Highland Health Board

ANNUAL REPORT and ACCOUNTS

for

THE YEAR ENDED 31 MARCH 2020

INDEX **Page**

The Performance Report	3-18
The Accountability Report	19-39
Independent Auditor's Report	40-42
Statement of Consolidated Comprehensive Net Expenditure	43
Consolidated and Board Statement of Financial Position	44
Statement of Consolidated Cashflows	45
Statement of Changes in Taxpayers' Equity	46-47
Accounting Policies	48-61
Notes to the Accounts	62-100
Direction by the Scottish Ministers	101

ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2020

THE PERFORMANCE REPORT

1. Overview

This overview summarises the key issues faced by NHS Highland in 2019/20, 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 2020/21.

1.1 Chief Executive Statement

I cannot start my Annual Report without firstly acknowledging the extraordinary efforts of our health and care teams, managers, our patients and our colleagues in The Highland Council and elsewhere in planning for, and then, implementing the unprecedented response to the Covid-19 pandemic.

The pandemic began to impact upon our services in mid-March and from this period on the response from our teams has been nothing short of remarkable.

Clearly, as I write this report for 2019/20 we are still very much in the middle of managing this crisis across our communities. While the future remains uncertain as we begin to see lockdown measures eased, we can be confident that our health and care teams will continue to provide us all with exemplary service in the toughest of conditions. I would like to place on record my sincere thanks and admiration for the work they continue to do.

I joined NHS Highland as interim CEO in January and it was my good fortune that the organisation was already on the way to addressing two major challenges during the 2019/20 year.

The first of these was the Sturrock Report, published in May 2019, and which was a defining moment for NHS Highland in highlighting long-standing issues of bullying and harassment which had a significant impact on our current and ex-employees. The findings of this report were sobering for the NHS Highland Board, our staff and our patients and communities and generated significant negative publicity as well as a call to action from stakeholders including whistle-blowers, staff-side colleagues and others with the interests of NHS Highland at heart.

While a number of positive actions were taken in response to the report during 2019/20, it was clear that we needed to accelerate efforts already underway to offer our current and ex-employees an opportunity to be heard. Specifically we needed to find a way to heal some of the wounds which the culture of bullying and harassment had created.

I was, therefore, delighted that with the support of whistle-blowers and staff-side colleagues, a co-produced Healing Process was approved by our Board in March 2020. This process is unique in Scotland and will give access to one to one consultations, psychological therapies and independent panel reviews for those most affected by historic allegations of bullying and harassment.

I am firmly of the view that NHS Highland cannot move forward and tackle its culture without first addressing the past and the Healing Process offers us this vital opportunity. I would like to thank the whistle-blowers for speaking up and for helping us design this process and staff-side for their support also during the co-production period.

I am delighted also that we have also been able to announce new measures to support our current employees in addressing any ongoing concerns. An independently provided employee assistance programme is now in place and we also now have plans in place for an independent speak-up service to give further encouragement to staff in their ability to safely raise issues and concerns and see them addressed swiftly and fairly.

At the time of writing we have had the results of the Argyll and Bute culture survey which re-emphasised to myself and our Board the urgency of addressing our cultural issues. Tackling this issue remains my key priority in the months ahead.

The second major challenge was our financial performance, with NHS Highland escalated to Level 4 of the Scottish Government's performance escalation framework as a result of an accumulated financial deficit of £39.4m in 2018/19 and a resultant need for brokerage from Scottish Government (£11.4m brokerage forecast for 2019/20).

When I joined the organisation in January I was delighted at the progress that had been made in tackling our deficit and my job was simply to provide further encouragement to the team to keep going and close out delivery of our financial efficiency programme for the remaining months of the year.

By the end of the financial year 2019/20 we had achieved savings of £33.8m with approximately £17.5m of these savings being recurrent and which benefit future years. We exceeded our financial plan and our brokerage requirement is slightly lower at £11.0m than the approved brokerage of £11.4m when we started the year.

This has been a remarkable achievement and is the result of a huge amount of hard work by our clinical and management teams and our Programme Management Office supported by external consultants.

There is so much more to do in order to achieve our target of financial balance by the end of 2021/22 including in addressing long-standing and well publicised deficits in our funding model with The Highland Council for Adult Social Care services and in restructuring services and moving more care to the community. However, we have made a great start and I want to thank all concerned for their efforts throughout the year. And who knows, perhaps during 2020/21 our efforts may see our escalation status reduce if we can continue the trajectory we are now on.

We have seen a number of changes in our leadership team as the year has progressed. We said farewell to Dr Rod Harvey as Medical Director in early September 2019 and to Professor Hugo Van Woerden as Director of Public Health in January 2020. I thank them for their valued contribution to NHS Highland over many years and at the same time welcome Dr Boyd Peters as Medical Director and Dr Ken Oates as interim Director of Public Health.

Fiona Hogg was confirmed as Director of Human Resources in July 2019 and David Garden was confirmed as Director of Finance in January 2020 following a spell as interim Director of Finance.

Professor Boyd Robertson had held the position of Board Chair on an interim basis throughout the financial year, and was appointed to the position on a substantive basis with effect from 1 December 2019.

During 2020/21 I expect we will see changes in our organisational structure including in our Acute and our Community structures with the aim of empowering our clinicians and managers and delivering improved care to the communities we serve.

During the year we have also made good progress on a number of service improvements.

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. 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.

Building is underway on the new Badenoch and Strathspey community hospital in Aviemore which will see the redesign of health and social care services in the area.

At the same time, and following engagement with local communities in Skye, Lochalsh and South West Ross, construction has commenced the with a new purpose built Community Hospital in Broadford 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.

Work on Lochaber Redesign which includes developing a new hospital and wider redesign within Lochaber has continued throughout the last year with clinical modelling having been completed and progress towards completion of the Initial Agreement being made.

The Board’s approval of the Caithness Redesign proposals was subsequently endorsed by the Cabinet Secretary. The Caithness Redesign is one of a number of pathfinder projects shifting the balance of care and developing local care models across Scotland.

I would like to conclude my report by thanking our staff, our patients and their communities and our stakeholders across the health and care sector for their help this year.   Not only for their help in addressing the momentous change associated with the Covid-19 pandemic but also for helping NHS Highland begin the journey of recovery as we seek to put our financial and cultural challenges behind us and move forward to the challenges of the future with a renewed sense of confidence and pride in our organisation.   There is clearly much to do but also so much to look forward to.

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 affecting 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 at level 4 in the Scottish Government escalation framework, this is where the Scottish Governments consider that there are significant risks to delivery, quality, financial performance or safety and that senior level external support is required. In 2019/20, £11m of brokerage was required to achieve the statutory targets. For 2020/21 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 2020/21, 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 21 members comprised of 16 Non-Executive and 5 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, 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 (coterminous with The Highland Council area) and Argyll & Bute Health and Social Care Partnership (co-terminous with Argyll & Bute Council area).

Argyll & Bute

NHS Highland and Argyll & Bute Council conducted the quinquennial review of the Scheme of Integration for Argyll & Bute Health and Social Care Partnership as required. It was further presented to the communities of Argyll & Bute for consultation with subsequent amendments taken into consideration and presented to partners for review and agreement. The Scheme was approved by both partners through their governance and is now ready for submission to the Scottish Government within the prescribed timescale.

The Scheme of Integration reflects that the Health and Social Care Partnership is now established and how current and future legislative changes can be reflected and implemented.

Argyll & Bute will continue to integrate all Adult, Children’s and Justice health and social care services in the form of Argyll and Bute Health and Social Care Partnership (ABHSCP). This 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 Argyll & Bute IJB approved a developed governance structure which includes a new Finance and Policy Committee, a clear review of the roles of each committee set out in new Terms of Reference.

The Strategic Planning Group terms of reference are currently under review with a view to strengthening links with locality Planning Groups.

The Committee Structure remains advisory to the IJB and Clinical and Care Governance retains its direct link with NHS Highland Clinical Governance Committee for Clinical leadership.

