Executive Member and Vice Chair of the Board

Adam Palmer (from 01/10/13)	Employee Director Staff Side Chair – Highland Partnership Forum
Ann Pascoe	Non-Executive Member
Professor Boyd Robertson	Chair of the Board – from 1 March 2019
Gaener Rodger	Non-Executive Member

Executive Members

Elaine Mead	Chief Executive – until December 31 2018
Gregor Smith	Interim Chief Executive - from 1 January to 31 January 2019
Iain Stewart	Chief Executive - from 31 January 2019
Rod Harvey	Medical Director
Heidi May	Nurse Director
Hugo Van Woerden	Director of Public Health
David Garden	Interim Director of Finance

The board members' responsibilities in relation to the accounts are set out in a statement following this report.

The statement of Board Members' responsibilities
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 2019 and of its operating costs for the year then ended. In preparing these accounts the Directors are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by 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 Ministers. 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.

Board members' and senior managers' interests

In line with statutory requirements, the Board maintains a register of Board Members' interests which is available online on our Internet site and is updated annually.

During the year, a number of current Directors/Senior Employees indicated interests in contracts or potential contractors with the Health Board work, these were:

NHS Highland Board Members Register of Interests
All Board Members are Highland Health Board Endowment Fund Trustees

Dr Roderick Harvey	British Medical Association
Alasdair Lawton	MacWilliams Consulting Ltd, Highland Events Ltd, Strathpuffer Ltd, Torridon and Kinlochewe Mountain Rescue Team
Elaine Mead	Calman Trust, Ireland East Hospital Group Board
Adam Palmer	UNISON
James Brander	RSPB
Alasdair Christie	Inverness, Badenoch and Strathspey CAB, Highland Council, Highlands and Islands Society for Blind People, Highland Third Sector Interface
Ann Clark	Partnership For Wellbeing Limited
David Garden	Health and Happiness in the Highlands
Anne Pascoe	Dementia Friendly Communities Ltd
Gaenor Rodger	Cairngorms National Park Authority, Highland Children's Forum
Hugo van Woerden	UHI Inverness, NICE, Member of Save The Storks
Sarah Compton-Bishop	Isle of Jura Development Trust, Jura Care Centre
Mary Jean Devon	Argyll and Bute Council
Deirdre Mackay	Highland Council, Brora Hub, Voluntary Group East Sutherland, East Sutherland CAB
Boyd Peters	Cairngorm Mountain Rescue Team
Heidi May	University of the Highlands and Islands

Directors third party indemnity provisions

There have been no third party indemnity provisions in place for any of the Directors at any time during the year.

Remuneration for non audit work

Our external auditors, Grant Thornton UK LLP, did not undertake any non-audit work on behalf of the Board.

Value of Land

The value of land (excluding land that has been declared surplus to requirements) recorded in our SoFP is at current value. Surplus land has been valued at Open Market Value.

Public Services Reform (Scotland) Act 2010
Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010 impose new duties on the Scottish Government and listed public bodies to publish information on expenditure and certain other matters as soon as is reasonably practicable after the end of each year. Data is published on our website –here

Personal Data Related Incidents
There are no incidents to disclose.

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 they ought reasonably to have taken as a director to make themselves aware of any relevant audit information and to establish that the Board's auditors are aware of that information.

The statement of the Chief Executive's as accountable officer, responsibilities
Under Section 15 of the Public Finance and Accountability (Scotland) Act, 2000, the Principal Accountable Officer (PAO) of the Scottish Government has appointed me as Accountable Officer of NHS Highland.

This designation carries with it, responsibility for:

- the propriety and regularity of financial transactions under my control;
- 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 Government Financial Reporting Manual have been followed and disclose and explain any material departures; and
- prepare the accounts on a going concern basis.

I confirm that the Annual Report and Accounts as a whole are fair, balanced and reasonable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that is fair, balanced and understandable.

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 to me in the Departmental Accountable Officers letter.

GOVERNANCE STATEMENT

Scope of Responsibility

As Accountable Officer, I am responsible for maintaining an adequate and effective system of internal control that supports compliance with the organisation's policies and promotes achievement of the organisation's aims and objectives, including those set by Scottish Ministers. Also, I am responsible for safeguarding the public funds and assets assigned to the organisation.

I took responsibility for governance when I was appointed Accountable Officer by Scottish Government in January 2019. Prior to this the Accountable Officer was Elaine Mead until 31st December 2018 and Dr Gregor Smith during January 2019.

On 1 March 2019 Boyd Robertson was appointed Chair of NHS Highland Board following the resignation of David Alston.

In accordance with IAS 27 – Consolidated and Separate Financial Statements, these Financial Statements consolidate the Highland Health Board Endowments Funds. This statement includes any relevant disclosure in respect of these Endowment Funds Accounts. The external auditors of the Endowment Funds accounts are the firm of accountants, Mackenzie Kerr Ltd.

Purpose of Internal Control

The system of internal control is based on an ongoing process designed to identify, prioritise and manage the principal risks facing the organisation. The system aims to evaluate the nature and extent of risks, and manage risks efficiently, effectively and economically.

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

The process within the organisation accords with guidance from Scottish Ministers in the Scottish Public Finance Manual (SPFM) and supplementary NHS guidance, and has been in place for the year up to the date of approval of the annual report and accounts.

The SPFM is issued by Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. The SPFM sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for efficiency, effectiveness and economy, and promotes good practice and high standards of propriety.

Governance Framework - Introduction

A pilot review of corporate governance across NHS Scotland began in NHS Highland in September 2017 and was completed in May 2018. The report was presented to the Board in July 2018 and an initial implementation plan submitted at the September 2018 meeting of the Board.

In February 2019, the NHS Scotland Blueprint for Good Governance was issued and a Good Governance Development Plan was created, incorporating the outstanding actions within the pilot review.

The Board made progress on the pilot Governance Review with assistance from the Good Governance Institute in October 2018 who facilitated a development session to reach a shared understanding of both the current maturity of, and future ambition for, the governance of the organisation. This employed the Good Governance Maturity Matrix. The Board Chair, Chief Executive and other Audit Committee Non Executive members attended On Board training on The Effective Audit and Risk Committee in October 2018.

The Board Secretary has completed a Cipfa Certificate in Corporate Governance and a refreshed governance map was produced in October 2018.

In November 2018, it was announced that NHS Highland had been escalated to level 4 within the Scottish Government's ladder of escalation and additional support measures and initiatives have been put in place to assist the Board in returning to financial balance. Level 4 reflects

"significant risks to delivery, quality, financial performance or safety" and where senior level executive support is required.

A Transformation Team has been established to support the Board through this process. This has involved the establishment of a Programme Management Office and a range of interventions and assistance, including the commissioning of external consultants to provide support, capacity and expertise in the financial recovery process. A PMO Director, reporting to the Executive Director of Finance & Corporate Services/Deputy Chief Executive, was appointed by NHS Highland on 5 March 2019.

Considerable amounts of work are currently underway to develop plans and new ways of working to bring the Board back into financial balance and this plan reflects work to date along with a balanced assumption on further progress with the aim of returning to financial balance over three years.

A review by Mr John Sturrock into Cultural Issues related to allegations of Bullying and Harassment in NHS Highland was commissioned by the Cabinet Secretary for Health and Sport in November 2018. This report was published in May 2019 and found that bullying or inappropriate behaviour has occurred within NHS Highland and the Board has apologised unreservedly to those members of staff who have not been treated according to the high standards expected. The board acknowledged that there were short comings in the way it dealt with the issues raised and committed to reflect upon how it must improve.

A draft Action Plan has been developed as a first step in addressing the proposals highlighted in the report findings. The intention is to build on and enhance the plan with ongoing positive engagement with staff and stakeholders. The Action Plan is structured around 5 themes:

- Communications & Engagement
- Human Resource Processes
- Organisation and Workforce Development
- Support for Staff
- Governance

Some short term measures have already been actioned and the response identifies actions for the medium-term (4-12 months) and long-term (over 12 months).

This initial plan has been provided to the Cabinet Secretary giving details of immediate actions the Board has taken/plans to take in respect of the recommendations made in the Sturrock report, of what support the Board has and will put in place for any member of staff who has been affected by bullying and harassment and details of the Board's plan for staff engagement and a timeline of when this will be carried out.

Governance Framework
NHS Highland's Governance Framework to support me as Accountable Officer in discharging my responsibilities, is outlined in the following section.

There are a number of Governance Committees which support me in the discharge of my responsibilities. Each of these Committees has a clear role and remit which is set out in NHS Highland's Standing Orders. The Standing Orders were last approved by the Board in November 2016 and Standing Financial Instructions were approved by the Board in May 2017. NHS Scotland Chairs' Group has established an NHS Corporate Governance Steering Group too commission and approve a model for effective administration arrangements for NHS Boards. This includes templates for Standing Financial Instructions, Schemes of Delegation, Sub-Committee Terms of Reference. This work is ongoing and we await the outcome of the review prior to revising NHS Highland Standing Orders and Standing Financial Instructions.

Each Governance Committee is chaired by a Non-Executive Director of the Board and has at least 2 Non-Executive Director members. All Board meetings are held in public and on occasion, where there is an item of a commercially sensitive nature, that item will be discussed in Private session. All minutes of all governance committees are available to the public on our website. The Board papers and agendas are published on our website and there is access through webcast to Board Meetings, providing all stakeholders with the opportunity to view the meetings. Each Governance Committee submits an annual report to the Audit Committee and the Board, which confirms that they have carried out their duties in accordance with their prescribed role.

The Board's key planned outcomes for 2018-2019 are set out in an Annual Operational Plan which outlines how we plan to deliver our key outcomes and draws together key planning assumptions which reflect the local system priorities and focusses on performance, finance and workforce. The Annual Operational Plan is agreed with the Scottish Government Health and Social Care Directorate annually.
The component parts of the Annual Operational Plan are monitored regularly through the Highland Health & Social Care Committee and the Argyll & Bute Integration Joint Board, which provide assurance to the Board that the operational units are on track to deliver the key objectives. This reporting includes financial performance across Highland to the Finance Sub-Committee which reports directly to the Board.

The Board's Governance Committees ensure compliance with relevant laws, regulations and policies and procedures, these include the Audit Committee, the Clinical Governance Committee and the Health and Safety Committee (which is a Committee of the Board).

The development needs of executive and non-executive directors are identified through a process of regular appraisal where individual learning and development needs are identified. New non-executive directors have an induction process which is part of training for all board members and we hold regular development sessions to address the needs of non-executive directors.

The Board seeks to promote good governance throughout its joint working with a wide range of organisations, Local Authority, 3rd Sector and other organisations both within and external to the NHS in particular through the Highland and Argyll and Bute Community Planning Partnerships.
The Integration Joint Board (IJB) for Argyll & Bute was formally established on 18 August 2015. The IJB assumed responsibility for managing resources on 1 April 2016, following the approval of its Strategic Plan.

Assurance on performance of the IJB is provided through the representation NHS Highland Board has on the IJB as its standing as a separate legal entity. The NHS Highland Board also receives a copy of the IJB performance report as per its production frequency to consider as part of its Board business schedule. The financial position relating to health services provided in Argyll & Bute are reported to the Board every meeting as part of the overall finance report to the Board. The overall financial position of the IJB is reported to each IJB meeting.

The NHS Highland Board has four places on the IJB who therefore are able to receive assurance regarding the IJB's overall financial position. Other forms of assurance flow through the operational management structure, with the IJB's Chief Officer jointly managerially accountable to the Board's Chief Executive and Council's Chief Executive. The IJB's Chief Finance Officer has a professional link to the Board's Director of Finance and there is a regular dialogue regarding the financial position.

Risk Management
NHS Highland is subject to the requirements of the SPFM and has complied with them, where relevant and applicable to NHS bodies. As part of these requirements, it must operate a risk management strategy in accordance with relevant guidance issued by Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

NHS Highland recognises that risk is inherent in the delivery of healthcare and that risk management should be part of an organisation's culture. The NHS Highland risk management policy is based on the philosophy that the management of risk should be holistic, supporting clinical, corporate, financial, and staff governance. The risk management policy provides a positive and proactive approach to risk management and a clear practical framework to assist all NHS Highland staff to reduce and control risks to patients, staff and others and to the organisation as a whole.

The risk management policy provides organisational guidance in terms of risk management principles, terms, definitions, models, frameworks and processes. It supports the NHS Highland Strategic Framework and the Highland Quality Approach, driving forward quality improvement in all aspects of the healthcare agenda. It supports the achievement of NHS Highland's objectives through effective risk management and consistent application of risk management methodologies.

The Risk Management Steering Group for the Board is a subcommittee of the Audit Committee. It oversees the corporate risks of the Board, ensuring that a risk register is maintained and updated regularly and that action is taken to mitigate risks identified. The Strategic Risk Register was submitted and reviewed by the Board on 26 March 2019 and is reported twice yearly. A review on the role and remit of the Group is currently being undertaken. A strategic risk management workshop for the Board and for the Executive team has been planned for August 2019.

Review of Adequacy and Effectiveness
As Accountable Officer, I am responsible for reviewing the adequacy and effectiveness of the system of internal control. My review is informed by:

- Executive and senior managers who are responsible for developing, implementing and maintaining internal controls across their areas;
- the work of the internal auditors, who submit to the Audit Committee regular reports which include their independent and objective opinion on the effectiveness of risk management, control and governance processes, together with recommendations for improvement; and
- comments by the external auditors in their management letters and other reports.

The Audit Committee meets regularly throughout the year with the specific remit to review and give assurances on the system of internal control. The Committee agrees the internal audit plan, considers the internal audit reports, reviews recommendations and ensures actions are undertaken that result from these reports.

Internal Audit reviews identify agreed actions to be undertaken. These are subsequently followed up to ensure these actions have happened within the timescales agreed. The Senior Management Team has been reviewing these on an ongoing basis and where previously agreed dates have slipped for the higher risk actions, ensuring that these are completed by the revised agreed dates. The Audit Committee continue to monitor and receive reports on progress to completion of all the actions.

The Audit Committee recognise the position with the implementation of Internal Audit recommendations across the organisation is not acceptable. The Committee is taking positive steps to improve implementation of the recommendations, while recognising the exposure to risk that the Board has by not implementing them. Consideration is being given to capacity and priority issues affecting implementation.

The Audit Committee has reported to the Board regularly and highlighted key issues throughout the year.

In particular, the following issues were raised at Board meetings:

- counter-fraud reports, including quarterly and annual performance
- GDPR issues had been reviewed as a standing item
- changes to the Audit Committee handbook
- an internal audit on the financial management and reporting system
- the Audit Committee's role in monitoring the governance review action plan
- internal audit report in support of culture to ensure processes and systems were in place for staff to voice issues of concern.

Disclosures

Financial Brokerage

NHS Highland required financial brokerage of £18m in 2018/19, in order to deliver financial breakeven. The need for brokerage was alerted to Board Members and Scottish Government as part of the Annual Operating Plan for the year which was presented to the Board on 27 March 2018. Brokerage requirements were reported and discussed at a number of Board and Committee meetings following this, and a formal request was made once the exact position was finalised on 24 April 2019 and the Scottish Government confirmed this funding in a letter dated 10 May 2019.

Treatment Time Guarantee

During 2018/19, NHS Highland has focused on reducing the number of Outpatients waiting longer than 12 weeks. This has been aimed at transforming and improving the services to bring them into balance with demand, as well as addressing the existing backlogs via additional funding from Scottish Government.

This has had the consequence of increasing the pace at which treatment referrals have been processed and therefore led to a net increase in treatment waiting times.

To manage treatment times, there have been a number of initiatives which have mitigated the rate of growth. This was achieved through a team approach of removing duplicate entries, providing additionality and reviewing patients who were erroneously on the waiting list with a booked date in the past.

NHS Highland continues to have a designated short stay elective unit which leads to a more effective scheduling process and fewer cancellations due to hospital flow, allowing approximately 80 to 100 additional procedures per month compared to 2016/17. There have also been dedicated wards identified for Orthopaedic elective and trauma patients. Investment in theatre equipment has also reduced the length of stay for some patients. The overall effect to inpatient treatment times, however, is that the breaching position has worsened with March 2019 position being 2,299.