1.4 Priorities and Approach

Argyll & Bute

Argyll & Bute Health and Social Care Partnership delivered the Strategic Plan for the next three years to the IJB and it was subsequently approved.

The key strategic priorities identified for 2019-2022 are as follows:

- Support people to live fulfilling lives in their own homes, for as long as possible
- Promote health and wellbeing across all our communities and age groups
- Support unpaid carers to reduce the impact of their caring role on their own health and wellbeing
- Reduce the number of avoidable emergency admissions and minimise the time that people are delayed in hospital
- Support staff to continuously improve the information support and care that they deliver
- Institute a continuous quality improvement management process across the functions delegated to the Partnership
- Efficiently and effectively manage all resources to deliver best value

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 2020/21

Argyll & Bute

Argyll & Bute Health and Social Care Partnership have identified seven areas of focus for the forthcoming year in delivering the Strategic Plan with identified professional leadership and planned delivery:

1. Reduce the number of avoidable emergency admissions to hospital and minimise the time that people are delayed in hospital.
2. Promote health and wellbeing across all our communities and age groups
3. Support people to live fulfilling lives in their own homes, for as long as possible.
4. Support unpaid carers, to reduce the impact of their caring role on their own health and wellbeing.

5. Institute a continuous quality improvement management process across the functions delegated to the Partnership.
6. Support staff to continuously improve the information, support and care that they deliver.
7. Efficiently and effectively manage all resources to deliver Best Value.

This plan has been presented to both our partners and is in parity with the respective directions of travel.

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 2020/21, other key elements of the plan will be developed to address an initial combined target of £28 m of recurring savings.

2. 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 coupled with the need to identify good financial stewardship.

4. The development of a Service Delivery Strategy during 2020/21 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.

Person Centred

Listening and Learning We will improve our ability to listen to what our patients tell us and act on complaints and feedback openly and promptly and to make change as a result

Communication We will develop a strategy and plan to make our communications more accessible, informative and straightforward for everyone

Engagement We will develop robust plans to engage with communities and foster partnership working, so we can design and review our services with people at the heart

Accessibility We will provide care where and how it is needed and ensure appropriate person centre choices in our care

Employer of Choice

Culture We will ensure colleagues feel valued and are treated with dignity and respect and any problems or concerns that arise are quickly addressed and resolved and the necessary support provided.

Healing We will address the hurt caused to colleagues who experienced inappropriate behaviour by activating our Healing Process focussed on listening, resolution and learning from the past to inform our future

Absence We will address high levels of absence through delivery of our health and wellbeing strategy and improvements to processes for managing people

Management Development We will deliver a tactical training intervention to all managers, supervisors and professional leads to ensure capability and confidence in dealing with colleague concerns

Clinically Excellent

Population Health – We will work to maintain and improve the health of the population of NHS Highland and to reduce inequalities in health outcomes

Safety and Quality – We will improve the standard and safety of care through the implementation of an agreed quality improvement programme
Service Delivery - We will effectively manage service delivery to ensure the requirements of the Annual Operating Plan are met in full
Technology enabled / Innovation - We will transform our service delivery enabled by digital innovation and real time information to have safe, smarter and more efficient care built around earlier interventions.

Sustainable
Managing Performance - We will continue to develop and utilise high quality data and insights to inform planning, monitoring and decision making across the organisation
Infrastructure – We will continually review footprint and facilities to ensure resources are maximised and aligned to the strategy and the needs of our communities, and the environment we provide care in is safe and promotes healing and wellbeing
Finance – We will develop and deliver the plan to achieve the financial targets as agreed with government as part of our return to sustainability in 2022
Governance and Leadership – We will build confidence in our communities and colleagues by demonstrating sound and effective strategic leadership and efficient board governance and oversight
Workforce - We will build a sustainable workforce for the future by nurturing and growing our own talent and ensure our colleagues are supported to work for as long as they wish to.

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 significant work to be done to reassure people that proposed changes will benefit rather than diminish service provision.

- **Culture Transformation** – The Board continues to place significant effort to ensure that everyone working within NHS Highland feels valued, respected and listened to, but this takes time and is based on individual relationships and experiences. Positive promotion and reinforcement will be required to ensure a balanced view of the organisation internally and externally.

- **Staff recruitment and retention** – Recognising that particular areas have particular problems in attracting healthcare professionals especially in remote and rural locations, our efforts continue to be on balancing attracting talent to our location, retaining existing colleagues and providing them with development opportunities and in developing a sustainable pipeline of early career and changing career talent from within our own communities.

- **Covid-19** – The impact of Covid-19 and the remobilisation of services will be a significant challenge to all Boards throughout 2020/21.

Argyll & Bute

Argyll & Bute Health and Social Care Partnership proactively worked with the Integration Joint Board and Audit partners to review the strategic risk register for the forthcoming year and identify the levels and appetite for risk. The key issues and risks facing Argyll & Bute Health and Social Care Partnership are identified as:

- **Financial Sustainability** – The partnership has reduced the risk to medium based on the mitigating actions of increased financial governance and developed integrated reporting. Proposals for a whole system budget planning approach in line with government policy would seek to progress the integrated approach and develop community based services further.
- **Sustainability of Commissioned Services** –The HSCP is in process of developing its commissioning plan engaging with partners, providers and communities and workforce planning to ensure a sustainable approach to commissioned services. This is expected to be approved early 2020.
- **Scottish Government legislative and policy developments and the resource impact on delivering the Strategic Plan** –There is regular liaison with Scottish Government and this risk is mitigated by early impact assessments locally for national policies including any budget impact. The partnership also seeks to be innovative in the implementation of policies ensuring they can be tailored to a remote and rural environment.
- **Workforce recruitment and retention** – meeting our national and local requirements for workforce planning. Delivering workforce design within supporting legislation. Identified contingency plans for clinical posts to reduce medical locums. Support commissioned service providers with recruitment and retention for example supporting the Living Wage.
- **Communication and Engagement with Communities** – This remains a key risk during a period of development of services. The HSCP seek to ensure openness and transparency through governance, two way communication and engagement of elected members and the wider stakeholder groups in delivering service changes.

The Strategic Risk Register is reviewed on a 6 monthly basis by the IJB and supported by the committee structure as directed ongoing.

1.7 Performance Summary

NHS Highland has not managed to fully meet the access times set by the Scottish Government and are in the lower quartile range when compared to the rest of NHS Scotland in 6 of the areas including 18 Weeks Referral to treatment, Diagnostic Waiting Times, 31 day and 62 day Cancer targets, Drug & alcohol treatment waiting times and Cancelled Planned operations.

1.7.1 4 Hour Wait

NHS Highland has four Emergency Departments - Raigmore, Lorn and Islands, Belford Hospital and Caithness General Hospital. The board treated 90.9% of its emergency department patients within four hours as compared to a national target of 95% in January 2020.

All four sites are experiencing increasing demand year on year. The six Essential Actions Oversight Group is made up of senior management personnel with the authority to unblock any barriers to progress. A number of factors have influenced performance including the increased acuity of people presenting at the hospital, an increase in admissions due to falls, and an increased demand for adult social care services with an increasing number of delayed discharges within the hospital affecting the flow from the Emergency Departments.

1.7.2 12 week wait for Outpatients

The target for outpatients is for 95% of all patients to have their appointment 12 weeks after referral and, as of January 2020, NHS Highland achieved 82.3% compliance which compares favourably with the national average of 72.9%. A programme of modernisation in outpatients is underway to improve performance through the cross cutting theme programme of the PMO.

1.7.3 12 week wait for Time to Treatment Guarantee

The SGHD have provided additional waiting times improvement funding throughout 2019/20 and this has seen the total number of Outpatients waiting over 12 weeks reducing significantly and NHS Highland delivering the planned reduction as outlined in the Annual Operational Plan as at the end of January 2020.

NHS Highland has not managed to fully meet the treatment time targets set by the Scottish Government. In elective care, as of March 2020, 59.3% of patients were treated within the 12 week target specified as compared to a national average of 71.9%. There has been reduced capacity due to major upgrading works to theatres at Raigmore Hospital, which are scheduled to be completed in April 2020. There are capacity constraints for both Orthopaedics and Ophthalmology and the approval of the Full Business Case for the Elective Care Centre will provide the sustainable solution for these services with building works completing in December 2022 and the centre becoming operational in 2023.

1.7.4 Cancer Waiting Times Targets (31 days and 62 days)

NHS Highland working with the Scottish Government developed a Cancer Action Plan for 2019/20 and this has resulted in NHS Highland meeting the 31 day standard for the time taken from urgent referral of suspected cancer to first treatment in December 2019 with a performance of 96-6% compared with the national average of 96.5%.

Challenges are continuing with meeting the 62 day standard with NHS Highland's performance in December 2019 at 72.4% due mostly to a lack of capacity in urology compared with the national average of 83.7%.

1.7.5 Diagnostic Waits

Challenges continue with NHS Highland having difficulty in relation to the Referral to Treatment target of 6 weeks for endoscopy and radiology. In 2019/20 there has been investment in nurse validation of waiting lists, increased session utilisation and additional weekend sessions and the AOP for 2020/21 includes the capital funding to create a 4th Endoscopy Room in Raigmore Hospital.

For radiology, NHS Highland have used a mobile MRI unit and additional sessions with in-house team, recruitment of trainee sonographer and review of session templates to increase capacity.

As at March 2020 the year end out for NHS Highland was 64% of patients seen within 6 weeks.

1.7.6 18 Weeks referral to Treatment
NHS Highland has seen performance continue to decline throughout this financial year and in March 2020 achieved 76.5% against a national target of 90% and national average of 78.9%.

1.7.7 CAMHS Waiting Times.
Waiting Times for CAMHS services are improving in NHS Highland but remain below the national target of 90% with performance at the end of March 2020 standing at 75.2%, but above the national average of 66.4%. Data recording and data quality within mental health services are currently under review with the aim of having a Performance Framework established by the end of the 2nd Quarter in 2020/21.

1.7.8 Psychological Therapies Waiting Times.
Performance levels are static and below national target of 90% with performance at the end of March 2020 of 80.2% (national average 79.0%). This service will be included in the new Performance Framework for Mental Health Services.

1.7.9 SAB (MRSA/MSSA).
The year-end target for this indicator (approx. 60 cases annually for NHS Highland) will not be met in this financial year (PI 63 cases at 3 Feb 2020).

Summary

NHS Highland has expended considerable effort during 2019/20 to improve the management of waiting lists and the achievement of financial balance. It is equally clear that much still remains to be done. 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 is in the ongoing creation of a working environment which fully embraces service transformation and respects the needs of everyone involved in the provision of NHS services. It is clear that the impact of the COVID19 pandemic will affect our waiting time performance over the period of the lockdown and social distancing requirements, but we are looking forward both to the reinstatement of the work which was already underway and the application of new and improved ways of working which have arisen due to the on-going need to provide services through this period.

2 Performance Analysis

Annual Operational Plan 2019/20

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 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. A new performance monitoring and reporting framework is in preparation to support the aims and objectives of the Board and new management team.

The most recent Annual Performance Report (2018-19) for the Argyll and Bute HSCP is available for download from the NHS Highland website. It contains the full performance for this period against the 9 National Health and Well Being Outcomes and the 23 sub-indicators. These form the basis of the reporting requirement for all Health and Social Care Partnerships. Importantly it contains a number of case studies highlighting the real impact of changing integrated practice in relation to national and local policy decisions.

There are currently 65 indicators against which the HSCP measures performance, 38 measures are reported as meeting our targets. Further analysis of the trends across the outcomes notes 34 measures showing no change in trend against the previous quarter, 18 measures showing an improvement in performance trend and 14 measures showing a worsening trend. The HSCP also report on Ministerial Steering Group Indicators including emergency admissions performance, A & E attendances, unplanned bed days and delayed discharge bed days.

Performance reporting is reported to the IJB and any highlighted issues are directed to the relevant committee to recommend appropriate actions to address.

Achievements in the last annual reporting period include:

- A continuing decrease in the number of days patients are staying in Cowal Community Hospital

- Development of virtual wards across the Partnership have allowed us to monitor both individuals in Glasgow Hospitals, and those being supported at home, to prevent in-patient stays
- Embedding re-ablement into all our community teams and ensuring routine and swift homecare review processes are in place
- Successful bed modelling exercises conducted throughout Argyll and Bute which have realised more efficient models of care.

Our areas of focus in 19/20 identified the operational units we are targeting that support increased performance:

- Continue to expand our use of technology such as telecare, health and home monitoring systems, and health assistance equipment
- Support our communities to develop activities using income from Self Directed Support
- Work with communities to develop local provision of care at home
- Develop our prevention services including support for anticipatory care, identifying local networks of support, and facilitating carer support
- Work with GPs and other services to co-ordinate care and minimise unexpected problems or admissions
- Work with partners in the voluntary and housing sector and with our communities to develop a range of suitable accommodation options.

Finance remains a challenge but has benefited from increased financial monitoring with the Finance and Policy Committee meeting monthly, joint working with NHS Highland PMO and IJB support for local investment in a local PMO to replicate practice across all services. This will look at key areas at risk of overspend including Learning and Physical Disability, Adult and Commissioned services and areas of Children's Services.

Financial Performance

The Scottish Government requires NHS Boards to meet three key financial targets:

- ♦ a Revenue resource limit;
- ♦ a Capital resource limit; and
- ♦ a Cash.

Further details on non-core elements of expenditure, typically comprising items of a technical accounting nature, can be found in the Summary of Resource Outturn.

	Limit as set by SGHSCD £'000	**Actual Outturn £'000**	**Variance (Deficit)/ Surplus £'000**
Core Revenue Resource Limit	751,766	751,355	411
Non-core Revenue Resource Limit	34,838	34,837	1
Total	**786,604**	**786,192**	**412**

Core Capital Resource Limit	28,934	28,934	0
Non-core Capital Resource Limit	0	0	0
Total Capital Resource Limits	**28,934**	**28,934**	**0**
Cash Requirement	814,726	814,726	0

MEMORANDUM FOR IN YEAR OUTTURN	**£'000**
Core Revenue Resource Variance (Deficit)/Surplus in 2019-20	411
Financial flexibility: funding banked with/(provided by) Scottish Government	11,000
Underlying (Deficit)/Surplus against Core Revenue Resource Limit	(10,589)
Percentage	1.41%

A three-year financial plan was submitted to Scottish Government by NHS Highland on 3rd August 2019, as this did not present a breakeven position over the period, the Board was escalated on the NHS Board Escalation Framework.
As a result, the outturn position reported in the Summary of Resource Outturn was delivered with additional funding of £11 million from the Scottish Government.
Without this additional support, the Board's final outturn would have been an overspend of £10.589 equivalent to 1.41% of the Revenue Resource Limit.

In November 2018, the Board was escalated to level 4 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 early part of the financial recovery process and the creation of a Programme Management Office (PMO) resource which is now well established and integrated within the structure of the Board along with a financial recovery board.

NHS Highland started the year with an underlying gap of £39.4m and set a deficit budget of £11.4m, leaving a savings target of £28m. The Annual Operational Plan (AOP) submitted to Government highlighted that revenue brokerage would again be required to meet its financial targets.

A number of cost pressures estimated at over £7m were also experienced during the year, including medical locum costs and the cost of new drugs. In addition, there were once again significant increases in cost within the Service Level Agreement between Argyll & Bute and Greater Glasgow and Clyde Health Board.

The new processes put in place have driven sustained efforts from all areas over the course of this year resulting in;

- the full achievement of savings targets totalling £28m
- £15.6m (56%) of these savings were delivered recurrently
- the management and mitigation of in year pressures in excess of £7m
- and the delivery of an improved outturn of £0.7m below the original target
- a reduced brokerage requirement of £11m was required in order to meet financial targets

When applied to the recurrent savings target and the full year effect is taken into account, recurrent savings delivery is closer to 69%

When brokerage of £11m is applied a small surplus of £0.4m is reported in 2019/20.