For 2018/19, NHS Highland committed to further reducing the number of patients who were waiting longer than 12 weeks for a first appointment, particularly for Orthopaedics and Ophthalmology. In Ophthalmology the total number of patients waiting longer than 12 weeks for a first appointment reduced from 517 to 178 and for Orthopaedics from 410 to 385.

NHS Highland have a number of initiatives planned to continue to reduce the length of waiting time for patients in 2019/20, which is partially dependent on additional funding from the SGHD. Internal initiatives such as Active Clinical Referral Triage, eVetting, Clinical Dialogue, NHS Near Me and waiting list management will improve waiting times for outpatients and there is a targeted approach for improving the utilisation of theatres across NHS Highland to support a reduction in the waiting times for admissions.

Conclusion

No other significant control weaknesses or issues have arisen during the previous financial year and no significant failures have arisen in the expected standard for good governance, risk management and control.

I am able to conclude that taking account of the above statement and the assurances received from the Board's Committees that corporate governance was operating effectively throughout the financial year to 31st March 2019 and that plans are in place to further improve governance during 2019/20 as referred to in this statement.

REMUNERATION REPORT AND STAFF REPORT

Board members' and senior employees' remuneration

Board Members and Senior Employee Remuneration is subject to ministerial direction and the arrangements for payment are covered by Health Department instruction (currently PCS (ESM) 2018/01).

The implementation of these instructions is monitored by the Remuneration Sub Committee, whose membership is:

Prof Boyd Robertson, Board Chair
Melanie Newdick, Non Executive Director
Ann Clark, Chair Highland Health and Social Care Committee
Alasdair Lawton, Chair Staff Governance Committee
Sarah Compton Bishop, Vice/Cahir Argyll and Bute Integration Joint Board
Adam Palmer, Employee Director

Performance Related Pay has not been processed at the year end for 2018/2019.

Performance is assessed through a standardised performance management process which measures achievement against objectives.

All Non Executive Directors are appointed by the Scottish Government Ministers for a fixed term. All other Senior Managers are on permanent contracts.

Remuneration Report for the year ended 31 March 2019 (audited)

	Note	Gross Salary (Bands of £5,000)	Benefits in Kind (£'000)	Total Earnings in Year (Bands of £5,000)	Pension benefits (£'000)	Total Remuneration (Bands of £5,000)
Executive Members						
Chief Executive: Elaine Mead to 31/12/2018	a	105-110	1	105-110	18	125-130
Chief Executive: Iain Stewart from 28/01/2019	b	20-25		20-25	5	25-30
Interim Director of Finance: David Garden		90-95		90-95	46	135-140
Medical Director: Rod Harvey		185-190		185-190	NIL	185-190
Nursing Director: Heidi May		95-100		95-100	31	125-130
Director of Public Health & Health Policy: Hugo Van Woerden		155-160		155-160 SPPA data not available at signing		
Non Executive Members						
The Chair: David Alston to 28/02/2019	c	25-30	2	30-35		30-35
The Chair: Prof Boyd Robertson from 01/03/2019	d	0-5		0-5		0-5
Adam Palmer	e	45-50		45-50	12	55-60
Robin Creelman	f	10-15	3	15-20		15-20
Michael Foxley to 28/05/2018	g	0-5		0-5		0-5
Alasdair Lawton		5-10		5-10		5-10
Melanie Newdick	h	15-20	1	15-20		15-20
Ann Pascoe		5-10	2	10-15		10-15
Gaener Rodgers		5-10		5-10		5-10
Sarah Compton-Bishop		5-10	2	10-15		10-15
James Brander		5-10		5-10		5-10
Alasdair Christie		5-10		5-10		5-10
Deirdre MacKay		5-10		5-10		5-10
Mary-Jean Devon		5-10		5-10		5-10
Pamela Clark		5-10		5-10		5-10
Margaret Moss from 29/05/2018	i	65-70		65-70	8	75-80
Senior Employees						
Board Secretary: Ruth Daly		45-50		45-50	14	55-60
Director of Strategic Commissioning, Planning & Performance: Deborah Jones		120-125		120-125	21	140-145
Director of Adult Social Care: Joanna Macdonald to 30/09/2018	j	35-40	2	35-40	8	45-50
Chief Officer: David Park		110-115		110-115	28	140-145
Head of Public Relations & Engagement: Maimie Thompson to 31/01/2019	k	45-50		45-50	21	65-70
Director of Public Relations & Engagement: Jane McGirk from 13/12/2018	l	15-20		15-20	4	20-25

Notes

There are no bonus payments to disclose

The value of pension benefits accrued during the year is calculated as: the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual.

a The gross salary for Elaine Mead is for the period shown, the full year effect salary is in the range of 140-145

b The gross salary for Iain Stewart is for the period shown, the full year effect salary is in the range of 130-135

c The gross salary for David Alston is for the period shown, the full year effect salary is in the range of 30-35

d The gross salary for Prof Boyd Robertson is for the period shown, the full year effect salary is in the range of 30-35

e The gross salary for Adam Palmer includes salary in the range of 35-40 for full time employee director role

f The gross salary for Robin Creelman includes additional remuneration as a member of the Integrated Joint Board

g The gross salary for Michael Fowley is for the period shown, the full year effect salary is in the range of 5-10

h The gross salary for Melanie Newdick includes an additional responsibility allowance for being Chair of HHSCC (part year) and Vice Chair of the Board

I The gross salary for Margaret Moss includes salary in the range of 60-65 for her full time role as Lead AHP

j The gross salary for Joanna MacDonald is for the period shown, the full year effect salary is in the range of 75-80

k The gross salary for Maimie Thompson is for the period show, the full year effect salary is in the range of 50-55

l The gross salary for Jane McGirk is for the period shown, the full year effect salary is in the range of 65-70

Remuneration Report for the year ended 31 March 2019 (audited)

	Accrued pension at pensionable age as at 31 Mar 18 (bands of £5,000)	Total accrued lump sum at pensionable age (bands of £5,000)	Real increase in pension at pensionable age (bands of £2,500)	Real increase in lump sum at pensionable age (bands of £2,500)	Cash Equivalent Transfer Value (CETV) at 31 Mar 19 £000	Cash Equivalent Transfer Value (CETV) at 31 Mar 18 £000	Real increase in CETV in year £000
Executive Members							
Chief Executive: Elaine Mead to 31/12/2018	50-55	155-160	0-2,500	2,500-5,000	1,220	1,157	47
Chief Executive: Iain Stewart from 28/01/2019	0-5	N/A	0-2,500	N/A	5	N/A	5
Interim Director of Finance: David Garden	25-30	60-65	2,500-5,000	2,500-5,000	505	453	52
Medical Director: Rod Harvey	70-75	220-225	(0-2,500)	(5,000-7,500)	1,770	1,812	(42)
Nursing Director: Heidi May	15-20	40-45	0-2,500	0-2,500	358	321	37
Director of Public Health & Health Policy: Hugo Van Woerden	SPPA data not available at signing						
Non Executive Members							
The Chair: David Alston to 28/02/2019							
The Chair: Prof Boyd Robertson from 01/03/2019							
Adam Palmer	15-20	45-50	0-2,500	0-2,500	273	255	15
Robin Creelman							
Michael Foxley to 28/05/2018							
Alasdair Lawton							
Melanie Newdick							
Ann Pascoe							
Gaener Rodgers							
Sarah Compton-Bishop							
James Brander							
Alasdair Christie							
Deirdre MacKay							
Mary-Jean Devon							
Pamela Clark							
Margaret Moss from 29/05/2018	20-25	70-75	0-2,500	0-2,500	532	505	19
Senior Employees							
Board Secretary: Ruth Daly	0-5	N/A	0-2,500	N/A	31	20	11
Director of Strategic Commissioning, Planning & Performance: Deborah Jones	45-50	115-120	0-2,500	(0-2,500)	995	950	45
Director of Adult Social Care: Joanna Macdonald to 30/09/2018	10-15	N/A	0-2,500	N/A	145	134	11
Chief Officer: David Park	0-5	N/A	0-2,500	N/A	58	31	27
Head of Public Relations & Engagement: Maimie Thompson to 31/01/2019	10-15	25-30	0-2,500	0-2,500	234	209	25
Director of Public Relations & Engagement: Jane McGirk from 13/12/2018	0-5	N/A	0-2,500	N/A	4	NIL	4

Remuneration Report for the year ended 31 March 2018 (audited)

	Gross Salary (Bands of £5,000)	Benefits in Kind (£'000)	Total Earnings in Year (Bands of £5,000)	Pension benefits (£'000)	Total Remuneration (Bands of £5,000)
Executive Members					
Chief Executive: Elaine Mead	135 - 140	3.8	135 - 140	30	165 - 170
Director of Finance: Nick Kenton until 03/07/2017	25 - 30		25 - 30		25 - 30
Interim Director of Finance: David Garden from 01/10/2017	40 - 45		40 - 45	48	90 - 95
Medical Director: Rod Harvey	185 - 190		185 - 190	NIL	185 - 190
Nursing Director: Heidi May	90 - 95		90 - 95	25	115 - 120
Director of Human Resources: Anne Gent until 30/09/2017	50 - 55		50 - 55		50 - 55
Director of Public Health & Health Policy: Hugo Van Woerden	155 - 160		155 - 160 SPPA data not available at signing		
Non Executive Members					
The Chair: David Alston	30 - 35	2.1	30 - 35		30 - 35
Adam Palmer *	40 - 45		40 - 45	NIL	40 - 45
Robin Creelman	10 - 15	2.3	15 - 20		15 - 20
Jaci Douglas until 30/04/2017	0 - 5	0.1	0 - 5		0 - 5
Myra Duncan until 31/05/2017	0 - 5	0.7	0 - 5		0 - 5
Mike Evans until 19/04/2017	0 - 5		0 - 5		0 - 5
Andrew Evennett until 16/01/2018	5 -10		5 -10		5 -10
Michael Foxley	5 -10	0.3	5 -10		5 -10
Alasdair Lawton	5 -10		5 -10		5 -10
John McAlpine until 30/04/2017	0 - 5	0.5	0 - 5		0 - 5
Melanie Newdick	20 - 25	1.1	20 - 25		20 - 25
Ann Pascoe	5 -10	1.9	10 -15		10 -15
Gaener Rodgers	5 -10		5 -10		5 -10
Elaine Wilkinson until 21/08/2017	0 - 5	0.6	0 - 5		0 - 5
Sarah Compton-Bishop from 28/11/2017	0 - 5	0.2	0 - 5		0 - 5
James Brander from 28/11/2017	0 - 5	0.2	0 - 5		0 - 5
Alasdair Christie from 28/11/2017	0 - 5		0 - 5		0 - 5
Deirdre MacKay until 14/06/2017	5 - 10		5 - 10		5 - 10
Mary-Jean Devon from 07/06/2017	5 - 10		5 - 10		5 - 10
Pamela Clark from 01/04/2017	5 - 10		5 - 10		5 - 10
Senior Employees					
Director of Adult Care: Jan Baird	45 - 50		45 - 50		45 - 50
Board Secretary: Ruth Daly	40 - 45		40 - 45	13	50 - 55
Director of Strategic Commissioning, Planning & Performance: Deborah Jones	115 - 120		115 - 120	15	135 - 140
Director of Adult Social Care: Joanna Macdonald	75 - 80	3.1	75 - 80	21	100 -105
Director of Operations: Gill McVicar until 16/10/2017 **	85 - 90		85 - 90	14	100 -105
Chief Officer: David Park from17/10/2017	105 - 110		105 - 110	26	130 - 135
Head of Public Relations & Engagement: Maimie Thompson	50 - 55		50 - 55	15	65 - 70

Footnotes

There are no bonus payments to disclose

The value of pension benefits accrued during the year is calculated as: the real increase in pension multiplied by 20 plus the real increase in any lump sum less the contributions made by the individual.

*Employee Director includes 35,000 - 40,000 in respect of other duties

** Bandings relate to full year salary

Remuneration Report for the year ended 31 March 2018 (audited)

	Accrued pension at pensionable age as at 31 Mar 18 (bands of £5,000)	Total accrued lump sum at pensionable age (bands of £5,000)	Real increase in pension at pensionable age (bands of £2,500)	Real increase in lump sum at pensionable age (bands of £2,500)	Cash Equivalent Transfer Value (CETV) at 31 Mar 18 £000	Cash Equivalent Transfer Value (CETV) at 31 Mar 17 £000	Real increase in CETV in year £000
Executive Members							
Chief Executive: Elaine Mead	45 - 50	145 - 150	0 - 2.5	5 - 7.5	1096	1019	56
Director of Finance: Nick Kenton until 03/07/2017							
Interim Director of Finance: David Garden from 01/10/2017	20 - 25	55 - 60	2.5 - 5	2.5 - 5	438	386	53
Medical Director: Rod Harvey	70 -75	220 - 225	(0-2.5)	(5-7.5)	1734	1777	(43)
Nursing Director: Heidi May	15 - 20	40 - 45	1.75 - 2	0 - 2.5	302	269	33
Director of Human Resources: Anne Gent until 30/09/2017							
Director of Public Health & Health Policy: Hugo Van Woerden	SPPA data not available at signing						
Non Executive Members							
The Chair: David Alston							
Adam Palmer *	10 - 15	40 - 45	(0-2.5)	(0-2.5)	293	291	(2)
Robin Creelman							
Jaci Douglas until 30/04/2017							
Myra Duncan until 31/05/2017							
Mike Evans until 19/04/2017							
Andrew Evennett until 16/01/2018							
Michael Foxley							
Alasdair Lawton							
John McAlpine until 30/04/2017							
Melanie Newdick							
Ann Pascoe							
Gaener Rodgers							
Elaine Wilkinson until 21/08/2017							
Sarah Compton-Bishop from 28/11/2017							
James Brander from 28/11/2017							
Alasdair Christie from 28/11/2017							
Deirdre MacKay until 14/06/2017							
Mary-Jean Devon from 07/06/2017							
Pamela Clark from 01/04/2017							
Senior Employees							
Director of Adult Care: Jan Baird							
Board Secretary: Ruth Daly	0 - 5	NIL	0 - 2.5	NIL	21	10	11
Director of Strategic Commissioning, Planning & Performance: Deborah Jones	45 - 50	115 - 120	0 - 2.5	(0-2.5)	898	855	43
Director of Adult Social Care: Joanna Macdonald	10 - 15	NIL	0 - 2.5	NIL	130	108	22
Director of Operations: Gill McVicar until 16/10/2017 **	15 - 20	55 - 60	0 - 2.5	2.5 - 5.0	432	395	25
Chief Officer: David Park from17/10/2017	0 - 5	NIL	0 - 2.5	NIL	32	6	26
Head of Public Relations & Engagement: Maimie Thompson	10 - 15	25 - 30	0 - 2.5	0 - 2.5	198	179	19

2018 (audited)		2019 (audited)	
Range of staff remuneration	5,000–430,000	Range of staff remuneration	5,000-350,000
Highest Earning Director's Total Remuneration (£000s)	187,000	Highest Earning Director's Total Remuneration (£000s)	189,000
Median Total Remuneration	27,730	Median Total Remuneration	28,110
Ratio	6.76	Ratio	6.67

- Number of senior staff by band

Employees whose remuneration fell within the following ranges:

	2019	2018
Clinicians	**Number of Staff**	**Number of Staff**
£70,001 - £80,000	41	63
£80,001 - £90,000	49	56
£90,001 - £100,000	48	49
£100,001 - £110,000	33	32
£110,001 - £120,000	37	31
£120,001 - £130,000	24	24
£130,001 - £140,000	20	25
£140,001 - £150,000	20	25
£150,001 - £160,000	22	15
£160,001 - £170,000	10	12
£170,001 - £180,000	3	4
£180,001 - £190,000	7	6
£190,001 - £200,000	1	1
£200,001 and above	9	8

	2019	2018
Other	**Number of Staff**	**Number of Staff**
£70,001 - £80,000	14	12
£80,001 - £90,000	4	3
£90,001 - £100,000	4	2
£100,001 -£110,000	1	1
£110,001 - £120,000	1	1
£120,001 - £130,000	1	1
£130,001 - £140,000	0	0
£140,001 - £150,000	0	0
£150,001 - £160,000	0	0
£160,001 - £170,000	0	0
£170,001 - £180,000	0	0
£180,001 - £190,000	0	0
£190,001 - £200,000	0	0
£200,001 and above	0	0

STAFF NUMBERS AND COSTS (audited)

	Executive Board Members £000	Non Executive Members £000	Permanent Staff £000	Inward Secondees £000	Other Staff £000	Outward Secondees £000	2019 Total £000	2018 Total £000
STAFF COSTS								
Salaries and wages	665	158	298,287			(978)	**298,132**	**293,172**
Social security costs	86	8	29,002			(130)	**28,966**	**29,108**
NHS scheme employers' costs	67		39,902			(128)	**39,841**	**40,091**
Inward secondees				29			**29**	**35**
Agency staff					16,510		**16,510**	**16,202**
TOTAL							**383,478**	**378,608**

This note was a standalone note in earlier years and as such other employers pension costs was included but not included 1819 onwards due to national coding

Employee expenditure as above	383,478
Add employee income included in Note 4	1,236
Total employee expenditure disclosed in note 3	384,714

STAFF NUMBERS

	Executive Board Members	Non Executive Members	Permanent Staff	Inward Secondees	Other Staff	Outward Secondees	2019 Total	2018 Total
Whole time equivalent (WTE)	5	14	8,527	1	40	(23)	**8,564**	**8,722**

Included in the total staff numbers above were disabled staff of: **108**

STAFF COMPOSITION

Staff composition – an analysis of the number of persons of each sex who were directors and employees

	2018			2019		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executive Directors	3	2	5	4	1	5
Non Executive Directors and Employee Director	7	7	14	6	8	14
Senior Employees	1	4	5	1	3	4
Other	2,377	12,231	14,608	2,643	10,959	13,602
Total Headcount	**2,388**	**12,244**	**14,632**	**2,654**	**10,971**	**13,625**

SICKNESS ABSENCE

	2018	2019
Sickness Absence Rate	5.2%	5.2%

- Staff policies applied during the financial year relating to the employment of disabled persons.

  - For giving full and fair consideration to applications for employment by the Board made by disabled persons, having a regard to their particular aptitudes and abilities;

    NHS Highland continues to operate a Job Interview Guarantee (JIG), which means that if an applicant has a disability, and meets the minimum criteria outlined within the person specification, they will be guaranteed an interview. However, some disabled applicants prefer not to take this option, so they have an option on our application form to indicate whether they wish to participate in this scheme or not.

    NHS Highland was awarded Disability Confident Status in November 2016, and is working towards the 'Leader' status. This scheme replaces the previous 2 ticks scheme;

  - For continuing the employment of, and for arranging appropriate training for, employees of the Board who have become disabled persons during the period when they were employed by the Board;

    NHS Highland's policy for the Management of Capability is utilised to support staff to continue in employment should their health condition affect their ability to perform their existing role.

    Reasonable adjustments, where possible are considered to support staff to maintain their employment and this is reviewed on a regular basis by the Manager with Personnel support.

    In the event that a reasonable adjustment cannot be made alternative suitable employment via the utilisation of NHS Highland's Redeployment Policy is considered to allow continuation of employment.

  - Otherwise for the training, career development and promotion of disabled persons employed by the Board;

    All staff have a responsibility for Equality and Diversity for themselves, colleagues and/or patients/clients. As part of NHS Highland's responsibility to mainstream equalities, NHS Highland has four staff outcomes to ensure employees with protected characteristics are not discriminated upon and are treated with dignity, respect and due regard for their needs as employees.

OUTCOME	PROTECTED CHARACTERISTIC
Continue to work as a Stonewall Diversity Champion to promote LGBT equality in the workplace	Sexual Orientation
Achieve Disability Confident Leader Status	Disability
Increase the number of staff completing equalities monitoring forms	All
Achieve exemplary status in the Carer Positive Award	All
Increase completion rates of the Equality and Human Rights training module to 80% by April 2018	All
Transfer Adult Social Care staff to Agenda for Change terms and conditions by 2020	All

EXIT PACKAGES – current year – none to disclose

EXIT PACKAGES – prior year

	Number of other Departures - Agreed	Total Number of Exit Packages by cost band	Total Resource Cost (£000)
£25,000 - £50,000	1	1	30
Total Number of Exit Packages by Type	**1**	**1**	**30**

TRADE UNION DISCLOSURE

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. The regulations place a legislative requirement on relevant public sector employers to collate and publish, on an annual basis, a range of data on the amount and cost of facility time within their organisation. The table below details the necessary statutory disclosure data in terms for those that were employed to undertake trade union duties in fiscal year to March 2019.

Number of employees who were relevant union officials during the fiscal year to March 2019	15
WTE employee number	6.1
Percentage of time	**Number of Representatives**
0%	0
1-50%	10
51%-99%	0
100%	5
	£000
Total Cost of facility time	2,438
Total Pay Bill	384,714
Percentage Pay Bill on facility time and union duties	0.63%

PARLIAMENTARY ACCOUNTABILITY REPORT

Losses and Special Payments

On occasion, the Board is required to write off balances which are no longer recoverable. Losses and special payments require formal approval to regularise such transactions and their notation in the annual accounts.

The write-off of the following losses and special payments has been approved by the board:

	No. of cases	£000
Losses	552	3,343

There were 2 claims individually greater than £250,000 settled under the CNORIS scheme in 2018/19 and 2 in 2017/18. Further details on the scheme can be found in note 1 (accounting policies) of the annual accounts.

The Board is also required to provide for CNORIS claims notified to it and which will be settled at a future date; details of these provisions can be found in note 17.

Signed: Date: 25 JUNE 2019

Chief Executive

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

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Highland Health Board and its group for the year ended 31 March 2019 under the National Health Service (Scotland) Act 1978. The financial statements comprise the Consolidated Statement of Net Expenditure, the Consolidated Statement of Financial Position, the Statement of Consolidated Cash Flow, the Statement of Consolidated Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (the 2018/19 FReM).

In our opinion the accompanying 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 the affairs of the board and its group as at 31 March 2019 and of the net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM; and
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is three years. We are independent of the board and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the board. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Chief Executive's Responsibilities as the Accountable Officer, the Accountable Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the ability of the board and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration and Staff Report, and our independent auditor's report. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Auditor General for Scotland to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit
- there has been a failure to achieve a prescribed financial objective.

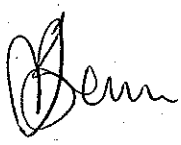
We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

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 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.



Joanne Brown, (for and on behalf of Grant Thornton UK LLP),

110 Queen Street

Glasgow

G1 3BX

28 JUNE 2019

STATEMENT OF CONSOLIDATED COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2019

2018 £000		Note	2019 £000
378,608	Staff Costs	3a	384,714
	Other operating expenditure	3b	
86,140	Independent Primary Care Services		91,968
122,420	Drug and medical supplies		124,169
518,587	Other health care expenditure		539,056
1,105,755	Gross expenditure for the year		**1,139,907**
(355,850)	Less: operating income	4	(367,809)
220	Associates and join venture accounted for on an equity basis		0
750,125	**Net Expenditure for the year**		**772,098**

OTHER COMPREHENSIVE NET EXPENDITURE

2018 £000		2019 £000
(8,465)	Net (gain) on revaluation of property, plant and equipment	(5,569)
(11,198)	Actuarial Change in Local Government Pension	4,128
(19,663)	**Other comprehensive expenditure**	**(1,441)**
730,462	**Comprehensive net expenditure**	**770,657**

The Notes to the Accounts, numbered 1 to 24, form an integral part of these Accounts.

SUMMARY OF CORE RESOURCE OUTTURN
for the year ended 31 March 2019

	Note	2018 £000	2019 £000
Net Expenditure	SoCNE		**772,098**
Total Non Core Expenditure (see below)			(27,216)
Family Health Services Non-Discretionary Allocation			(30,911)
Donated Asset Income	2a		662
Endowment Net Expenditure			(74)
Associates and joint ventures accounted for on an equity basis			0
Total Core Expenditure			**714,559**
Core Revenue Resource Limit			714,703
Saving/(excess) against Core Revenue Resource Limit			**144**

SUMMARY OF NON CORE REVENUE RESOURCE OUTTURN

Capital Grants to Other Bodies		0	
Depreciation/Amortisation		14,597	
Annually Managed Expenditure - Impairments		1,421	
Annually Managed Expenditure – Creation of Provisions		49	
Annually Managed Expenditure – Depreciation of Donated Assets	2a	167	
Annually Managed Expenditure – pension valuation		4,535	
Additional Scottish Government non-core funding		5,744	
IFRS PFI Expenditure		703	
Total Non Core Expenditure			**27,216**
Non Core Revenue Resource Limit			27,216
Saving/(against) Non Core Revenue Resource Limit			**0**

SUMMARY RESOURCE OUTTURN	**Resource**	**Expenditure**	**Saving**
	£000	**£000**	**£000**
Core	714,703	714,559	144
Non Core	27,216	27,216	0
Total	**741,919**	**741,775**	**144**

Details on brokerage is explained on both pages 11 and 23.

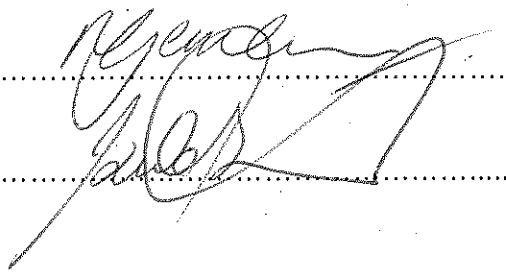
The Notes to the Accounts, numbered 1 to 24, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 March 2019

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
		Non-current assets:			
345,185	345,185	Property, plant and equipment	7c	354,180	354,180
2,681	2,681	Intangible assets	6a	2,706	2,706
		Financial assets:			
8,791	116	Investments	10	8,528	113
		Investments in associated and joint ventures			0
15,754	15,754	Trade and other receivables	9	20,487	20,487
372,411	**363,736**	**Total non-current assets**		**385,901**	**377,486**
		Current Assets:			
6,248	6,248	Inventories	8	6,407	6,407
		Intangible assets	6b	0	0
		Financial assets:			
53,527	54,040	Trade and other receivables	9	42,605	42,733
1,080	210	Cash and cash equivalents	15	1,035	198
60,855	**60,498**	**Total current assets**		**50,047**	**49,338**
433,266	**424,234**	**Total assets**		**435,948**	**426,824**
		Current liabilities:			
(23,923)	(23,923)	Provisions	13a	(8,358)	(8,358)
		Financial liabilities:			
(85,111)	(85,090)	Trade and other payables	12	(89,577)	(89,559)
(109,034)	**(109,013)**	**Total current liabilities**		**(97,935)**	**(97,917)**
324,232	**315,221**	**Non-current assets plus/less net current assets/liabilities**		**338,013**	**328,907**
		Non-current liabilities			
(34,856)	(34,856)	Provisions	13a	(47,039)	(47,039)
		Financial liabilities:			
(33,147)	(33,147)	Trade and other payables	12	(31,177)	(31,177)
(68,003)	**(68,003)**	**Total non-current liabilities**		**(78,216)**	**(78,216)**
256,229	**247,218**	**Assets Less liabilities**		**259,797**	**250,691**
		Taxpayers' Equity			
119,947	119,947	General fund	SoCTE	120,050	120,050
108,824	108,824	Revaluation reserve	SoCTE	111,787	111,787
18,447	18,447	Other reserves	SoCTE	18,854	18,854
		Other reserves – associated and joint ventures	SoCTE	0	0
9,011		Fund held on trust	SoCTE	9,106	0
256,229	**247,218**	**Total taxpayers' equity**		**259,797**	**250,691**

The Notes to the Accounts, numbered 1 to 24, form an integral part of these Accounts.

The financial statements on pages 39 to 41 were approved by the Board on 25 June 2019 and signed on their behalf by:



.....Director of Finance

.....Chief Executive

STATEMENT OF CONSOLIDATED CASH FLOWS
for the year ended 31 March 2019

2018 £000		Note	2019 £000	2019 £000
	Cash flows from operating activities			
(750,125)	Net operating cost	SoCTE	(772,098)	
30,154	Adjustments for non-cash transactions	2a	16,669	
2,879	Add back: interest payable recognised in net operating cost	2b	2,473	
(19)	Deduct: interest receivable recognised in net operating cost	4	(12)	
3,794	Movements in working capital	2c	7,125	
(713,317)	**Net cash outflow from operating activities**	27c		**(745,843)**
	Cash flows from investing activities			
(20,087)	Purchase of property, plant and equipment		(19,112)	
(560)	Purchase of intangible assets		(865)	
(2,168)	Investment Additions	10	(540)	
(22)	Transfer of assets to other NHS Scotland bodies			
82	Proceeds of disposal of property, plant and equipment		106	
2,019	Receipts from sale of investments		970	
19	Interest received		12	
(20,717)	**Net cash outflow from investing activities**	27c		**(19,429)**
	Cash flows from financing activities			
738,729	Funding	SoCTE	769,521	
21	Movement in general fund working capital	SoCTE	(12)	
738,750	Cash drawn down		769,509	
(1,674)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	2c	(1,809)	
(6)	Interest paid		248	
(2,873)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	2b	(2,721)	
734,197	**Net Financing**	27c		**765,227**
163	**Net Increase/(decrease) in cash and cash equivalents in the period**			(45)
917	**Cash and cash equivalents at the beginning of the period**			1,080
1,080	**Cash and cash equivalents at the end of the period**			**1,035**
	Reconciliation of net cash flow to movement in net debt/cash			
163	Increase/(decrease) in cash in year			(45)
917	Net debt at 1 April			1,080
1,080	**Net cash at 31 March**			**1,035**

The Notes to the Accounts, numbered 1 to 24, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2019

	Note	General Fund	Revaluation Reserve	Other Reserve	Other Reserve – associated with joint ventures	Funds Held on Trust	Total Reserves
		£000	£000	£000	£000	£000	£000
Balance at 31 March 2018		**119,947**	**108,824**	**18,447**	**0**	**9,011**	**256,229**
Prior year adjustments for changes in accounting policy and material errors							
Restated balance at 1 April 2018		**119,947**	**108,824**	**18,447**	**0**	**9,011**	**256,229**
Changes in taxpayers' equity for 2018/19							
Net gain on revaluation/indexation of property, plant and equipment	7a		5,569				5,569
Net gain/(loss) on revaluation of available for sale financial assets	10		0			169	169
Impairment of property, plant and equipment			(1,421)				(1,421)
Revaluation & impairments taken to operating costs	2a		1,421				1,421
Transfers between reserves		2,606	(2,606)				0
Other non cash costs (Asset Transfer) (THC ASC Pension)				407			407
Net operating cost for the year	CFS	(772,024)			0	(74)	(772,098)
Total recognised income and expense for 2018-19		(769,418)	2,963	407	0	95	(765,953)
Funding:							
Drawn down	CFS	769,509					769,509
Movement in General Fund (Creditor)	CFS	12					12
Balance at 31 March 2019	SoFP	**120,050**	**111,787**	**18,854**	**0**	**9,106**	**259,797**

The Notes to the Accounts, numbered 1 to 24, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY – PRIOR YEAR

	Note	General Fund £000	Revaluation Reserve £000	Other Reserve £000	Other Reserve – associated with joint ventures £000	Funds Held on Trust £000	Total Reserves £000
Balance at 31 March 2018							
Prior year adjustments for changes in accounting policy and material errors	22						
Restated balance at 1 April 2017							
Changes in taxpayers' equity for 2017/18							
Net gain on revaluation / indexation of property, plant and equipment	7a		8,464				8,464
Net gain on revaluation of available for sale financial assets	10					(298)	(298)
Impairment of property, plant and equipment			(27)				(27)
Revaluation & impairments taken to operating costs	2a		33				33
Transfers between reserves		2,473	(2,473)				
Other non cash costs (movement in year ASC pension costs)		(22)		15,790			15,768
Net operating cost for the year	CFS	(749,779)			(220)	(126)	(750,125)
Total recognised income and expense for 2017-18		(747,328)	5,997	15,790	(220)	(424)	(726,185)
Funding:							
Drawn down	CFS	738,750					738,750
Movement in General Fund (Creditor)	CFS	(21)					(21)
Balance at 31 March 2018	SoFP	**119,947**	**108,824**	**18,447**	**0**	**9,011**	**256,229**

The Notes to the Accounts, numbered 1 to 24, form an integral part of these Accounts.