The outlook for 2020/21 and beyond has been clouded by the global Covid pandemic. Plans before the outbreak indicated a gap a £37.6m with a savings challenge of £28.8m and a revenue brokerage requirement of £8.8m.

These plans assumed resolution to the funding of adult social care as well as an agreement with NHS Greater Glasgow & Clyde with regards the service level agreement between them and the Argyll & Bute Health and Social Care Partnership. Negotiations around both of these issues have stalled as a result of the pandemic.

The full costs associated with the mobilisation of NHS Highland in response to Covid and the funding which will be provided by Government to fund these are not entirely clear at the time of writing although weekly discussions between Health Boards and Scottish Government are ongoing with regards to this.

In spite of these financial uncertainties, considerable amounts of work are now underway to develop plans to restart the work around cost improvement, in areas where this is appropriate, and workstreams have been remobilised and focused on this, recognising that the later start will inevitably have an impact upon delivery.

Bad debt provision of £1.288m this year (prior year £1.122m) 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

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 2019, 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 2019 could potentially amount to £228,242.

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.

	2019/20	2018/19
Average period of credit taken	9 days	11 days
Percentage of invoices paid within 30 days:		
- by volume	93.38%	92.59%
- by value	95.90%	94.58%
Percentage of invoices paid within 10 days:		
- by volume	86.81%	84.92%
- by value	87.05%	86.07%

The performance of meeting the 10 day target for taking credit has been met and the percentage of value and volume has improved during 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.

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 been working with Scottish Government to ensure arrangements for Whistleblowing are in place to meet the revised National Standards from July 2020. We have our nationally appointed Board Whistleblowing Champion, Bert Donald, who was appointed on

1st February 2020 and our policies and processes are being reviewed. The Guardian Service will provide us with an independent, external Speak Up service from July 2020, as an additional channel to raise concerns.

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.

30 June 2020……………………………………………………………………..………….Chief Executive Officer

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 2020.

Date of Issue
Financial statements were approved by the Board and authorised for issue on 30 June 2020.

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. Audit Scotland have notified the health board that the appointment period is to be extended by a further year to 2021/22. 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

Alexander Anderson	Non Executive Director from 1 July 2019
Jean Boardman	Non Executive Director from 1 July 2019
James Brander	Non Executive Director
Alasdair Christie	Non Executive Director
Sarah Compton-Bishop	Non Executive Director
Ann Clark	Non Executive Director – Chair Highland Health and Social Care Committee from 29 January 2019 Board Vice Chair from 3 September 2019
Mary Jean Devon	Argyll and Bute Council Local Authority Member until 10 January 2020
Albert Donald	Nationally appointed Whistleblowing Champion from 1 February 2020
Alasdair Lawton	Non-Executive Member
Deirdre MacKay	Highland Council Local Authority Member
Philip MacRae	Non Executive Director from 1 July 2019

Margaret Moss	Chair Area Clinical Forum
Melanie Newdick	Non-Executive Member and Vice Chair of the Board until 12 July 2019
Adam Palmer (from 01/10/13)	Employee Director Staff Side Chair – Highland Partnership Forum
Ann Pascoe	Non-Executive Member
Professor Boyd Robertson	Interim Chair of the Board from 1 March 2019 Substantive Board Chair from 1 December 2019
Gaener Rodger	Non-Executive Member
Executive Members	
Iain Stewart	Chief Executive until 27 January 2020
Paul Hawkins	Interim Chief Executive from 28 January 2020
Boyd Peters	Interim Medical Director from 1 April 2019 Substantive Board Medical Director from 1 September 2019
Rod Harvey	Medical Director until 31 August 2019
Heidi May	Nurse Director
Hugo Van Woerden	Director of Public Health until 19 January 2020
Dave Garden	Interim Director of Finance until 21 January 2020 Substantive Director of Finance from 22 January 2020

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:

Alexander Anderson	Scrabster Harbour Trust,
James Brander	RSPB
Alasdair Christie	Inverness, Badenoch and Strathspey CAB, Highland Council,
Sarah Compton-Bishop	Isle of Jura Development Trust, Jura Care Centre,
Albert Donald	NHS Education for Scotland, Scottish Professional Football League, Scottish Football Association, NHS Grampian, Church of Scotland, Self Employed Advisor of Risk,
Alasdair Lawton	MacWilliams Consulting Limited, Strathpuffer Limited, Handsonevents Limited, Torridon Mountain Rescue Team, The Ledge Inverness,
Deirdre Mackay	Highland Council, Sutherland Community Partnership, ESC CAB, Voluntary Groups Sutherland
Philip MacRae	Highland Cycle Tours,
Heidi May	University of The Highlands and Islands,
Ann Pascoe	Dementia Friendly Communities Ltd,
Boyd Peters	Cairngorm Mountain Rescue Team,
Gaener Rodger	Cairngorms National Park Authority, Kazbeg Ltd, Highland Children's Forum,

All Board Members are Highland Health Board Endowment Fund Trustees

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

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

1. 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 on 28 January 2020.

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.

2. 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.

3. Corporate Governance

Throughout the financial year, NHS Highland has progressed its Good Governance Development Plan which is built on the NHS Scotland Blueprint for Good Governance. The Plan also incorporates outstanding actions from previous years' governance reviews and covers the following areas: Setting Direction; Assessing Risk; Engaging Stakeholders; Influencing Culture; Skills, Experience and Diversity; and Roles, Responsibilities and Accountabilities. Progress has been seen in a number of areas:

Setting Direction

- draft revised Board Objectives have been generated throughout the financial year and considered at the Board in March 2020. Board approval of the final revised Objectives has been deferred until after the Covid19 crisis.
- Board member training on concepts and practices for skilful conversations was undertaken with assistance from NES in August 2019.
- Board and Committee Chairs meetings have resumed so that potential Committee agenda items can be properly considered and scheduled if necessary, and for better oversight of Governance Committee remits and priorities.
- the Board's response to the Sturrock Review (see below) has been captured through our 'Culture fit for the Future' work stream which has become a standing item at Board meetings and Development Sessions

Skills, Experience and Diversity

- The Board's local orientation and induction programme for Board members was reviewed in April 2019 and incorporated the best practice national approaches. A revised induction programme was used for three new Board members in June 2019 and for the nationally appointed Non Executive Whistle-blowing Champion in February 2020.

Roles Responsibilities and Accountabilities

- NHS Highland appointed a Vice Chair in September 2019 and incorporated the role of Senior Independent Director into this role. This provides a route for Board members to raise issues, if they are unable to do so with the Chair, promotes leadership and good relations within the Board and ensures a healthy corporate culture.

Values, Relationships and Behaviours

- The Board refreshed its behavioural compact protocol in April 2019.
- Board workshop sessions, facilitated by NES, were held in August and October 2019 on the enablers associated with the Blueprint for Good Governance. These sessions clarified values and relationships for healthy organisational culture and led to better appreciation of roles, accountabilities and responsibilities.

A local governance review was initiated in February 2020 with the aim of updating Terms of Reference for Governance Committees, regularising their function to ensure sound assurance to the Board, and ensuring a clear separation between governance and managerial groups and roles. Recommendations due to the Board in May 2020 have had to be delayed due to the Covid 19 pandemic. Temporary Governance changes due to the pandemic are detailed below.

4. Level 4 Escalation

Throughout the financial year NHS Highland has been at level 4 within the Scottish Government's ladder of escalation with additional support measures and initiatives 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 supported the Board through this process throughout the financial year with the establishment and operation of a Programme Management Office. A range of interventions and assistance was undertaken, including working with external consultants until September 2019 to provide support, capacity and expertise in the financial recovery process. A PMO Director, reported to the Executive Director of Finance & Corporate Services/Deputy Chief Executive until end July and thereafter to the Interim Director of Finance.