ACCOUNTING POLICIES

1. Authority

In accordance with the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 appended, these Accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury, which follows International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), IFRIC Interpretations and the Companies Act 2006 to the extent that they are meaningful and appropriate to the public sector. They have been applied consistently in dealing with items considered material in relation to the accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in section 29 below.

(a) Standards, amendments and interpretations effective in the current year.

IFRS 9 Financial Instruments (IAS 39 Financial Instruments: Recognition and Measurement -.

The standard replaces IAS 39 and introduces a single approach to classification and measurement of financial instruments; a new forward-looking expected loss impairment model; and a revised approach to hedge accounting.

IFRS 15 Revenue from Contracts with Customers

The standard introduces greater disclosures requirements, as well as a new five stage model for assessing and recognising revenue from contracts with customers.

IFRS 16 Leases was published by the International Accounting Standards Board in January 2016 and is applicable for accounting periods beginning on or after 1 January 2020 for all Public Sector Bodies. This means that for NHS Highland, the standard will be effective for the year ending 31 March 2021.

IFRS 16 will require leases to be recognised on the SoFP as an asset which reflects the right to use the underlying asset and a liability which represents the obligation to make lease payments. At the date of authorisation of these financial statements, IFRS 16 has not been adopted for use in the public sector and has not been included in the FReM. As such it is not yet possible to quantify the impact of IFRS 16 accurately.

a) Standards, amendments and interpretation early adopted this year

There are no new standards, amendments or interpretations early adopted this year.

b) Standards, amendments and interpretation issued but not adopted this year

There are no new standards, amendments or interpretations issued but not adopted this year.

2. Basis of Consolidation

In accordance with IFRS 10 – Consolidated Financial Statements, the Financial Statements consolidate Highland Health Board Endowment Funds.

NHS Endowment Funds were established by the NHS (Scotland) Act 1978. The legal framework under which charities operate in Scotland is the Charities and Trustee Investment (Scotland) Act 2005. Under the 1978 Act Endowment Trustees are also members of the NHS Board. The Board members (who are also Trustees) are appointed by Scottish Ministers.

The Highland Health Board Endowment Funds is a Registered Charity with the Office of the Charity Regulator (OSCR) and is required to prepare and submit Audited Financial Statements to OSCR on an annual basis.

The basis of consolidation used is Merger Accounting. Any intragroup transactions between the Board and the Endowment Fund have been eliminated on consolidation.

The integration of health and social care services under the terms of the Public Bodies (Joint Working) (Scotland) Act 2014 and associated secondary legislation impacts on Health Board disclosure requirements in the annual accounts.

In accordance with IAS 28 – Investments in Associates and Joint Arrangements, the primary financial statements have been amended for the additional disclosure required to accurately reflect the interest of IJBs using the equity method of accounting.

Note 24 to the Annual Accounts, details how these consolidated Financial Statements have been calculated.

3. Retrospective restatements

There are no retrospective restatements to disclose.

4. 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

5. Accounting Convention

The Accounts are prepared on a historical cost basis, as modified by the revaluation of property, plant and equipment, intangible assets, inventories, available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value.

6. Funding

Most of the expenditure of the Health Board as Commissioner is met from funds advanced by the Scottish Government within an approved revenue resource limit. Cash drawn down to fund expenditure within this approved revenue resource limit is credited to the general fund.

All other income receivable by the board that is not classed as funding is recognised in the year in which it is receivable.

Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.

Non discretionary funding out with 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 (SORO).

Funding for the acquisition of capital assets received from the Scottish Government is credited to the general fund when cash is drawn down.

Expenditure on goods and services is recognised when, and to the extent that they have been received, and is measured at the fair value of those goods and services. Expenditure is

recognised in the Statement of Comprehensive Net Expenditure (SOCNE) except where it results in the creation of a non-current asset such as property, plant and equipment.

7. Property, plant and equipment

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

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

7.1 Recognition

Property, Plant and Equipment is capitalised where: it is held for use in delivering services or for administrative purposes; it is probable that future economic benefits will flow to, or service potential be provided to, the Board; it is expected to be used for more than one financial year; and the cost of the item can be measured reliably.

All assets falling into the following categories are capitalised:

1) Property, plant and equipment 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.

2) In cases where a new hospital would face an exceptional write off of items of equipment costing individually less than £5,000, the Board has the option to capitalise initial revenue equipment costs with a standard life of 10 years.

3) 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.

7.2 Measurement

Valuation:

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

All assets that are not held for their service potential (i.e. investment properties and assets held for sale), including operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market, are measured subsequently at fair value as follows:

Specialised NHS Land, buildings, equipment, installations and fittings are stated at depreciated replacement cost, as a proxy for fair value as specified in the FReM.

Non specialised land and buildings, such as offices, are stated at fair value.

Valuations of all land and building assets are reassessed by valuers under a 5-year 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 Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.

Non specialised equipment, installations and fittings are valued at fair value. Boards value such assets using the most appropriate valuation methodology available (for example, appropriate indices). A depreciated historical cost basis as a proxy for fair value in respect of such assets which have short useful lives or low values (or both).

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. These are also subject to impairment review.

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

Specialised operational assets are valued on a modified replacement cost basis to take account of modern substitute building materials and locality factors only.

Operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal, are valued at current value in existing use. Assets have been assessed as surplus where there is no clear plan to bring the asset back into future use as an operational asset.

Subsequent expenditure:

Subsequent expenditure is capitalised into an asset's carrying value when it is probable the future economic benefits associated with the item will flow to the Board and the cost can be measured reliably. Where subsequent expenditure does not meet these criteria the expenditure is charged to the SOCNE. If part of an asset is replaced, then the part it replaces is de-recognised, regardless of whether or not it has been depreciated separately.

Revaluations and Impairment:

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in the SOCNE, in which case they are recognised as income. Movements on revaluation are considered for individual assets rather than groups or land/buildings together.

Permanent decreases in asset values and impairments are charged gross to the SOCNE. Any related balance on the revaluation reserve is transferred to the General Fund.

Gains and losses on revaluation are reported in the Statement of Other Comprehensive Expenditure.

7.3 Depreciation

Items of Property, Plant and Equipment are depreciated to their estimated residual value over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

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

1) Freehold land is considered to have an infinite life and is not depreciated.

2) Assets in the course of construction and residual interests in off-balance sheet (SOFP) PFI contract assets are not depreciated until the asset is brought into use or reverts to the Board, respectively.

3) Property, Plant and Equipment which has been reclassified as 'Held for Sale' ceases to be depreciated upon the reclassification.

4) Buildings, installations and fittings are depreciated on current value over the estimated remaining life of the asset, as advised by the appointed valuer. The depreciable amount is calculated by splitting the elements into two categories based on the pattern of consumption, future maintenance and capital expenditure. The significant elements are depreciated over the useful life of the element. The less significant "shorter life" elements are more aligned with the overall life of the building due to the impact of regular maintenance and preservation expenditure as revenue costs and as such are depreciated over the life of the building.

5) Equipment is depreciated over the estimated life of the asset.

6) Property, plant and equipment held under finance leases are depreciated over the shorter of the lease term and the estimated useful life.

Depreciation is charged on a straight line basis.

The following asset lives have been used:

Asset Category/Component	Useful Life (years)
Structure (Shell)	25 - 100
Engineering	25–100
External Works	25 – 60
Medical Equipment	3 – 10
Other Non Clinical Equipment	3 – 10
Furniture	5 – 10
Vehicles	3 – 7
IT Mainframe Installations	3 – 7
IT Equipment	3 – 7
Intangible assets	3 – 7

8. Intangible Assets

8.1 Recognition

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Board's business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the Board and where the cost of the asset can be measured reliably.

Intangible assets that meet the recognition criteria are capitalised when they are capable of being used in a Board's activities for more than one year and they have a cost of at least £5,000.

The main classes of intangible assets recognised are:

Software:
Software which is integral to the operation of hardware e.g. an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware e.g. application software, is capitalised as an intangible asset.

Software licences:
Purchased computer software licences are capitalised as intangible assets where expenditure of at least £5,000 is incurred.

8.2 Measurement

Valuation:

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management.

Subsequently intangible assets that are not held for their service potential (i.e. assets held for sale), including operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market, are measured at fair value. Where an active (homogeneous) market exists, intangible assets are carried at fair value.

Where no active market exists, the intangible asset is revalued, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the intangible asset is valued using depreciated replacement cost. These measures are a proxy for fair value.

Revaluation and impairment:

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in the SOCNE, in which case they are recognised in income.

Permanent decreases in asset values and impairments are charged gross to the SOCNE. Any related balance on the revaluation reserve is transferred to the General Fund.

Temporary decreases in asset values or impairments are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned and thereafter are charged to the SOCNE.

Intangible assets held for sale are reclassified to 'non-current assets held for sale' measured at the lower of their carrying amount or 'fair value less costs to sell'.

Operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal, are valued at current value in existing use. Assets have been assessed as surplus where there is no clear plan to bring the asset back into future use as an operational asset.

8.3 Amortisation

Intangible assets are amortised to their estimated residual value over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits.

Amortisation is charged to the SOCNE on each main class of intangible asset as follows:

1) Software. Amortised over their expected useful life.

2) Software licences. Amortised over the shorter term of the licence and their useful economic lives.

Amortisation is charged on a straight line basis.

The following asset lives have been used:

Asset Category/Component	Useful Life (years)
Software	3 - 7
Software Licences	3 - 7

9. Donated Assets

Non-current assets that are donated or purchased using donated funds are included in the Statement of Financial Position (SOFP) initially at the current full replacement cost of the asset. The accounting treatment, including the method of valuation, follows the rules in the NHS Capital Accounting Manual.

10. Sale of Property, plant and equipment, intangible assets and non-current assets held for sale

Disposal of non-current assets is accounted for as a reduction to the value of 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 SOCNE. Non-current assets held for sale will include assets transferred from other categories and will reflect any resultant changes in valuation.

11. Leasing

Finance leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Board, the asset is recorded as Property, Plant and Equipment and a corresponding liability is recorded. Assets held under finance leases are valued at their fair value and are depreciated over the remaining period of the lease in accordance with IFRS.

The asset and liability are recognised at the inception of the lease and are de-recognised when the liability is discharged, cancelled or expires. The minimum lease payments (annual rental less operating costs e.g. maintenance and contingent rental) are apportioned between the repayment of the outstanding liability and a finance charge. The annual finance charged is allocated to each period during the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability using either the implicit interest rate or another relevant basis of estimation such as the sum of the digits method. Finance charges are recorded as interest payable in the SOCNE. Contingent rental and operating costs are charged as expenses in the periods in which they are incurred.

Operating leases

Other leases are regarded as operating leases and the rentals are charged to expenditure on a straight-line basis over the term of the lease. Operating lease incentives received are added to the lease rentals and charged to expenditure over the life of the lease.

Leases of land and buildings

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately. Leased land is treated as an operating lease unless title to the land is expected to transfer.

12. Impairment of non-financial assets

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where an asset is not held for the purpose of generating cash flows, value in use is assumed to equal the cost of replacing the service potential provided by the asset, unless there has been a reduction in service potential. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer an impairment are reviewed for possible reversal of the impairment. Impairment losses charged to the SOCNE are deducted from future operating costs to the extent that they are identified as being reversed in subsequent revaluations.

13. General Fund Receivables and Payables

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 SGHSCD. 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 SGHSCD.

14. Inventories

Inventories are valued at the lower of cost and net realisable value. Taking into account the high turnover of NHS inventories, the use of average purchase price is deemed to represent current cost.

15. 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.

16. Employee Benefits

Short-term Employee Benefits

Salaries, wages and employment-related payments are recognised in the year in which the service is received from employees. The cost of annual leave and flexible working time entitlement earned but not taken by employees at the end of the year is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following year.

Pension Costs

The Board participates in the NHS Superannuation Scheme (Scotland). This scheme is an unfunded statutory pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay as specified in the regulations. The Board is unable to identify its share of the underlying notional assets and liabilities of the scheme on a consistent and reasonable basis and therefore accounts for the scheme as if it were defined contribution scheme, as required by IAS 19 'Employee Benefits'. As a result, the amount charged to the SOCNE represents the Board's employer contributions payable to the scheme in respect of the year. The contributions deducted from employees are reflected in the gross salaries charged and are similarly remitted to the Exchequer. The pension cost is assessed every four years by the Government Actuary and this valuation determines the rate of contributions required. The most recent actuarial valuation is published by the Scottish Public Pensions Agency and is available on their website.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the SOCNE at the time the Board commits itself to the retirement, regardless of the method of payment.

Pension costs for staff transferred from The Highland Council (THC)

As part of the terms and conditions of employment for the staff transferred from THE, The Board participates in the Local Government Pension Scheme administered by THC. This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The Board recognises the cost of these retirement benefits in the SOCNE when they are earned by these employees, rather than when the benefits are eventually paid as pensions. Highland Council recognises the liability at 01/04/2012 attributable to these NHS Highland staff in the THC accounts. Any gain or shortfall in the value of the fund attributable to NHS Highland staff in year is charged to the SOCNE.

17. Clinical and Medical Negligence Costs

Employing health bodies in Scotland are responsible for meeting medical negligence costs up to a threshold per claim. Costs above this threshold are reimbursed to Boards from a central fund held as part of the Clinical Negligence and Other Risks Indemnity Scheme (CNORIS) by the Scottish Government.

NHS Highland provide for all claims notified to the NHS Central Legal Office according to the value of the claim and the probability of settlement. Claims assessed as 'Category 3' are deemed most likely and provided for in full, those in 'Category 2' as 50% of the claim and those in 'category 1' as nil. The balance of the value of claims not provided for is disclosed as a contingent liability. This procedure is intended to estimate the amount considered to be the liability in respect of any claims outstanding and which will be recoverable from CNORIS in the event of payment by an individual health body. The corresponding recovery in respect of amounts provided for is recorded as a debtor and that in respect of amounts disclosed as contingent liabilities are disclosed as contingent assets.

NHS Highland also provides for its liability from participating in the scheme. The Participation in CNORIS provision recognises the Board's respective share of the total liability of NHSScotland as advised by the Scottish Government and based on information prepared by NHS Boards and the Central Legal Office. The movement in the provisions between financial years is matched by a corresponding adjustment in AME provision and is classed as non-core expenditure.

18. Related Party Transactions

Material related party transactions are disclosed in the note 24 in line with the requirements of IAS 24. Transactions with other NHS bodies for the commissioning of health care are summarised in Note 3.

19. 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 non current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

20. PFI/HUB/NPD Schemes

Transactions financed as revenue transactions the Private Finance Initiative or alternative initiatives such as HUB or the Non Profit Distribution Model (NPD) are accounted for in accordance with the HM Treasury application of IFRIC 12, Service Concession Arrangements outlined in the FReM.

Schemes which do not fall within the application of IFRIC 12 are deemed to be off-balance sheet. Where the Board has contributed assets, a prepayment for their fair value is recognised and amortised over the life of the PFI contract by charge to the SOCNE. Where, at the end of the PFI contract, a property reverts to the Board, the difference between the expected fair value of the residual on reversion and any agreed payment on reversion is built up on the SOFP over the life of the contract by capitalising part of the unitary charge each year.

Transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's FReM, are accounted for as 'on-balance sheet' (SOFP) by the Board. The underlying assets are recognised as Property, Plant and Equipment and Intangible Assets at their fair value. An equivalent liability is recognised in accordance with IAS 17. Where it is not possible to separate the finance element from the service element of unitary payment streams this has been estimated from information provided by the operator and the fair values of the

underlying assets. Assets are subsequently revalued in accordance with the treatment specified for their applicable asset categories.

The annual contract payments are apportioned between the repayment of the liability, a finance cost and the charges for services. The finance cost is calculated using the implicit interest rate for the scheme.

The service charge and the finance cost interest element are charged in the SOCNE.

21. Provisions

The Board provides for legal or constructive obligations that are of uncertain timing or amount at the SOFP 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.

22. Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the Board's control) are not recognised as assets, but are disclosed in note 14 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 14, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

a) possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

b) present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

23. 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, IAS 1 'Presentation of Financial Statements', requires that they should be adjusted and the basis for adjustment disclosed in a note to the financial statements.

24. Financial Instruments

Financial assets

Business model
The Board's business model refers to how it manages its financial assets in order to generate cash flows and is determined at a level which reflects how groups of financial assets are managed to achieve a business objective, rather than assessment of individual instruments.

Classification
When the Board first recognises a financial asset, it classifies it based on its business model for managing the asset and the asset's contractual flow characteristics. The Board classifies its financial assets in the following categories: at fair value through profit or loss

(a) Financial assets at fair value through profit or loss

This is the default basis for financial assets.

(b) Financial assets held at amortised cost

A financial asset may be held at amortised cost where both of the following conditions are met:

i. the financial asset is held within a business model where the objective is to collect contractual cash flows; and
ii. the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and related interest.

(c) Financial assets at fair value through other comprehensive income

A financial asset may be held at fair value through other comprehensive income where both of the following conditions are met:

i. the financial asset is held within a business model where the objective is to collect contractual cash flows *and* sell the asset; and
ii. the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and related interest.

Impairment of financial assets

Provisions for impairment of financial assets are made on the basis of expected credit losses. The Board recognises a loss allowance for expected credit losses on financial assets and this is recognised in other comprehensive income, rather than reducing the carrying amount of the asset in the Statement of Financial Position.

Lifetime expected credit losses are recognised and applied to financial assets by the Board where there has been a significant increase in credit risk since the asset's initial recognition. Where the Board does not hold reasonable and supportable information to measure lifetime expected credit losses on an individual instrument basis, the losses are recognised on a collective basis which considers comprehensive credit risk information.

Recognition and measurement

Financial assets are recognised when the Board becomes party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the Board has transferred substantially all risks and rewards of ownership.

(a) Financial assets held at amortised cost

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of the asset.

b) Financial assets held at fair value through other comprehensive income

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognised in equity in other reserves. When financial assets classified as available for sale are sold, the accumulated fair value adjustments recognised in equity are included in the SOCNE. Dividends on available-for-sale equity instruments are recognised in the SOCNE when the Board's right to receive payments is established.

Financial Liabilities

Classification

The Board classifies its financial liabilities in the following categories: at fair value through profit or loss, and amortised cost. The Board classifies all financial liabilities as measured at amortised cost, unless:

i. these are measured at fair value on a portfolio basis in accordance with a documented risk management or investment strategy;
ii. they contain embedded derivatives; and/or
iii. it eliminates or reduces 'accounting mismatch' that would otherwise arise from measurement or recognition on an amortised costs basis.

a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise derivatives. Liabilities in this category are classified as current liabilities. The NHS Board does not trade in derivatives and does not apply hedge accounting.

(b) Financial liabilities held at amortised cost

Financial liabilities held at amortised cost are disclosed in current liabilities, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current liabilities. The NHS Board's financial liabilities held at amortised cost comprise trade and other payables in the Statement of Financial Position.

Recognition and measurement
Financial liabilities are recognised when the NHS Board becomes party to the contractual provisions of the financial instrument.

A financial liability is removed from the Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

(a) Financial liabilities at fair value through profit or loss

Financial liabilities carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement.

Financial liabilities carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the Statement of Comprehensive Net Expenditure.

Amortised costs

Financial liabilities held at amortised cost are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

25. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments. This has been identified as the senior management of the Board.

Operating segments are unlikely to directly relate to the analysis of expenditure shown in note 3.

26. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, cash balances held with the Government Banking Service, balances held in commercial banks and

other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the SOFP. Where the Government Banking Service is using the National Westminster Bank to provide the banking services, funds held in these accounts should not be classed as commercial bank balances.

27. Foreign exchange

The functional and presentational currencies of the Board are sterling.

A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

Where the Board has assets or liabilities denominated in a foreign currency at the SOFP date:

- monetary items (other than financial instruments measured at 'fair value through income and expenditure') are translated at the spot exchange rate on 31 March;
- non-monetary assets and liabilities measured at historical cost are translated using the spot exchange rate at the date of the transaction; and
- non-monetary assets and liabilities measured at fair value are translated using the spot exchange rate at the date the fair value was determined.

Exchange gains or losses on monetary items (arising on settlement of the transaction or on re-translation at the SOFP date) are recognised in income or expenditure in the period in which they arise.

Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

28. Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Board has no beneficial interest in them. However, they are disclosed in note 25 to the accounts in accordance with the requirements of HM Treasury's Financial Reporting Manual.

29. Key sources of judgement and estimation uncertainty

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Board makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The Board makes judgements in applying accounting policies. The estimates, assumptions and judgements that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year are addressed below.

Clinical and Medical Negligence Costs
The Board's accounting policy relating to the provisions for clinical and medical negligence and other claims is described in section 18 above. Reliance is placed on significant details provided by the Central Legal Office in order to establish the value of such provisions.

Employee Benefits Accrual
The accrual is estimated on the basis of information provided by managers regarding outstanding annual leave.

Assessment of Leases
Leases are assessed under IFRS as being operating or finance leases, which determine their accounting treatment. The criteria for assessment are to a certain extent subjective, but a consistent approach has been taken through the use of a standard template which sets out the relevant criteria.

Pensions and Injury Benefit Provisions
The Board has provided for estimated costs relating to pensions and provisions and reliance is placed on significant details provided by the Scottish Public Pensions Agency in order to establish the value of such provisions.

Pension Liability for The Highland Council Pension Fund used by Social Care staff transferred to NHS Highland
Estimation of the liability to pay pensions for these staff depends on a number of complex judgements relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets.

The effects on the net pensions liability of changes in individual assumptions can be measured. For example, a 0.1% increase in the discount rate assumption would result in a decrease of approximately £183,000 in the pension liability.

Reliance is placed on significant details provided by the actuary of the Pension Fund to establish the value of this liability.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

STATEMENT OF CONSOLIDATED CASH FLOWS
for the year ended 31 March 2019

2 NOTES TO THE CASH FLOW STATEMENT

2a Consolidated adjustments for non-cash transactions

2018 £000		Note	2019 £000
	Expenditure not paid in cash		
13,292	Depreciation	7a	14,461
731	Amortisation	6	840
174	Depreciation of donated assets	7a	167
27	Impairments on PPE charged to SoCNE		1,421
6	Net revaluation on PPE charged to SoCNE		
(44)	Funding of donated assets		(662)
(42)	Loss/(profit) on disposal of property, plant and equipment		36
220	Associates and joint ventures accounted for on an equity basis	SoCNE	
15,790	THC ASC Pension movements		406
30,154	**Total expenditure not paid in cash**	CFS	**16,669**

2b Interest Payable Recognised in Operating Expenditure

2018 £000			2019 £000
	Interest Payable		
	Bank and other interest payable		1
2,296	PFI Finance lease charges allocated in the year	18b	2,160
577	Other Finance lease charges allocated in the year		561
6	Provisions – Unwinding of discount		(249)
2,879	**Net interest payable**	CFS	**2,473**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

2 NOTES TO THE CASH FLOW STATEMENT, Contd

2c Consolidated Movements in Working Capital

2018 Net Movement £000		Note	Opening Balances £000	Closing Balances £000	2019 Net Movement £000
	INVENTORIES				
	SoFP	8	6,248	6,407	
311	**Net decrease/(increase)**				(159)
	TRADE AND OTHER RECEIVABLES				
	Due within one year	9	53,527	42,605	
	Due after more than one year	9	15,754	20,487	
			69,281	63,092	
(4,978)	**Net decrease/(increase)**				6,189
	TRADE AND OTHER PAYABLES				
	Due within one year		85,111	89,577	
	Due after more than one year		33,147	31,177	
	Less: property, plant & equipment (capital) included in above		(1,613)	(1,453)	
	Less: General Fund creditor included in above		(210)	(198)	
	Less: lease and PFT creditors included in above		(34,958)	(33,149)	
			81,477	85,954	
6,869	**Net decrease**				4,477
	PROVISIONS				
	Statement of Financial Position	13a	58,779	55,397	
			58,779	55,397	
1,592	**Net decrease/(increase)**				(3,382)
3,794	**Net movement increase**	CFS			7,125

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

3 OPERATING EXPENSES

3a Staff Costs

2018 Total £000			2019 Board £000	2019 Consolidated £000
81,493	Medical and Dental		83,199	83,199
134,650	Nursing		135,079	135,079
162,465	Other Staff		166,436	166,436
378,608	**Total**	SoCNE	**384,714**	**384,714**

Further detail and analysis of employee costs can be found in the Remuneration and Staff Report, forming part of the Accountability Report.

3b Other Operating Expenditure

2018 Total £000		2019 Board £000	2019 Consolidated £000
	Independent Primary Care Services:		
53,477	General Medical Services	55,961	55,961
11,862	Pharmaceutical Services	12,842	12,842
15,146	General Dental Services	17,430	17,430
5,655	General Ophthalmic Services	5,735	5,735
86,140	**Total**	**91,968**	**91,968**
	Drugs and Medical Supplies:		
64,573	Prescribed drugs Primary Care	64,154	64,154
33,105	Prescribed drugs Secondary Care	34,159	34,159
24,742	Medical Supplies	25,856	25,856
122,420	**Total**	**124,169**	**124,169**
	Other Health Care Expenditure:		
207,489	Contribution to Integration Joint Boards	214,553	214,553
87,164	Goods & services from other NHSScotland bodies	91,705	91,705
671	Goods & services from other UK NHS bodies	1,442	1,442
7,790	Goods & services from private providers	8,327	8,327
6,314	Goods & services from voluntary organisations	6,014	6,014
4,897	Resource Transfer	4,971	4,971
2	Loss on disposal of assets	53	53
202,871	Other operating expenses	210,119	210,119
173	External Auditor's Statutory Audit Fee	179	179
1,216	Endowment Fund expenditure		1,693
518,587	**Total**	**537,363**	**539,056**
727,147	**Total Other Operating Expenditure**	**753,500**	**755,193**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

4 OPERATING INCOME

2018 Total £000		Note	2019 Board £000	2019 Consolidated £000
28,618	Income from other NHS Scotland bodies		29,869	29,869
2,534	Income from NHS non-Scottish bodies		2,287	2,287
434	Income from private patients		444	444
201,345	Income for services commissioned by Integration Joint Board		202,932	202,932
4,338	Patient charges for primary care		4,558	4,558
	Donated asset additions		662	662
44	Profit on disposal of assets		17	17
2,245	Contributions in respect of clinical and medical negligence claims		2,815	2,815
19	Interest received	CFS	12	12
	Non NHS:			
494	Overseas patients (non-reciprocal)		668	668
1,090	Endowment Fund Income			1,619
114,689	Other		121,926	121,926
355,850	**Total Income**	SoCNE	**366,190**	**367,809**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

5 SEGMENTAL INFORMATION

Segmental information as required under IFRS has been reported for each strategic objective

	A&B CHP	Raigmore Hospital	N&W Operational Unit	S&M Operational Unit	ASC Central	ASC Funding	Children's Services	Other	2019
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net Operating Costs	200,826	185,027	148,007	216,612	5,977	(94,250)	10.090	99,089	772,098

PRIOR YEAR

Segmental information as required under IFRS has been reported for each strategic objective

	A&B CHP	Raigmore Hospital	N&W Operational Unit	S&M Operational Unit	ASC Central	ASC Funding	Children's Services	Other	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net Operating Costs	194,337	172,286	143,260	209,658	(3,369)	(91,802)	9,939	115,470	749,779

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

6a Intangible Assets (Non-Current) – Board and Consolidated

	Note	Software Licences £000	IT – Software £000	Total £000
Cost or Valuation:				
At 1 April 2018		2,021	4,802	6,823
Additions		163	702	865
Disposals			(49)	(49)
At 31 March 2019		**2,184**	**5,455**	**7,639**
Amortisation				
At 1 April 2018		892	3,250	4,142
Provided during the year		300	540	840
Disposals			(49)	(49)
At 31 March 2019		**1,192**	**3,741**	**4,933**
Net book value at 1 April 2018		**1,129**	**1,552**	**2,681**
Net book value at 31 March 2019	SoFP	**992**	**1,714**	**2,706**

6a Intangible Assets (Non-Current) – Board and Consolidated Prior Year

	Note	Software Licences £000	IT – Software £000	Total £000
Cost or Valuation:				
At 1 April 2017		1,880	4,597	6,477
Additions		141	419	560
Disposals			(214)	(214)
At 31 March 2018		**2,021**	**4,802**	**6,823**
Amortisation				
At 1 April 2016		618	3,007	3,625
Provided during the year		274	457	731
Disposals			(214)	(214)
At 31 March 2018		**892**	**3,250**	**4,142**
Net book value at 1 April 2017		**1,262**	**1,590**	**2,852**
Net book value at 31 March 2018	SoFP	**1,129**	**1,552**	**2,681**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

7a PROPERTY, PLANT AND EQUIPMENT – CONSOLIDATED AND BOARD

	Note	Land (including under buildings)	Buildings (excluding dwellings)	Dwellings	Transport Equipment	Plant & Machinery	Information Technology	Furniture & Fittings	Assets Under Construction	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation										
At 1 April 2018		19,342	317,288	6,426	703	55,884	8,872	2,636	7,207	418,358
Additions - purchased		0	0	0	0	0	0	0	18,952	18,952
Additions - donated		0	600	0	0	49	13	0	0	662
Completions		556	9,072	175	0	6,191	309	14	(16,317)	0
Revaluations		0	(1,490)	(95)	0	0	0	0	0	(1,585)
Impairment charges		0	(1,818)	0	0	0	0	0	0	(1,818)
Disposals - purchased		(15)	(129)	0	0	(1,578)	(22)	0	0	(1,744)
Disposals - donated		0	0	0	0	(31)	0	0	0	(31)
As 31 March 2019		**19,883**	**323,523**	**6,506**	**703**	**60,515**	**9,172**	**2,650**	**9,842**	**432,794**
Depreciation										
At 1 April 2018		0	23,290	534	687	39,941	6,443	2,278	0	73,173
Provided during the year - purchased		0	9,305	319	1	3,951	708	177	0	14,461
Provided during the year - donated		0	86	5	1	74	1	0	0	167
Revaluations		0	(6,984)	(170)	0	0	0	0	0	(7,154)
Impairment charges		0	(397)	0	0	0	0	0	0	(397)
Disposals - purchased		0	(11)	0	0	(1,572)	(22)	0	0	(1,605)
Disposals - donated		0	0	0	0	(31)	0	0	0	(31)
At 31 March 2019		**0**	**25,289**	**688**	**689**	**42,363**	**7,130**	**2,455**	**0**	**78,614**
Net book value at 1 April 2018		**19,342**	**293,998**	**5,892**	**16**	**15,943**	**2,429**	**358**	**7,207**	**345,185**
Net book value at 31 March 2019	SoFP	**19,883**	**298,234**	**5,818**	**14**	**18,152**	**2,042**	**195**	**9,842**	**354,180**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

7a PROPERTY, PLANT AND EQUIPMENT – CONSOLIDATED, Contd

	Note	Land (including under buildings)	Buildings (excluding dwellings)	Dwellings	Transport Equipment	Plant & Machinery	Information Technology	Furniture & Fittings	Assets Under Construction	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Open Market Value of Land in Land & Dwellings included above		272		250						
Asset financing:										
Owned - Purchased		19,838	253,210	5,595	2	17,964	2,029	195	9,842	308,675
Owned - Donated		45	4,400	223	12	188	13	0	0	4,881
Held on finance lease		0	924	0	0	0	0	0	0	924
On-balance sheet PFI contracts		0	39,700	0	0	0	0	0	0	39,700
Net book value at 31 March 2019	SoFP	**19,883**	**298,234**	**5,818**	**14**	**18,152**	**2,042**	**195**	**9,842**	**354,180**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