Considerable work has been and is currently being undertaken 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. Significant progress was made during 2019/20 in terms of financial performance and the delivery of significant levels of recurrent cost improvements.

Since January 2020, NHS Highland has also worked closely with the Scottish Government Oversight Board, established to support the development and delivery of a formal single recovery plan with clear milestones. NHS Highland's Recovery Plan encompasses the following areas identified for improvement:

- Financial balance and sustainability
- Mental Health organisation and performance
- Culture and relationships and management capability and resilience
- Performance and Patient Safety

5. Sturrock Review

In May 2019, NHS Highland received a report commissioned by the Cabinet Secretary for Health and Sport, undertaken by John Sturrock QC, into Cultural Issues relating to allegations of bullying and harassment (the Sturrock Report). The report found that bullying or inappropriate behaviour had occurred within NHS Highland and the Board apologised unreservedly to those members of staff who have not been treated according to the high standards expected.
The Board's response to the report involved the development of a 'Culture fit for the Future' framework for progressing areas for improvement highlighted in the Sturrock Report. The framework has drawn heavily on the provision of pastoral care, mediation, occupational health support and an appropriate communication framework. 'Culture fit for the Future' is the framework against which NHS Highland will rebuild the trust and empowerment of its colleagues, and achieve its ultimate aspiration of becoming an employer of choice.
The Board has focussed on healing, reconciliation and building a positive culture based on care and compassion, dignity and respect for everyone. A range of initiatives have been undertaken to bring about this change:

- Leadership Roadshows - employee engagement briefing sessions
- Appointment of a substantive Director of HR &OD
- Resolving concerns using informal processes
- Reviewing partnership working to improve effectiveness and create a positive supportive culture
- Manager training in courageous conversations
- Health and Wellbeing Strategy and Framework development
- Board Training and Workshop
- Effective Board leadership and Accountability
- Review of Governance Structures and Committee Network
- Establishment of a Culture Programme Board with an external Culture Advisor
- Healing Process started
- Completion and assessment of results from the Argyll and Bute culture survey

The Board in May 2020 noted all progress being made. It examined and considered the implications of the results of the Argyll and Bute culture survey, approved the associated initial action plan and agreed to the start of the Healing Process.

6. Covid19

NHS Highland faced unprecedented demand as it responded to the Covid-19 Pandemic. This has introduced significant changes to normal systems of work which required the Board to establish temporary and appropriate governance arrangements to support the organisation. The Board recognised the need for the organisation to continue to operate within an appropriate legal framework, act in the best interests of the population, be efficient in the use of resources and put the safety of staff and patients at the forefront of its efforts.

In March and April 2020, the Board agreed temporary governance arrangements throughout the Covid19 pandemic period as follows:

- Establishment of Gold, Silver and Bronze Command structure to address the operational response to the Covid19 pandemic.
- Delegation of governance of NHS Highland from 1 April 2020 for an initial period of three months to the Board Chair, Vice Chair and Chief Executive, with another Non- Executive Director and Deputy Chief Executive acting as substitutes. Monthly reviews to take place following the initial three month period.
- Monthly meetings of the Board focussing on Covid, any nationally important matters, and any pressing governance matters brought forward from the Chairs' Group – these are open to the public via the internet.
- Fortnightly meetings of the Chairs' Group with the Chief Exec (and members of the Exec Team as necessary) acting in an advisory capacity

- Suspension of Committee Meetings with the exception of the Audit and Remuneration Committees which should meet as necessary, with respective Chairs reviewing the need for meetings on a periodic basis
- Weekly Meetings of Chair and Chief Exec as per normal practice
- Weekly meetings of Chair, Vice Chair, CEO and Deputy CEO

7. **Governance Framework**

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

A number of Governance Committees support me in the discharge of my accountabilities and responsibilities. Each Committee has a clear role and remit which is set out in NHS Highland's Standing Orders. The Board's Standing Orders were revised in January 2020. The Standing Financial Instructions were approved by the Board in full in May 2017 and are continually approved on an annual basis. Each Governance Committee is chaired by a Non-Executive Director 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 Governance Committee minutes 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 2020-2021 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 Audit Committee, Clinical Governance Committee and Staff Governance Committee.

The development needs of Executive and Non-Executive Directors are identified through a process of regular appraisal. A skills matrix for Non-Executive Directors was renewed during January 2020. New Non-Executive Directors receive an induction which forms part of training for all board members. Regular development sessions are held 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, Third 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 which is 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 is 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.

8. 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, like all organisations, faces a wide range of risks at all levels strategically and operationally. NHS Highland recognises that healthcare provision and the activities associated with caring for patients, employing staff, providing facilities and managing finances are all, by their nature, activities that involve areas of uncertainty or "risk". Risk management is the framework within which NHS Highland manages these uncertainties and is one of the internal controls used to meet its corporate governance responsibilities. Effective risk management is the systematic application of principles and processes to identify, assess, evaluate and control risks to both the objectives of NHS Highland and to core service delivery and processes.

Oversight of the NHS Highland risk management framework is through the Risk Management Steering Group, which is a subcommittee of the Audit Committee. It oversees the strategic / corporate risks of the Board, ensuring that a risk register is maintained and updated regularly and that action is taken to mitigate risks identified.

During 2019/20 the strategic / corporate risks were reviewed and changes to the framework were also identified. A strategic risk management workshop for the Board and for the Executive team was held in August 2019. This session was designed to improve Board members' skills, knowledge and experience in detecting, challenging and being satisfied that risks are appropriately managed. In September 2019, the Board refreshed its risk appetite. At a special meeting of the Audit Committee in January 2020, a revised risk management framework, strategy and policy were presented and discussed. Training to Governance Committees on their revised responsibilities around risk management was carried out in February and March 2020. This will continue into 2020/21 as well as providing training at operational level, to ensure the entirety of NHS Highland is working to embed and improve risk management, in line with the changes to the Risk Management Strategy and the Risk Register Policy.

An annual review of all risk registers, in line with the Board's objectives and key plans, will be carried out during the first half of 2020/21, and an annual review of the risk management framework will be undertaken towards the end of the financial year to ensure that risk management is subject to a cycle of continuous improvement.

Based on the current risk Register, the key risks for the Board are;

Colonoscopy referrals are below target and require improving
Cyber-crime is escalating and systems require protection
Treatment Time Guarantees are not being met

Further risks are currently being assessed around the Covid-19 implications.

9. 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 continues to monitor and receive reports on progress to completion of all the actions.

The Audit Committee recognises 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.

A review of Annual Service Audit Reports, for a range of services provided on behalf of NHS Scotland are intended to provide assurance around the internal controls frameworks in place . This includes Payments to Practitioners, IT Services and Finance Ledger Systems. This year both the Payments to Practitioners and IT Services service audits resulted in a qualified opinion. A qualification in a service audit report relates to the design or operating effectiveness of controls in order to meet the stated control objectives rather than indicating that the underlying transactions are necessarily incorrectly processed. An adverse opinion would occur where controls were absent or failed.

10. Disclosures

Financial Brokerage
NHS Highland required financial brokerage of £11m in 2019/20, 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 23 April 2019. 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 30 April 2020. The Scottish Government confirmed this funding in a letter dated 1 June 2020, with a repayment profile to be agreed once the Board returns to financial balance.

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 2020.

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) 2019/01).

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

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

Performance Related Pay has not been processed at the year end for 2019/2020.

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 with the exception of Paul Hawkins who is seconded to the Board for a fixed term.

On the 28th of March 2020 an Interim Director of Public Health was appointed. This interim appointment was made at the end of the financial year. Therefore, this is not included in the remuneration report. The substantive post, held from 1 April 2019 to 19 January 2020 is reported in the remuneration report. The full-year salary for the Interim Director of Public Health would be in the range 140-145.