7a PROPERTY, PLANT AND EQUIPMENT – CONSOLIDATED AND BOARD PRIOR YEAR

	Note	Land (including under buildings)	Buildings (excluding dwellings)	Dwellings	Transport Equipment	Plant & Machinery	Information Technology	Furniture & Fittings	Assets Under Construction	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation										
At 1 April 2017		19,357	299,754	6,202	825	52,687	8,018	2,689	3,787	393,319
Additions - purchased									21,414	21,414
Additions - donated						44				44
Completions			12,195			4,815	984		(17,994)	0
Revaluations		(15)	5,386	224						5,595
Impairment charges			(47)							(47)
Disposals - purchased					(122)	(1,645)	(130)	(53)		(1,950)
Disposals - donated						(17)				(17)
As 31 March 2018		**19,342**	**317,288**	**6,426**	**703**	**55,884**	**8,872**	**2,636**	**7,207**	**418,358**
Depreciation										
At 1 April 2017			17,808	234	808	37,752	5,849	2,076		64,527
Provided during the year - purchased			8,278	305		3,732	722	255		13,292
Provided during the year - donated			83	5	1	83	2			174
Revaluations			(2,859)	(10)						(2,869)
Impairment charges			(20)							(20)
Disposals - purchased					(122)	(1,609)	(130)	(53)		(1,914)
Disposals - donated						(17)				(17)
At 31 March 2018			**23,290**	**534**	**687**	**39,941**	**6,443**	**2,278**		**73,173**
Net book value at 1 April 2017		**19,357**	**281,946**	**5,968**	**17**	**14,935**	**2,169**	**613**	**3,787**	**328,792**
Net book value at 31 March 2018		**19,342**	**293,999**	**5,892**	**15**	**15,943**	**2,429**	**358**	**7,207**	**345,185**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

7a PROPERTY, PLANT AND EQUIPMENT – CONSOLIDATED PRIOR YEAR, Contd

	Note	Land (including under buildings)	Buildings (excluding dwellings)	Dwellings	Transport Equipment	Plant & Machinery	Information Technology	Furniture & Fittings	Assets Under Construction	Total
		£000	£000	£000	£000	£000	£000	£000	£000	£000
Open Market Value of Land in Land and Dwellings Included Above		272		239						
Asset financing:										
Owned - purchased		19,297	250,629	5,671	3	15,685	2,428	358	7,207	301,279
Owned - donated		45	3,770	221	13	213	1			4,263
Held on finance lease			1,000			44				1,044
On-balance sheet PFI contracts			38,600							38,599
Net book value at 31 March 2018	SoFP	**19,357**	**293,999**	**5,892**	**16**	**15,943**	**2,429**	**358**	**7,207**	**345,185**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

7b PROPERTY, PLANT AND EQUIPMENT DISCLOSURES

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
		Net book value of property, plant and equipment at 31 March			
340,922	340,922	Purchased		349,299	349,299
4,263	4,263	Donated		4,881	4,881
345,185	**345,185**	**Total**	SoFP	**354,180**	**354,180**
272	272	Net book value related to land valued at open market value at 31 March		272	272
239	239	New book value related to buildings valued at open market value at 31 March		250	250
		Total value of assets held under:			
1,000	1,000	Finance Leases		924	924
44	44	Hire Purchase Contracts		0	0
38,599	38,599	PFI and PPP Contracts		39,699	39,700
39,643	**39,643**			**40,623**	**40,624**
		Total depreciation charged in respect of assets held under:			
112	112	Finance Leases		116	116
44	44	Hire Purchase Contracts		88	88
1,125	1,125	PFI and PPP Contracts		1,183	1,183
1,281	**1,281**			**1,387**	**1,387**

An annual valuation of 20% of all NHS Highland properties was carried by an independent valuer, Barr(Argyll&Bute) & Burnetts(North Highland) as at March 2019 on the basis of fair value (market value or depreciated replacement cost where appropriate). The values were computed in accordance with the Royal Institute of Chartered Surveyors Statement of Asset Valuation Practice and Guidance notes, subject to the special accounting practices of the NHS.

The net impact was a decrease of £4.418m (2017-18: an increase of £8.465m) which was debited to the revaluation reserve. Impairment of £1.420m (2017-18: £0.027m) was charged to the SoCNE. All other properties are considered not to require impairment.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

7c. ANALYSIS OF CAPITAL EXPENDITURE

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
		EXPENDITURE			
560	560	Acquisition of Intangible Assets	6	865	865
21,414	21,414	Acquisition of Property, Plant and Equipment	7a	18,952	18,952
44	44	Donated Asset Additions	7a	662	662
22,018	**22,018**	**Gross Capital Expenditure**		**20,479**	**20,479**
		INCOME			
36	36	Net book value of disposal of Property, Plant and Equipment	7a	139	139
		Net book value of disposal of Donated Assets	7a		
4	4	HUB – Repayment of investment		3	3
44	44	Donated Asset Income		662	662
84	84	**Capital Income**		**804**	**804**
21,934	**21,934**	**Net Capital Expenditure**		**19,675**	**19,675**
		SUMMARY OF CAPITAL RESOURCE OUTTURN			
21,939	21,939	Core Capital Expenditure included above		19,675	19,675
21,939	21,939	Core Capital Resource Limit		19,675	19,675
0	0	**Saving/(excess) against Core Capital Resource Limit**		0	0
0	0	Non Core Capital Expenditure included above			
0	0	Non Core Capital Resource Limit			
0	**0**	**Saving/(excess) against Non Core Capital Resource Limit**		**0**	**0**
21,939	21,939	Total Capital Expenditure		19,675	19,675
21,939	21,939	Total Capital Resource Limit		19,675	19,675
0	**0**	**Saving/(excess) against Capital Resource Limit**		**0**	**0**

8 INVENTORIES

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
6,248	6,248	Raw Materials and Consumables		6,407	6,407
6,248	**6,248**	**Total Inventories**	SoFP	**6,407**	**6,407**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

9 TRADE AND OTHER RECEIVABLES

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
		Receivables due within one year – NHS Scotland			
112	112	Scottish Government Health & Social Care Directorate		185	185
4,658	4,658	Boards		4,085	4,085
4,770	**4,770**	**Total NHSScotland Receivables**		**4,270**	**4,270**
633	633	NHS Non-Scottish Bodies		589	589
1,035	1,035	VAT recoverable		529	529
7,030	7,030	Prepayments		5,211	5,211
4,745	4,745	Accrued income		5,035	5,035
1,637	2,150	Other Receivables		1,040	1,168
10,180	10,180	Reimbursement of provisions		2,171	2,171
23,497	23,497	Other Public Sector Bodies		23,760	23,760
53,527	**54,040**	**Total Receivables due within one year**	SoFP	**42,605**	**42,733**
		Other Public Sector Bodies			
1,452	1,452	Prepayments		1,380	1,380
3,953	3,953	Accrued income		4,296	4,296
1,032	1,032	Other Receivables		16	16
9,317	9,317	Reimbursement of Provisions		14,795	14,795
15,754	**15,754**	**Total Receivables due after more than one year**	SoFP	**20,487**	**20,487**
69,281	**69,794**	**TOTAL RECEIVABLES**		**63,092**	**63,220**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

9 TRADE AND OTHER RECEIVABLES, Contd

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
631	631	The total receivables figure above includes a provision for impairments of :		1,122	1,122
		WGA Classification			
4,658	4,658	NHS Scotland		4,085	4,085
1,063	1,063	Central Government bodies		673	673
23,469	23,469	Whole of Government bodies		23,576	23,576
633	633	Balances with NHS Bodies in England & Wales		589	589
39,458	39,971	Balances with bodies external to Government		34,169	34,297
69,281	**69,794**	**Total**		**63,092**	**63,220**
		Movements on the provision for impairment of receivables are as follows:			
673	673	At 1 April		631	631
50	50	Provision for impairment		704	704
(51)	(51)	Receivables written off during the year as uncollectible		(196)	(196)
(41)	(41)	Unused amounts reversed		(17)	(17)
631	**631**	At 31 March		**1,122**	**1,122**

As at 31 March 2019, receivables with a carrying value of £1,122m (2018: £631m) were impaired and provided for. The ageing of these receivables is as follows:

2018 £000	2018 £000		2019 £000	2019 £000
		3 to 6 months past due		
631	631	Over 6 months past due	1,122	1,122
631	**631**		**1,122**	**1,122**

The receivables assessed as individually impaired were mainly (English, Welsh and Irish NHS Trusts/Health Authorities, other Health Bodies, overseas patients, research companies and private individuals) and it was assessed that not all of the receivable balance may be recovered.

Receivables that are less than three months past their due date are not considered impaired. As at 31 March 2019, receivables with a carrying value of £1.833 million (2018: £1.715 million) were past their due date but not impaired. The ageing of receivables which are past due but not impaired is as follows:

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

9 TRADE AND OTHER RECEIVABLES, Cont

2018 £000	2018 £000		2019 £000	2019 £000
600	600	Up to 3 months past due	606	606
326	326	3 to 6 months past due	504	504
907	907	Over 6 months past due	1,039	1,039
1,833	**1,833**		**2,149**	**2,149**

The receivables assessed as past due but not impaired were mainly (NHS Scotland Health Boards, Local Authorities and Universities) and there is no history of default from these customers recently.

Concentration of credit risk is limited due to customer base being large and unrelated/government bodies. Due to this, management believe that there is no future credit risk provision required in excess of the normal provision for doubtful receivables.

The credit quality of receivables that are neither past due nor impaired is assessed by reference to external credit ratings where available. Where no external credit rating is available, historical information about counterparty default rates is used.

9 TRADE AND OTHER RECEIVABLES, Contd

2018 £000	2018 £000		2019 £000	2019 £000
		Currencies:		
69,291	69,794	Pounds	63,092	63,220
69,281	**69,794**		**63,092**	**63,220**

All non-current receivables are due within 16 years (2017-18: 7 years) from the SoFP date.
The carrying amount of short term receivables approximates their fair value.
The fair value of long term other receivables is £20.487m (2017-18: £15.754m)
The effective interest rate on non-current other receivables is 0% (2017-18: 0%). Pension liabilities are discounted at 0.29% (2017-18: 0.10%)

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

10 INVESTMENTS

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
295		Government securities		549	
8,496	116	Other		7,979	113
8,791	**116**	**TOTAL**	SoFP	**8,528**	**113**
8,944	**120**	**At 1 April**		8,791	116
2,168		Additions	CFS	540	
(2,023)	(4)	Disposals		(974)	(3)
(298)		Revaluation surplus / (deficit) transferred to equity	SoCTE	171	
8,791	**116**	**At 31 March**		**8,528**	**113**
8,791	116	Non Current	SoFP	8,528	113
8,791	**116**	At 31 March		**8,528**	**113**

We have a small shareholding in HUB North of Scotland Ltd, an unlisted investment denominated in UK pounds; £113k in the form of non equity long term loans repayable in full with interest over 25 years to HUB North of Scotland Ltd as part of the financing arrangements for the Forres, Woodside and Tain Health Centre Project. The carrying value of these investments is cost less impairment as there is no active market. Stocks and Bonds relate to the Charitable Endowment Funds which are invested in a portfolio of bonds and equity investments, managed by the Funds appointed Investment Managers Adam & Co Investment Managers Ltd., in line with a medium risk strategy to deliver a balance between income and capital growth. The carrying value of Stocks and Bonds is market value.

11 CASH AND CASH EQUIVALENTS

	Note	2019 £000	2018 £000
Balance at 1 April		1,080	917
Net change in cash and cash equivalent balances	CFS	(45)	163
Balance at 31 March	SoFP	**1,035**	**1,080**
Total Cash – Cash Flow Statement		**1,035**	**1,080**

The following balances at 31 March were held at:

Government Banking Services	39	113
Commercial banks and cash in hand	159	97
Endowment cash	837	870
Balance at 31 March	**1,035**	**1,080**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

12 TRADE AND OTHER PAYABLES

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
		Payables due within one year NHS Scotland			
22,182	22,182	Boards		19,968	19,968
22,182	**22,182**	**Total NHSScotland Payables**		**19,968**	**19,968**
712	712	NHS Non-Scottish Bodies		1,263	1,263
210	210	Amounts payable to General Fund		198	198
13,794	13,794	FHS Practitioners		13,206	13,206
6,585	6,585	Trade Payables		4,870	4,870
20,090	20,090	Accruals		24,709	24,691
1,167	1,167	Deferred income		1,475	1,475
74	74	Payments received on account		6	6
145	145	Net obligations under Finance Leases	17	148	148
1,666	1,666	Net obligations under PPP/PFI Contracts	18b	1,824	1,824
7,609	7,609	Income tax and social security		7,724	7,724
5,005	5,005	Superannuation		4,892	4,892
540	540	Holiday Pay Accrual		721	721
3,650	3,650	Other Public Sector Bodies		3,149	3,149
1,317	1,296	Other payables		4,919	4,919
365	365	Other significant Payable - Pension contribution to Local Gvt Pension Scheme		505	505
85,111	**85,090**	**Total Payables due within one year**	SoFP	**89,577**	**89,559**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

12 TRADE AND OTHER PAYABLES, Contd

Consolidated 2018 £000	Board 2018 £000		Note	Consolidated 2019 £000	Board 2019 £000
		Payables due after more than one year			
		Other public sector bodies			
149	149	Net obligations under Finance Leases due within 2 years	17	191	191
686	686	Net obligations under Finance Leases due after 2 years but within 5 years	17	782	782
1,038	1,038	Net obligations under Finance Leases due after 5 years	17	753	753
1,823	1,823	Net obligations under PPP/PFI Contracts due within 2 years	18b	2,000	2,000
6,610	6,610	Net obligations under PPP/PFI Contracts after 2 years but within 5 years	18b	7,272	7,272
22,841	22,841	Net obligations under PPP/PFI Contracts due after 5 years	18b	20,179	20,179
0	0	Accruals			
33,147	**33,147**	**Total Payables due after more than one year**	SoFP	**31,177**	**31,177**
118,258	**118,237**	**TOTAL PAYABLES**		**120,754**	**120,736**
		WGA Classification			
22,182	22,182	NHS Scotland		19,968	19,968
12,679	12,679	Central Government Bodies		12,625	12,625
3,650	3,650	Whole of Government Bodies		3,149	3,149
712	712	Balances with NHS Bodies in England and Wales		1,263	1,263
79,035	79,014	Balances with bodies external to Government		83,749	83,731
118,258	**118,237**	**Total**		**120,754**	**120,736**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

12 TRADE AND OTHER PAYABLES, Contd

Consolidated 2018 £000	Board 2018 £000		Consolidated 2019 £000	Board 2019 £000
		Borrowings included above comprise:		
		Bank overdrafts		
2,018	2,018	Finance Leases	1,874	1,874
32,940	32,940	PFI Contracts	31,275	31,275
34,958	**34,958**		**33,149**	**33,149**
		The carrying amount and fair value of the non-current borrowings are as follows:		
		Carrying amount		
1,873	1,873	Finance Leases	1,726	1,726
31,274	31,274	PFI Contracts	29,451	29,451
33,147	**33,147**		**31,177**	**31,177**
Fair Value £000	**Fair Value £000**	The carrying amount and fair value of the non-current borrowings are as follows		
		Fair value		
1,873	1,873	Finance Leases		
31,274	31,274	PFI Contracts	29,452	29,452
33,147	**33,147**		**29,452**	**29,452**
		The carrying amount of short term payables approximates their fair value.		
		The carrying amount of payables are denominated in the following currencies:		
118,258	118,237	Pounds	120,754	120,736
118,258	**118,237**		**120,754**	**120,736**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

13a PROVISIONS – CONSOLIDATED AND BOARD

	Note	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2019 Total
		£000	£000	£000	£000	£000
At 1 April 2018		9,670	20,125	28,953	31	58,779
Arising during the year		736	2,532	5,341	227	8,836
Utilised during the year		(672)	(2,849)	(1,530)	(27)	(5,078)
Unwinding of discount		(179)		(70)		(249)
Reversed unutilised		(20)	(2,578)	(4,269)	(24)	(6,891)
At 31 March 2019	**2**	**9,535**	**17,230**	**28,425**	**207**	**55,397**

The amounts shown above in relation to Clinical & Medical Legal Claims against against NHS Highland are stated gross and the amount of any expected reimbursements are separately disclosed as receivables in Note 9

Analysis of expected timing of discounted flows – to March 2019

	Note	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2019 Total
		£000	£000	£000	£000	£000
Payable in one year	SoFP	836	2,343	5,087	92	8,358
Payable between 2-5 years	SoFP	2,569	11,587	17,477	115	31,748
Payable between 6-10 years	SoFP	2,587	1,500	1,456		5,543
Thereafter	SoFP	3,543	1,800	4,405	0	9,748
Total as at 31 March 2019		**9,535**	**17,230**	**28,425**	**207**	**55,397**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

13a PROVISIONS – CONSOLIDATED AND BOARD, Contd

PROVISIONS – CONSOLIDATED AND BOARD (PRIOR YEAR)

	Note	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2018 Total
		£000	£000	£000	£000	£000
At 1 April 2017		9,406	20,970	26,338	473	57,187
Arising during the year		851	2,315	6,162	51	9,379
Utilised during the year		(668)	(2,239)	(1,153)	(39)	(4,099)
Unwinding of discount		121		(115)		6
Reversed unutilised		(40)	(921)	(2,279)	(454)	(3,694)
At 31 March 2018		**9,670**	**20,125**	**28,953**	**31**	**58,779**

The amounts shown above in relation to Clinical & Medical Legal Claims against NHS Highland are stated gross and the amount of any expected reimbursements are separately disclosed as receivables in Note 9

Analysis of expected timing of discounted flows to 31 March 2018

	Note	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2018 Total
		£000	£000	£000	£000	£000
Payable in one year	SoFP	829	18,533	4,541	20	23,923
Payable between 2-5 years	SoFP	2,521	1,592	17,619	11	21,743
Payable between 6-10 years	SoFP	2,641		631		3,272
Thereafter	SoFP	3,679		6,162		9,841
Total as at 31 March 2018	SoFP	**9,670**	**20,125**	**28,953**	**31**	**58,779**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

13a PROVISIONS – CONSOLIDATED AND BOARD, Contd

Pensions and similar obligations

The Board meets the additional costs of benefits beyond the normal National Health Service Superannuation Scheme for Scotland benefits in respect of employees who retire early by paying the required amounts annually to the National Health Service Superannuation Scheme for Scotland over the period between early departure and normal retirement date. The Board provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 0.10% in real terms. The Board expects expenditure to be charged to this provision for a period of up to 17 years.