Remuneration Report for the year ended 31 March 2020 (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: Paul Hawkins from 27/01/2020	a	25-30		25-30	n/a	25-30
Chief Executive: Iain Stewart to 29/02/2020	b	115-120		115-120	67	180-185
Director of Finance: David Garden		95-100		95-100	38	130-135
Medical Director: Boyd Peters		150-155		150-155	53	205-210
Medical Director: Roderick Harvey to 07/09/2019	c	85-90		85-90	nil	85-90
Nursing Director: Heidi May		100-105		100-105	35	135-140
Director of Public Health & Health Policy: Hugo Van Woerden to 19/01/2020	d	125-130		125-130	SPPA data not available at signing	
Non Executive Members						
The Chair: Prof Boyd Robertson		30-35	4	35-40		35-40
Adam Palmer	e	45-50		45-50	11	55-60
Alexander Anderson commenced 01/07/2019		5-10	1	5-10		5-10
Jean Boardman commenced 01/07/2019		5-10	1	5-10		5-10
James Brander		5-10	1	5-10		5-10
Alasdair Christie		5-10	1	5-10		5-10
Sarah Compton-Bishop		10-15	2	15-20		15-20
Robin Creelman resigned 31/03/2019			1	0-5		0-5
Pamela Clark		10-15		10-15		10-15
Mary Jean Devon retired 10/01/2020		5-10		5-10		5-10
(Al)bert Donald commenced 01/02/2020		0-5		0-5		0-5
Alasdair Lawton		5-10		5-10		5-10
Deirdre MacKay		5-10	1	5-10		5-10
Philip Macrae commenced 01/07/2019		5-10		5-10		5-10
Margaret Moss	f	70-75	1	70-75	82	150-155
Melanie Newdick resigned 12/07/2019		0-5		0-5		0-5
Ann Pascoe		5-10	4	10-15		10-15
Gaener Rodger		5-10		5-10		5-10
Senior Employees						
Board Secretary: Ruth Daly		45-50		45-50	14	60-65
Director of Human Resources: Fiona Hogg from 15/07/2019	g	70-75		70-75	42	115-120
Director of Strategic Commissioning, Planning & Performance: Deb Jones		120-125		120-125	29	150-155
Director of Operations: David Park		115-120		115-120	30	145-150
Director of Public Relations & Engagement: Jane McGirk		75-80		75-80	20	95-100

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 Paul Hawkins is an employee of Fife Health Board and his salary is recharged to Highland Health Board, the disclosure above is for the period shown, the full year effect salary is in the range of 150-155

b The gross salary for Iain Stewart is for the period shown, the full year effect salary is in the range of 125-130

c The gross salary for Roderick Harvey is for the period shown, the full year effect salary is in the range of 195 -200

d The gross salary for Hugo van Woerden is for the period shown, the full year effect salary is in the range of 155-160

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

g The gross salary for Fiona Hogg is for the period shown, the full year effect salary is in the range of 100-105

Remuneration Report for the year ended 31 March 2020 (audited)							
	Accrued pension at pensionable age as at 31 Mar 20 (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 20 £000	Cash Equivalent Transfer Value (CETV) at 31 Mar 19 £000	Real increase in CETV in year £000
Executive Members							
Chief Executive: Paul Hawkins from 27/01/2020	50-55	155-160	(2.5-0)	(5-2.5)	930	925	5
Chief Executive: Iain Stewart to 29/02/2020	5-10	n/a	2.5-5	n/a	64	10	54
Director of Finance: David Garden	30-35	65-70	0-2.5	0-2.5	584	537	47
Medical Director: Boyd Peters	55-60	150-155	2.5-5	0-2.5	1,218	1,138	80
Medical Director: Roderick Harvey to 07/09/2019	70-75	220-225	(2.5-0)	(5-2.5)	1,770	1,800	(30)
Nursing Director: Heidi May	20-25	45-50	0-2.5	0-2.5	435	391	44
Director of Public Health & Health Policy: Hugo Van Woerden to 19/01/2020	SPPA data not available at signing						
Non Executive Members							
The Chair: Prof Boyd Robertson							
Adam Palmer	15-20	45-50	0-2.5	0-2.5	370	348	20
Alexander Anderson commenced 01/07/2019							
Jean Boardman commenced 01/07/2019							
James Brander							
Alasdair Christie							
Sarah Compton-Bishop							
Robin Creelman resigned 31/03/2019							
Pamela Clark							
Mary Jean Devon retired 10/01/2020							
(Al)bert Donald commenced 01/02/2020							
Alasdair Lawton							
Deirdre MacKay							
Philip Macrae commenced 01/07/2019							
Margaret Moss	25-30	75-80	2.5-5	2.5-5	508	432	71
Melanie Newdick resigned 12/07/2019							
Ann Pascoe							
Gaener Rodger							
Senior Employees							
Board Secretary: Ruth Daly	0-5	n/a	0-2.5	n/a	45	32	13
Director of Human Resources: Fiona Hogg from 15/07/2019	0-5	n/a	2.5-5	n/a	30	0	30
Director of Strategic Commissioning, Planning & Performance: Deb Jones	50-55	120-125	0-2.5	(2.5-0)	1100	1046	54
Director of Operations: David Park	5-10	n/a	0-2.5	n/a	88	58	30
Director of Public Relations & Engagement: Jane McGirk	0-5	n/a	0-2.5	n/a	23	4	19

Highland Health Board

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

2019 (audited)		2020 (audited)	
Range of staff remuneration	5,000-350,000	Range of staff remuneration	5,000-345,000
Highest Earning Director's Total Remuneration (£000s)	189,000	Highest Earning Director's Total Remuneration (£000s)	195,000
Median Total Remuneration	28,110	Median Total Remuneration	29,335
Ratio	6.67	Ratio	6.73

For part time employees the total pay for calculation of the median is grossed up.
Contracts of less than 2 hours were removed, as this led to very high annual salaries when grossed up and distorted the median result.
Agency staff are excluded, as they are not employees and are charged via invoice, not via payroll.

- Number of senior staff by band (audited)

Employees whose remuneration fell within the following ranges:

Clinicians	2020 Number of Staff	2019 Number of Staff
£70,001 - £80,000	43	41
£80,001 - £90,000	45	49
£90,001 - £100,000	54	48
£100,001 - £110,000	38	33
£110,001 - £120,000	44	37
£120,001 - £130,000	37	24
£130,001 - £140,000	21	20
£140,001 - £150,000	28	20
£150,001 - £160,000	9	22
£160,001 - £170,000	12	10
£170,001 - £180,000	8	3
£180,001 - £190,000	7	7
£190,001 - £200,000	2	1
£200,001 and above	9	9

Other	2020 Number of Staff	2019 Number of Staff
£70,001 - £80,000	17	14
£80,001 - £90,000	8	4
£90,001 - £100,000	3	4
£100,001 -£110,000	2	1
£110,001 - £120,000	1	1
£120,001 - £130,000	2	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	2020 Total £000	2019 Total £000
STAFF COSTS								
Salaries and wages	681	160	311,153			(970)	**311,024**	**298,132**
Social security costs	87	8	30,030			(130)	**29,995**	**28,966**
NHS scheme employers' costs	118		56,396			(190)	**56,324**	**39,841**
Inward secondees				155			**155**	**29**
Agency staff					19,428		**19,428**	**16,510**
TOTAL	**886**	**168**	**397,579**	**155**	**19,428**	**(1,290)**	**416,926**	**383,478**

This note was a standalone note in earlier years and, as such, other employers pension costs were included but not included in 18/19 onwards due to national coding

	2020	2019
Employee expenditure as above	416,926	383,478
Add employee income included in Note 4 and IAS19 costs excluded above (note 19)	7,820	1,236
Total employee expenditure disclosed in note 3	424,746	384,714

STAFF NUMBERS (audited)

	Executive Board Members	Non Executive Members	Permanent Staff	Inward Secondees	Other Staff	Outward Secondees	2020 Total	2019 Total
Whole time equivalent (WTE)	4	15	8,601	4	46	(21)	**8,648**	**8,564**
Included in the total staff numbers above were disabled staff of:							**104**	**108**

STAFF COMPOSITION (audited)

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

	2019			2020		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executive Directors	4	1	5	3	1	4
Non Executive Directors and Employee Director	6	8	14	8	7	15
Senior Employees	1	3	4	1	4	5
Other	2,643	10,959	13,602	2,341	12,286	14,627
Total Headcount	**2,654**	**10,971**	**13,625**	**2,353**	**12,298**	**14,651**

SICKNESS ABSENCE (audited)

	2019	2020
Sickness Absence Rate	5.2%	5.6%

- 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 – (audited)

	2020			
Exit package cost band	**Number of compulsory redundancies**	**Number of other departures agreed**	**Total number of exit packages by cost band**	**Cost of exit packages (£000)**
<£10,000		4	4	14
£10,000 - £25,000		1	1	20
£25,000 - £50,000		2	2	74
£50,000 - £100,000		1	1	56
Total number of exit packages by type	**0**	**8**	**8**	
Total resource cost (£000)		**164**		**164**

EXIT PACKAGES – prior year -

none to disclose

TRADE UNION DISCLOSURE – information not subject to audit

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 2020.