Clinical & Medical Legal Claims against NHS Boards

The Board holds a provision to meet costs of all outstanding and potential clinical and medical negligence claims. All legal claims notified to the Board are processed by the Scottish NHS Central Legal Office who will decide upon risk liability and likely outcome of each case. The provision contains sums for settlement awards, legal expenses and third party costs. Clinical and medical negligence cases lodged can be extremely complex. It is expected that expenditure will be charged to this provision in future years. The amounts disclosed are stated gross and the amount of any expected reimbursements are shown separately as debtors in the notes to the accounts.

Other (non-endowment)

The Board has provided for Employers and Third Party claims by reviewing all outstanding and potential claims which the Board may be liable for. The Board has provided 100% for claims assessed as Category 3, 50% of all claims assessed as Category 2. The balance of Category 2 and all of Category 1 being disclosed as Contingent Liabilities in Note 14. The provision is based on an estimate of the possible cost together with adverse legal costs.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

13b CLINICAL NEGLIGENCE AND OTHER RISKS INDEMNITY SCHEME (CNORIS)

2018 £000		Note	2019 £000
20,156	Provision recognising individual claims against the NHS Board as at 31 March	13a	17,437
(19,497)	Associated CNORIS receivable at 31 March	9	(16,966)
28,953	Provision recognising the NHS Board's liability from participating in the scheme at 31 March	13a	28,425
29,612	**Net Total Provision relating to CNORIS at 31 March**		**28,896**

The Clinical Negligence and Other Risks Scheme (CNORIS) has been in operation since 2000. Participation in the scheme is mandatory for all NHS boards in Scotland. The scheme allows for risk pooling of legal claims in relation to clinical negligence and other risks and works in a similar manner to an insurance scheme. CNORIS has an agreed threshold of £25k and any claims with a value less than this are met directly from within the board's own budgets. Participants, e.g. NHS board, contribute to the CNORIS pool each financial year at a pre-agreed contribution rate based on the risks associated with their individual NHS board. If a claim is settled the board will be reimbursed by the scheme for the value of the settlement, less a £25k "excess" fee. The scheme allows for the risk associated with any large or late in the financial year legal claims to be managed and reduces the level of volatility that individual boards are exposed to.

When a legal claim is made against an individual board, the board will assess whether a provision or contingent liability for that legal claim is required. If a provision is required then the board will also create an associate receivable recognising reimbursement from the scheme if the legal claim settles. The provision and associated receivable are shown in the first two lines above. The receivable has been netted off against the provision to reflect reimbursement from the scheme.

As a result of participation in the scheme, boards should also recognise that they will be required to make contributions to the scheme in future years. Therefore a second provision that recognises the board's share of the total CNORIS liability of NHSScotland has been made and this is reflected in the third line above.

Therefore there are two related but distinct provisions required as a result of participation in the scheme. Both of these provisions as well as the associated receivable have been shown in the note above to aid the reader's understanding of CNORIS.

Further information on the scheme can be found here

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

14 CONTINGENT LIABILITIES

The following contingent liabilities have not been provided for in the Accounts.

2018 £000	Nature	2019 £000
1,995	Clinical and medical compensation payments	1,897
151	Employer's liability	121
13	Third party liability	5
2,159	**TOTAL CONTINGENT LIABILITIES**	**2,023**

2018 £000	CONTINGENT ASSETS	2019 £000
1,622	Clinical and medical compensation payments	1,500
83	Employer's liability	
1,705		**1,500**

There have been two UK court rulings made regarding age discrimination arising from public sector pension scheme transition arrangements. The transition arrangements were put in place when LGPS moved from being a final salary based pension benefit to a career average based pension benefit from 1 April 2015. Court of Appeal judgements were made in cases affecting judges pensions (e.g. McCloud) and firefighter pensions (e.g. Sergeant) which had previously been considered by employment tribunals. The rulings have implications for LGPS schemes which implemented similar reforms. The final situation in terms of NHS Highlands's employer pension liabilities is not clear, since the government may appeal and there may be a remediation process that affects the resolution and financial impact for us. Timescales for the resolution of this matter may be lengthy and outcomes are currently difficult to assess and quantify.

15 EVENTS AFTER THE END OF THE REPORTING YEAR

There are no events after the end of reporting period to disclose.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

16 COMMITMENTS

Capital Commitments

The Board has the following capital commitments which have not been provided for in the Accounts.

2018 £000		Property, plant & equipment 2019 £000
	Contracted	
5,565	Mid Argyll PFI Lifecycle costs	5,328
3,791	Easter Ross PFI Lifecycle Costs	3,347
7,100	Raigmore Critical Care and Theatres	3,250
	Skye, B&S Hospital HUB Projects	567
150	Ophthalmology Theatres	
1,300	Replacement MRI	
17,906	**Total**	**12,492**
	Authorised but not Contracted	
600	Badenoch & Strathspey Land Purchase	
3,263	Radiotherapy	
2,100	Skye, B&S Hospital Bundle	30,000
306	Skye, B&S Hospital Bundle – sub debt	306
	Skye, B+S Hospital Bundle - equipping	1,450
2,000	Elective Care Centre	29,700
	Elective Care Centre - equipping	1,500
50	Grantown Health Centre Refurbishment	2,150
850	Portree Spoke Reconfiguration	4,450
100	Belford Hospital Replacement	29,300
500	CGH extension / modernisation	5,300
3,800	Rolling Replacement Programmes	4,727
	Radiotherapy	4,699
14,119	**Total**	**114,132**

17 COMMITMENTS UNDER LEASES

Operating Leases
Total future minimum lease payments under operating leases are given in the table below for the each of the following periods:

Obligations under operating leases comprise:

2018 £000		2019 £000
	Buildings	
2,134	Not later than one year	3,193
1,672	Later than one year, not later than 2 years	2,005
4,442	Later than two years, not later than five years	5,544
13,103	Later than five years	13,011

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

17 COMMITMENTS UNDER LEASES

	Other	
2,712	Not later than one year	3,005
1,225	Later than one year, not later than two years	2,028
1,182	Later than two years, not later than five years	1,005
	Amounts charged to Operating Costs in the year were:	
4,304	Hire of equipment (including vehicles)	4,114
3,942	Other operating leases	3,699
8,246	**Total**	**7,813**

Finance Leases

Total future minimum lease payments under finance leases are given in the table below for the each of the following periods.

Obligations under Finance leases comprise:

2018 £000			2019 £000
	Buildings		
331	Rentals due within one year		331
331	Rentals due between one and two years (inclusive)		357
1,124	Rentals due between two and five years (inclusive)		1,150
1,273	Rentals due after five years		891
3,059			2,729
(1,052)	Less interest element		(855)
2,007		12	**1,874**

2018 £000			2019 £000
	Other		
13	Rentals due within one year		
(2)	Less interest element		
11		12	0

This total net obligation under finance leases is analysed in Note 12 (Trade and Other Payables)

	Aggregate Rentals Receivable in the year	
434	Total of finance & operating leases	**391**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

18 COMMITMENTS UNDER PFI CONTRACTS – ON BALANCE SHEET

The Board has entered into the following PFI contracts:

Total obligations under on-balance sheet PFI/PPP contracts for the following periods comprises:

2018 £000	Gross Minimum Lease Payments	Note	New Craig's £000	Easter Ross £000	Mid Argyll £000	Tain HC HUB £000	2019 Total £000
4,179	Rentals due within 1 year		1,922	622	1,229	409	4,182
4,181	Due within 1 to 2 years		1,922	622	1,229	412	4,185
12,561	Due within 2 to 5 years		5,767	1,866	3,685	1,251	12,569
32,171	Due after 5 years		2,700	3,644	15,036	6,598	27,978
53,092	**Total**		12,311	6,754	21,179	8,670	48,914
	***Less* Interest Element**						
(2,513)	Rentals due within 1 year		(1,071)	(253)	(686)	(348)	(2,358)
(2,358)	Due within 1 to 2 years		(948)	(235)	(660)	(342)	(2,185)
(5,951)	Due within 2 to 5 years		(1,916)	(587)	(1,808)	(986)	(5,297)
(9,330)	Due after 5 years		(304)	(543)	(3,894)	(3,058)	(7,799)
(20,152)	**Total**		(4,239)	(1,618)	(7,048)	(4,734)	(17,639)
	Present value of minimum lease payments						
1,666	Rentals due within 1 year	12	851	369	543	61	1,824
1,823	Due within 1 to 2 years	12	974	387	569	70	2,000
6,610	Due within 2 to 5 years	12	3,851	1,279	1,877	265	7,272
22,841	Due after 5 years	12	2,396	3,101	11,142	3,540	20,179
32,940	**Total**		8,072	5,136	14,131	3,936	31,275
	Service elements due in further periods						
4,318	Rentals due within 1 year		2,689	716	975	91	4,471
4,471	Due within 1 to 2 years		2,689	747	981	88	4,505
13,840	Due within 2 to 5 years		8,067	2,470	3,456	250	14,243
39,683	Due after 5 years		3,361	6,888	23,551	974	34,774
62,312	**Total**		16,806	10,821	28,963	1,403	57,993
95,252	**Total Commitments**		**24,878**	**15,957**	**43,094**	**5,339**	**89,268**

Amounts charged to the Statement of comprehensive net expenditure in respect of on balance sheet PFI transactions comprises;

2018 £000		Note	2019 £000
2,296	Interest charges	2	2,160
4,318	Service Charges		4,485
1,525	Principal repayment		1,616
9	Other Charges		13
8,148	**Total**		**8,274**
9	Contingent Rents – (including other charges)		13

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

19 PENSION COSTS

IAS 19 Multi-employer plans

(a) The NHS Board participates in the NHS Superannuation Scheme (Scotland). The scheme is an unfunded statutory public service pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and from those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay, as specified in the regulations. The rate of employer contributions is set with reference to a funding valuation undertaken by the scheme actuary. The last four-yearly valuation was undertaken as at 31 March 2012. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019.

(b) The NHS Board has no liability for other employers obligations to the multi-employer scheme.

(c) As the scheme is unfunded there can be no deficit or surplus to distribute on the wind-up of the scheme or withdrawal from the scheme.

(d) (i) The scheme is an unfunded multi-employer defined benefit scheme.

(ii) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the NHS Board is unable to identify its share of the underlying assets and liabilities of the scheme.

(iii) The employer contribution rate for the year 2015-16 was 14.9% of pensionable pay. While the employee rate applied is a variable it will provide an actuarial yield of 9.8% of pensionable pay.

(iv) At the last valuation a shortfall of £1.4 billion was identified in the notional fund which will be repaid by a supplementary rate of 2.6% of employers pension contributions for fifteen years from 1 April 2015. This contribution is included in the 14.9% employers contribution rate.

(v) The total employer contributions received for the NHS Scotland scheme in the year to 31 March 2018 were £768.7 million (see note 3 in the scheme accounts). Contributions collected in the year to 31 March 2019 will be published in October 2019.

The NHS Board level of participation in the scheme is 5.19% based on the proportion of employer contributions paid in 2017-18.

Description of schemes

The new NHS Pension Scheme (Scotland) 2015
From 1 April 2015 the NHS Pension Scheme (Scotland) 2015 was introduced. This scheme is a Career Average Re-valued Earnings (CARE) scheme. Members will accrue 1/54 of their pay as pension for each year they are a member of the scheme. The accrued pension is revalued each year at an above inflation rate to maintain its buying power. This is currently 1.5% above increases to the Consumer Prices Index (CPI). This continues until the member leaves the scheme or retires. In 2016-17 members paid tiered contribution rates ranging from 5.2% to 14.7% of pensionable earnings. The normal retirement age is the same as the State Pension age. Members can take their benefits earlier but there will be a deduction for early payment.

The existing NHS Superannuation Scheme (Scotland)
This scheme closed to new joiners on 31 March 2015 but any benefits earned in either NHS 1995 or NHS 2008 sections are protected and will be paid at the section's normal pension age using final pensionable pay when members leave or retire. Some members who were close to retirement when the NHS 2015 scheme launched will continue to earn benefits in their current section. This may affect members who were paying into the scheme on 1 April 2012 and were within 10 years of their normal retirement age. Some members who were close to retirement but did not qualify for full protection will remain in their current section beyond 1 April 2015 and join the 2015 scheme at a later date.

National Employment Savings Trust (NEST)

The Pensions Act 2008 and 2011 Automatic Enrolment regulations required all employers to enrol workers meeting certain criteria into a pension scheme and pay contributions toward their retirement. For those staff not entitled to join the NHS Superannuation Scheme (Scotland), the Board utilised an alternative pension scheme called NEST to fulfil its Automatic Enrolment obligations.

NEST is a defined contribution pension scheme established by law to support the introduction of Auto Enrolment. Contributions are taken from qualifying earnings, which are currently from £5,876 up to £45,000, but will be reviewed every year by the government. The initial employee contribution is 1% of qualifying earnings, with an employer contribution of 1%. This will increase in stages to meet levels set by government.

	Employee Contribution	Employer Contribution	Total Contribution
1st March 2013	1%	1%	2%
1st October 2018	3%	2%	5%
1st October 2019	5%	3%	8%

Pension members can chose to let NEST manage their retirement fund or can take control themselves and alter contribution levels and switch between different funds. If pension members leave the Board they can continue to pay into NEST.

NEST Pension members can take money out of NEST at any time from age 55. If suffering from serious ill health or incapable of working due to illness members can request to take money out of NEST early. They can take the entire retirement fund as cash; use it to buy a retirement income or a combination. Additionally members can transfer their NEST retirement fund to another scheme.

NEST is run by NEST Corporation, a trustee body which is a non-departmental public body operating at arm's length from government and is accountable to Parliament through the Department for Work and Pensions.

	2019 £000	**2018 £000**
Pension cost charge for the year	39,969	40,091
Pension cost in year of staff transferred from Highland Council	4,535	4,592
Provisions/Liabilities/Pre-payments included in the SoFP	1,674	1,766

PENSION COSTS FOR STAFF TRANSFERRED FROM HIGHLAND COUNCIL

As part of the terms and conditions of employment for the staff transferred from Highland Council, the Board participates in the Local Government Pension Scheme administered by Highland Council. This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

The Fund is constituted under legislation governing the Local Government Superannuation Scheme – details are contained in the 2010 regulations. The Highland Council is required to publish the Pension Fund annual report which is available at www.highland.gov.uk or from Highland Council, Glen Urquhart Road, Inverness.

NHS Highland recognises the costs of these retirement benefits in the Statement of Net Comprehensive expenditure when they are earned by these employees, rather than when the benefits are eventually paid as pensions.

Highland Council recognises the liability of the Pension Fund at 31/03/2012 attributable to these NHS Highland staff in the Highland Council accounts. NHS Highland recognises the loss in the Fund for the year from 1 April 2018 to 31 March 2019 of £8.663m, giving a total to 31st March 2019 of

£25.076m (total to 31st March 2018 of £16.485m). This is included in two parts in NHS Highland's accounts:-

a) £21.965m of realised deficit in SOCNE which has been covered by funding from Scottish Government and

b) £3.111m of unrealised losses due to actuarial assumptions which is recorded as other Comprehensive Net Expenditure and offset against Reserves in the SoFP.

The deficit on the fund will be made good by increased contributions over the remaining working life of employees as assessed by the scheme's actuary. NHS Highland represents 4.8% of the scheme participants.

The charge to the Statement of Comprehensive Net Expenditure consists of:	**2019 £000**	**2018 £000**
Current Service cost	7,990	7,403
Interest Cost	1,710	1,548
Return in the Fund Assets	(1,213)	(899)
Financial Assumptions (Loss)/Gain	(4,128)	11,198
Charge to statement of comprehensive net expenditure	4,359	19,250

The current assets and liabilities are made up of :-

Present Value of the Scheme Liabilities		
	59,321	55,792
Opening defined benefit obligation	7,990	7,403
Current Service Cost	1,710	1,548
Interest Cost	6,151	(3,184)
Change in financial assumptions	(850)	(821)
Estimated benefits paid	-	270
Changes in demographic assumptions	-	(2,739)
Other experience	998	1,052
Contributions by scheme participants		
Closing Value	75,320	59,321

Fair Value of the Scheme Assets		
Opening Fair Value of scheme assets	42,908	32,773
Expected return on scheme assets	2,023	5,545
Interest Income	1,213	899
Contributions by employer	3,952	3,460
Contributions by Scheme participants	998	1,052
Estimated benefits paid (net of transfers in)	(850)	(821)
Closing value	50,244	42,908

The expected return on fund assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the SoFP date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The total contributions expected to be made to the Highland Council Pension Scheme by NHS Highland in the year to 31 March 2020 is £3.945m.

Basis for estimating assets and liabilities of the Pension Scheme

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension Scheme has been assessed by Hymans Robertson LLP, an independent firm of actuaries, estimates for The Highland Council Pension Fund being based on the latest full valuation of the scheme as at 31 March 2017.

The principal actuarial assumptions adopted as at 31 March 2019 are as follows:

	2019	2018
(a) Long term expected rate of return on assets in the scheme	2.9%	2.7%
(b) Life expectancy from age 65 (years)		
Retiring today:		
Males	21.9	21.9
Females	24.3	24.3
Retiring in 20 years:		
Males	23.3	23.3
Females	26.1	26.1
(c) Financial assumptions		
Rate of increase in salaries	3.5%	3.4%
Rate of increase in pensions (CPI)	2.5%	2.4%
Rate of discounting scheme liabilities	2.4%	2.7%
Take up of option to convert annual pension into retirement lump sum	50%	50%
(d) The Local Government Pension Scheme's assets consist of the following categories by proportion of the total assets held		
Securities	47%	47%
Debt Securities	-	5%
Private Equity	9%	5%
Real Estate	10%	11%
Investment Funds & Unit Trusts	31%	30%
Cash	2%	2%
Total	100%	100%

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

20 FINANCIAL INSTRUMENTS

20a Financial Assets

Consolidated At 31 March 2019	Notes	Loans & Receivables £000	Available for Sale £000	Total £000
Assets per SoFP				
Investments	10		8,528	8,528
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	9	34,736		34,736
Cash and cash equivalents	11	1,035		1,035
		35,771	**8,528**	**44,299**

BOARD At 31 March 2019	Notes	Loans & Receivables £000	Available for Sale £000	Total £000
Assets per SoFP				
Investments	10		113	113
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	9	34,864		34,864
Cash and cash equivalents	11	198		198
		35,062	**113**	**35,175**

CONSOLIDATED (Prior Year) At 31 March 2018	Notes	Loans & Receivables	Available for Sale	Total
Assets per SoFP				
Investments	10		8,791	8,791
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	9	35,497		35,497
Cash and cash equivalents	11	1,080		1,080
		36,577	**8,791**	**45,368**

BOARD (Prior Year) At 31 March 2018	Notes	Loans & Receivables	Available for Sale	Total
Assets per SoFP				
Investments	10		116	116
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	9	36,010		36,010
Cash and cash equivalents	11	210		210
		36,220	**116**	**36,336**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

20 Financial Instruments (cont'd)

Financial Liabilities

CONSOLIDATED at 31 March 2019	Note	Liabilities at Fair Value through profit and loss £000	Other financial liabilities £000	Total £000
Liabilities per SoFP				
Finance lease liabilities	12		1,874	1,874
PFI Liabilities	12		31,275	31,275
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation recoverable.	12		53,546	53,546
			86,695	**86,695**

BOARD at 31 March 2019	Note	£000	£000	£000
Liabilities per SoFP				
Finance lease liabilities	12		1,874	1,874
PFI Liabilities	12		31,275	31,275
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation recoverable.	12		53,528	53,528
			86,677	**86,677**

CONSOLIDATED (Prior Year) at 31 March 2018	Note	£000	£000	£000
Finance lease liabilities	12		2,018	2,018
PFI Liabilities	12		32,940	32,940
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation	12		47,337	47,337
			82,295	**82,295**

BOARD (Prior Year) at 31 March 2018	Note	£000	£000	£000
Finance lease liabilities	12		2,018	2,018
PFI Liabilities	12		32,940	32,940
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation	12		47,316	47,316
			82,274	**82,274**

20b Financial Risk Factors

Exposure to Risk

The NHS Board's activities expose it to a variety of financial risks:

Credit risk - the possibility that other parties might fail to pay amounts due.

Liquidity risk - the possibility that the NHS Board might not have funds available to meet its commitments to make payments.

Market risk - the possibility that financial loss might arise as a result of changes in such measures as interest rates, stock market movements or foreign exchange rates.

Because of the largely non-trading nature of its activities and the way in which government departments are financed, the NHS Board is not exposed to the degree of financial risk faced by business entities.

a) Credit Risk

Credit risk arises from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and other institutions, only independently rated parties with a minimum rating of 'A' are accepted.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the NHS Board.

The utilisation of credit limits is regularly monitored.

No credit limits were exceeded during the reporting period and no losses are expected from non-performance by any counterparties in relation to deposits.

b) Liquidity Risk

The Scottish Parliament makes provision for the use of resources by the NHS Board for revenue and capital purposes in a Budget Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget Act. The Act also specifies an overall cash authorisation to operate for the financial year. The NHS Board is not therefore exposed to significant liquidity risks.

The table below analyses the financial liabilities into relevant maturity groupings based on the remaining period at the SoFP to contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
at 31 March 2019	**£000**	**£000**	**£000**	**£000**
PFI Liabilities	4,182	4,185	12,569	27,978
Finance lease liabilities	331	357	1,150	891
Trade and other payables exc statutory liabilities	53,546			
Total	**58,059**	**4,542**	**13,719**	**28,869**
at 31 March 2018	**£000**	**£000**	**£000**	**£000**
PFI Liabilities	4,179	4,182	12,561	32,170
Finance lease liabilities	344	331	1,124	1,639
Trade and other payables exc statutory liabilities	70,321			
Total	**74,844**	**4,513**	**13,685**	**33,809**

c) Market Risk

The NHS Board has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the NHS Board in undertaking its activities.

i) Cash flow and fair value interest rate risk
The NHS Board has no significant interest bearing assets or liabilities and as such income and expenditure cash flows are substantially independent of changes in market interest rates.

ii) Foreign Currency Risk
The NHS Board is not exposed to foreign exchange rates.

iii) Price risk
The NHS Board is not exposed to equity security price risk.

c FAIR VALUE ESTIMATION

The fair value of financial instruments that are not traded in an active market (for example, over the counter derivatives) is determined using valuation techniques.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair value.

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current HM Treasury interest rate that is available for similar financial instruments.

21 DERIVATIVE FINANCIAL INSTRUMENTS

The Board has no transactions of this type.

22 RELATED PARTY TRANSACTIONS

The Board had no transactions with other government departments and other central government bodies. Transactions with the Endowment Funds are disclosed in note 27.

No Board Member, key manager or other related party has undertaken any material transactions with the Board during the year.

From 1 April 2012 the Highland Council and NHS Highland implemented integrated health and social care services. Under the partnership agreement effective from that date, NHS Highland is the lead agency for integrated adult services and Highland Council is the lead agency for the delivery of integrated children's services.

From 1 April 2012, NHS Highland and its adult social care staff contributed to the Pension fund run by Highland Council which provides pensions for the social care staff of NHS Highland.

The value of the partnership agreement for 18/19 for Adult Social Care was circa £94.2 million, and is shown in note 4 for income. The value of the agreement for Childrens Services was circa £10.1 million and is included in Note 3 expenditure.

23 THIRD PARTY ASSETS

Third Party Assets managed by the Board consist of balances on Patients' and Clients' Private Funds Accounts.

These are not departmental assets and are not included in the accounts. The assets held at the reporting period date to which it was practical to ascribe monetary values comprised monetary assets, such as bank balances and monies on deposit, and listed securities. They are set out in the table immediately below.

	2018 £000	Gross Inflows £000	Gross Outflows £000	2019 £000
Monetary amounts such as bank balances and monies on deposit	1,249	2,895	(2,569)	1,575
Total Monetary Assets	**1,249**	**2,895**	**(2,569)**	**1,575**

24a CONSOLIDATED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

Group 2018 £000		Note	Board 2019 £000	Endowment 2019 £000	Intra Group adjustment 2019 £000	A&B IJB 2019 £000	Consolidated 2019 £000
	Total Income and Expenditure						
378,608	Staff Costs	3	384,714				384,714
	Other operating expenditure	3					
86,140	Independent Primary Care Services		91,968				91,968
122,420	Drugs and medical supplies		124,169				124,169
518,587	Other health care expenditure		537,466	1,693	(103)		539,056
1,105,755	**Gross expenditure for the year**		**1,138,317**	**1,693**	**(103)**		**1,139,907**
(355,850)	Less: Operating Income	4	(366,293)	(1,619)	103		(367,809)
220	Associates & joint ventures accounted for on an equity basis						0
750,125	**Net Expenditure**		**772,024**	**74**			**772,098**

Other health care expenditure and income relates to the consolidation of the Endowment Accounts, realised gains from endowment investments of £79k have been recognised in the Endowment Income. Joint Ventures accounted for on an equity basis discloses the Board's share of any current year surplus or deficit for each integration Joint Board.

24b CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated 2018 £000		Note	Board 2019 £000	Endowment 2019 £000	Intra Group adjustment 2018 £000	A&B IJB 2019 £000	Group 2019 £000
	Non-current Assets:						
345,185	Property, plant and equipment	SoFP	354,180	0			354,180
2,681	Intangible assets	SoFP	2,706	0			2,706
	Financial assets:						
8,791	Available for sale financial assets	SoFP	113	8,415			8,528
15,754	Trade and other receivables	SoFP	20,487	0			20,487
372,411	**Total non-current assets**		**377,486**	**8,415**	**0**	**0**	**385,901**
	Current Assets:						
6,248	Inventories	SoFP	6,407	0			6,407
	Financial assets:						
53,527	Trade and other receivables	SoFP	42,733	13	(141)		42,605
1,080	Cash and cash equivalents	SoFP	198	837			1,035
60,855	**Total current assets**		**49,338**	**850**	**(141)**	**0**	**50,047**
433,266	**Total Assets**		**426,824**	**9,265**	**(141)**	**0**	**435,948**
	Current liabilities						
(23,923)	Provisions	SoFP	(8,358)	0			(8,358)
	Financial liabilities:						
(85,111)	Trade and other payables	SoFP	(89,559)	(159)	141		(89,577)
(109,034)	**Total current liabilities**		**(97,917)**	**(159)**	**141**	**0**	**(97,935)**
324,232	**Non-current assets plus / less net current assets / liabilities**		**328,907**	**9,106**	**0**	**0**	**338,013**
	Non-current liabilities						
(34,856)	Provisions	SoFP	(47,039)	0			(47,039)
	Financial liabilities:						
(33,147)	Trade and other payables	SoFP	(31,177)	0			(31,177)
(68,003)	**Total non-current liabilities**		**(78,216)**	**0**	**0**	**0**	**(78,216)**
256,229	**Assets less liabilities**		**250,691**	**9,106**	**0**	**0**	**259,797**
	Taxpayers Equity						
119,947	General Fund	SoFP	120,050	0			120,050
108,824	Revaluation reserve	SoFP	111,787	0			111,787
18,447	Other reserves	SoFP	18,854	0			18,854
9,011	Funds Held on Trust	SoFP	0	9,106			9,106
256,229	**Total taxpayers' equity**		**250,691**	**9,106**	**0**	**0**	**259,797**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

24c CONSOLIDATED STATEMENT OF CASHFLOWS

Consolidated 2018 £000		Board 2019 £000	Intra Group adjustment 2019 £000	Endowment 2019 £000	A&B IJB Adjustment 2019 £000	Consolidated 2019 £000
	Cash flows from operating activities					
(750,125)	Net operating expenditure	(772,024)	(74)		0	(772,098)
30,154	Adjustments for non-cash transactions	16,669			0	16,669
2,879	Add back: interest payable recognised in net operating expenditure	2,473				2,473
(19)	Deduct: Interest receivable recognised in net operating expenditure	(12)	0			(12)
3,794	Movements in working capital	7,514	(389)			7,125
(713,317)	**Net cash outflow from operating activities**	**(745,380)**	**(463)**	**0**	**0**	**(745,843)**
	Cash flows from investing activities					
(20,087)	Purchase of property, plant and equipment	(19,112)	0			(19,112)
(560)	Purchase of intangible assets	(865)	0			(865)
(2,168)	Investment additions	0	(540)			(540)
(22)	Transfer of assets to/(form) other NHS bodies					0
82	Proceeds of disposal of property, plant and equipment	106	0			106
2,019	Receipts from sale of investments	0	970			970
19	Interest and dividends received	12	0	0	0	12
(20,717)	**Net cash outflow from investing activities**	**(19,859)**	**430**	**0**	**0**	**(19,429)**
	Cash flows from financing activities					
738,729	Funding	769,521				769,521
21	Movement in general fund working capital	(12)				(12)
738,750	Cash drawn down	769,509	0	0	0	769,509
(1,674)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(1,809)				(1,809)
(6)	Interest paid	248				248
(2,873)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	(2,721)				(2,721)
734,197	**Net Financing**	**765,227**	**0**	**0**	**0**	**765,227**
163	**Net increase / (decrease) in cash and cash equivalents in the period**	(12)	(33)	0	0	(45)
917	**Cash and cash equivalents at the beginning of the period**	210	870	0	0	1,080
1,080	**Cash and cash equivalents at the end of the period**	**198**	**837**	**0**	**0**	**1,035**
	Reconciliation of net cash flow to movement in net debt/cash					
163	Increase / (decrease) in cash in year	(12)	(33)			(45)
917	Net cash at 1 April	210	870	0	0	1,080
1,080	**Net cash at 31 March**	**198**	**837**	**0**	**0**	**1,035**

Highland Health Board

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of sections 86(1), (1B) and (3) of the National Health Services (Scotland) Act 1978, hereby give the following direction.

2. The statement of accounts for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.

3. Subject to the foregoing requirements, the accounts shall also comply with any accounts format, disclosure and accounting requirements issued by the Scottish Ministers from time to time.

4. The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

5. This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 30 December 2002 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 10/2/2006