Number of employees who were relevant union officials during the fiscal year to March 2019	13
WTE employee number	6.65
Percentage of time	**Number of Representatives**
0%	1
1-50%	7
51%-99%	4
100%	4
	£000
Total Cost of facility time	205.5
Total Pay Bill	418,215
Percentage Pay Bill on facility time and union duties	0.49%

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	250	1,707

There were no claims individually greater than £250,000 settled under the CNORIS scheme in 2019/20 and 2 in 2018/19. 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

Chief Executive

30 June 2020

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

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 2020 under the National Health Service (Scotland) Act 1978. The financial statements comprise the Consolidated and Board Statement of Financial Position, the Statement of Consolidated Comprehensive Net Expenditure, the Statement of Consolidated Cashflows, 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 2019/20 Government Financial Reporting Manual (the 2019/20 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 2020 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 2019/20 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 four 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.

Emphasis of matter – effects of Covid 19 on the property valuation

We draw attention to Note 1.29 to the financial statements, which describes the key sources of judgement and estimation uncertainty in relation to property valuations. Our opinion is not modified in respect of this matter.

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.

Date: 3 July 2020
Joanne Brown, (for and on behalf of Grant Thornton UK LLP),
110 Queen Street,
Glasgow, G1 3BX.

STATEMENT OF CONSOLIDATED COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2020

2019 £000		Note	2020 £000
384,714	Staff Costs	3a	424,776
	Other operating expenditure	3b	
91,968	Independent Primary Care Services		97,275
124,169	Drug and medical supplies		126,649
539,056	Other health care expenditure		557,707
1,139,907	Gross expenditure for the year		**1,206,407**
(367,809)	Less: operating income	4	(386,391)
0	Associates and joint venture accounted for on an equity basis		0
772,098	**Net Expenditure for the year**		**820,016**

OTHER COMPREHENSIVE NET EXPENDITURE

2019 £000		2020 £000
(5,569)	Net (gain)/loss on revaluation of property, plant and equipment	7,076
4,128	Actuarial Change in Local Government Pension	(9,791)
(1,441)	**Other comprehensive expenditure**	**(2,715)**
770,657	**Comprehensive net expenditure**	**817,301**

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

CONSOLIDATED and BOARD STATEMENT OF FINANCIAL POSITION as at 31 March 2020

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
		Non-current assets:			
354,180	354,180	Property, plant and equipment	7	359,814	359,814
2,706	2,706	Intangible assets	6	2,143	2,143
		Financial assets:			
8,528	113	Investments	10	7,254	113
	0	Investments in associated and joint ventures			
20,487	20,487	Trade and other receivables	9	16,910	16,910
385,901	**377,486**	**Total non-current assets**		**386,121**	**378,980**
		Current Assets:			
6,407	6,407	Inventories	8	7,328	7,328
0	0	Intangible assets	6	0	0
		Financial assets:			
42,605	42,733	Trade and other receivables	9	52,407	52,695
1,035	198	Cash and cash equivalents	11	2,010	1,023
50,047	**49,338**	**Total current assets**		**61,745**	**61,046**
435,948	**426,824**	**Total assets**		**447,866**	**440,026**
		Current liabilities:			
(8,358)	(8,358)	Provisions	13a	(15,933)	(15,933)
		Financial liabilities:			
(89,577)	(89,559)	Trade and other payables	12	(100,254)	(100,236)
(97,935)	**(97,917)**	**Total current liabilities**		**(116,187)**	**(116,169)**
338,013	**328,907**	**Non-current assets plus/less net current assets/liabilities**		**331,679**	**323,857**
		Non-current liabilities			
(47,039)	(47,039)	Provisions	13a	(40,582)	(40,582)
		Financial liabilities:			
(31,177)	(31,177)	Trade and other payables	12	(28,985)	(28,985)
(78,216)	**(78,216)**	**Total non-current liabilities**		**(69,567)**	**(69,567)**
259,797	**250,691**	**Assets Less liabilities**		**262,112**	**254,290**
		Taxpayers' Equity			
120,050	120,050	General fund	SoCTE	116,891	116,891
111,787	111,787	Revaluation reserve	SoCTE	102,194	102,194
18,854	18,854	Other reserves	SoCTE	35,205	35,205
0	0	Other reserves – associated and joint ventures	SoCTE	0	0
9,106	0	Fund held on trust	SoCTE	7,822	0
259,797	**250,691**	**Total taxpayers' equity**		**262,112**	**254,290**

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

The financial statements were approved by the Board on 30 June 20 and signed on their behalf by:

....Director of Finance

....Chief Executive

on 30 June 2020

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

2019 £000		Note	2020 £000	2020 £000
	Cash flows from operating activities			
(772,098)	Net operating cost	SoCTE	(820,016)	
16,669	Adjustments for non-cash transactions	2a	33,170	
2,473	Add back: interest payable recognised in net operating cost	2b	3,290	
(12)	Deduct: interest receivable recognised in net operating cost	4	0	
7,125	Movements in working capital	2c	2,270	
(745,843)	**Net cash outflow from operating activities**	24c		**(781,286)**
	Cash flows from investing activities			
(19,112)	Purchase of property, plant and equipment		(27,203)	
(865)	Purchase of intangible assets		(409)	
(540)	Investment Additions	10	(156)	
0	Transfer of assets to other NHS Scotland bodies		0	
106	Proceeds of disposal of property, plant and equipment		14	
970	Receipts from sale of investments		551	
12	Interest received		0	
(19,429)	**Net cash outflow from investing activities**	2c		**(27,203)**
	Cash flows from financing activities			
769,521	Funding	SoCTE	813,901	
(12)	Movement in general fund working capital	SoCTE	825	
769,509	Cash drawn down		**814,726**	
(1,809)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	2c	(1,972)	
248	Interest paid		(753)	
(2,721)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	2b	(2,537)	
765,227	**Net Financing**	24c		**809,464**
(45)	**Net Increase/(decrease) in cash and cash equivalents in the period**			975
1,080	**Cash and cash equivalents at the beginning of the period**			1,035
1,035	**Cash and cash equivalents at the end of the period**			**2,010**
	Reconciliation of net cash flow to movement in net debt/cash			
(45)	Increase/(decrease) in cash in year			975
1,080	Net debt at 1 April			1,035
1,035	**Net cash at 31 March**			**2,010**

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

ACCOUNTING POLICIES

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2020

	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 2019		**120,050**	**111,787**	**18,854**	**0**	**9,106**	**259,797**
Prior year adjustments for changes in accounting policy and material errors		0	0	0	0	0	0
Restated balance at 1 April 2019		**120,050**	**111,787**	**18,854**	**0**	**9,106**	**259,797**
Changes in taxpayers' equity for 2019/20							
Net (loss) on revaluation/indexation of property, plant and equipment	7a	0	(7,042)	0	0	0	(7,042)
Net (loss) on revaluation of available for sale financial assets	10	0	0	0	0	(879)	(879)
Impairment of property, plant and equipment		0	(487)	0	0	0	(487)
Revaluation & impairments taken to operating costs	2a	0	487	0	0	0	487
Transfers between reserves		2,551	(2,551)	0	0	0	0
Other non cash costs (Asset Transfer) (THC ASC Pension)		0	0	16,351	0	0	16,351
Net operating cost for the year	CFS	(819,611)	0	0	0	(405)	(820,016)
Total recognised income and expense for 2019-20		(817,060)	(9,593)	16,351	0	(1,284)	(811,586)
Funding:							
Drawn down	CFS	814,726	0	0	0	0	814,726
Movement in General Fund (Creditor)	CFS	(825)	0	0	0	0	(825)
Balance at 31 March 2020	SoFP	**116,891**	**102,194**	**35,205**	**0**	**7,822**	**262,112**

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 2019		**119,947**	**108,824**	**18,447**	**0**	**9,011**	**256,229**
Prior year adjustments for changes in accounting policy and material errors	22						
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 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 (movement in year ASC pension costs)				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.

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.

There are no new standards, amendments or interpretations effective in the current year.

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

IFRS 16 Leases supersedes IAS 17 Leases and is being applied by HM Treasury in the Government Financial Reporting Manual (FReM) from 1 April 2021. IFRS 16 introduces a single lessee accounting model that results in a more faithful representation of a lessee’s assets and liabilities, and provides enhanced disclosures to improve transparency of reporting on capital employed. Under IFRS 16, lessees are required to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. While no standard definition of ‘low value’ has been mandated, NHS Scotland have elected to utilise the capitalisation threshold of £5,000 to determine the assets to be disclosed. NHS Highland expects that its existing finance leases will continue to be classified as leases. All existing operating leases will fall within the scope of IFRS 16 under the ‘grandfathering’ rules mandated in the FReM for the initial transition to IFRS 16. In future years new contracts and contract renegotiations will be reviewed for consideration under IFRS 16 as implicitly identified right-of-use assets. Assets recognised under IFRS 16 will be held on the Statement of Financial Position as (i) right of-use assets which represent the Board’s right to use the underlying leased assets; and (ii) lease liabilities which represent the obligation to make lease payments.

The bringing of leased assets onto the Statement of Financial Position will require depreciation and interest to be charged on the right-of-use asset and lease liability, respectively. Cash repayments will also be recognised in the Statement of Cash Flows, as required by IAS 7.

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 and Revenue Recognition

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.

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 Consolidated Comprehensive Net Expenditure (CSOCCNE) 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 SoCCNE. 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 SoCCNE, 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 SoCCNE. Any related balance on the revaluation reserve is transferred to the General Fund.

Gains and losses on revaluation are reported in the SoCCNE.

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. They are assessed in the context of the maximum useful lives for building elements.

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 SoCCNE, in which case they are recognised in income.

Permanent decreases in asset values and impairments are charged gross to the SoCCNE. 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 SoCCNE.

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 SoCCNE 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 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 SoCCNE. 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 SoCCNE. 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 SoCCNE 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 SoCCNE 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 SoCCNE 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 THC, 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 SoCCNE 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 SoCCNE.

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 NHS Scotland 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 SoCCNE. 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 SoCCNE.

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 22 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 22, 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 SoFP.

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 SoCCNE. Dividends on available-for-sale equity instruments are recognised in the SoCCNE 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 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 SoFP date. These are classified as non-current liabilities. The Board's financial liabilities held at amortised cost comprise trade and other payables in the SoFP.

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

A financial liability is removed from the SoFP 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 SoCCNE.

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 24 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

In accordance with SGHSCD guidance, obligations under the defined benefit pension scheme are fully funded via Scottish Government funding in advance and therefore as a departure from IAS 19: Employee Benefits, the defined benefit obligations are not recognised as a long term liability and instead recognised through other reserves as SGHSCD funding received in advance. For further information see note 19.

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.

Property Plant and Equipment
The Board commissioned a valuation for 31 March 2020. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), a material uncertainty has been declared in the valuation report. This is due to market uncertainties caused by Covid-19. The Red Book defines material uncertainty as '*where the degree of uncertainty in a valuation falls outside any parameters that might normally be expected and accepted*.'
The valuation report has been used to inform the measurement of assets in these financial statements. Although the valuer has declared a material valuation uncertainty, the valuer has continued to exercise professional judgement in preparing the valuation and, therefore, this is the best information available to NHS Highland as at 31 March 2020 and can be relied upon.
The range of uncertainty has not been identified and therefore we are unable to quantify the potential impact on the accounts.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

2a SUMMARY OF CORE RESOURCE OUTTURN for the year ended 31 March 2020

	Note	2020 £000
Net Expenditure	SoCCNE	**820,016**
Total Non Core Expenditure (see below)		(34,837)
Family Health Services Non-Discretionary Allocation		(33,444)
Donated Asset Income	2b	25
Endowment Net Expenditure		(405)
Associates and joint ventures accounted for on an equity basis		0
Total Core Expenditure		**751,355**
Core Revenue Resource Limit		751,766
Saving/(excess) against Core Revenue Resource Limit		**411**

SUMMARY OF NON CORE REVENUE RESOURCE OUTTURN

	Note	2020 £000
Capital Grants to Other Bodies		0
Depreciation/Amortisation		15,457
Annually Managed Expenditure - Impairments		488
Annually Managed Expenditure – Creation of Provisions		5,083
Annually Managed Expenditure – Depreciation of Donated Assets	2b	190
Annually Managed Expenditure – Pension Valuation		6,560
Additional Scottish Government non-core funding		6,345
IFRS PFI Expenditure		714
Total Non Core Expenditure		**34,837**
Non Core Revenue Resource Limit		34,838
Saving/(against) Non Core Revenue Resource Limit		**1**

SUMMARY RESOURCE OUTTURN	**Resource**	**Expenditure**	**Saving**
	£000	**£000**	**£000**
Core	751,766	751,355	411
Non Core	34,838	34,837	1
Total	**786,604**	**786,192**	**412**

Details on brokerage is explained on pages 15, 16 and 27.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

STATEMENT OF CONSOLIDATED CASH FLOWS
for the year ended 31 March 2020

2b NOTES TO THE CASH FLOW STATEMENT

2a Consolidated adjustments for non-cash transactions

2019 £000		Note	2020 £000
	Expenditure not paid in cash		
14,461	Depreciation	7a	15,197
840	Amortisation	6	972
167	Depreciation of donated assets	7a	190
1,421	Impairments on PPE charged to SoCCNE		487
	Net revaluation on PPE charged to SoCCNE		
(662)	Funding of donated assets		(25)
36	Loss/(profit) on disposal of property, plant and equipment		(2)
	Associates and joint ventures accounted for on an equity basis	SoCCNE	
406	THC ASC Pension movements		16,351
16,669	**Total expenditure not paid in cash**	CFS	33,170

2019 £000			2020 £000
	Interest Payable		
1	Bank and other interest payable		0
2,160	PFI Finance lease charges allocated in the year	18	2,012
561	Other Finance lease charges allocated in the year		525
(249)	Provisions – Unwinding of discount		753
2,473	**Net interest payable**	CFS	**3,290**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

2 NOTES TO THE CASH FLOW STATEMENT, Contd

2c Consolidated Movements in Working Capital

2019 Net Movement £000		Note	Opening Balances £000	Closing Balances £000	2020 Net Movement £000
	INVENTORIES				
	SoFP	8	6,407	7,328	
(159)	**Net (increase)**				**(921)**
	TRADE AND OTHER RECEIVABLES				
	Due within one year	9	42,605	52,407	
	Due after more than one year	9	20,487	16,910	
			63,092	69,317	
6,189	**Net decrease/(increase)**				(6,225)
	TRADE AND OTHER PAYABLES				
	Due within one year		89,577	100,254	
	Due after more than one year		31,177	28,985	
	Less: property, plant & equipment (capital) included in above		(1,453)	(2,787)	
	Less: General Fund creditor included in above		(198)	(1,023)	
	Less: lease and PFT creditors included in above		(33,149)	(31,177)	
			85,954	94,255	
4,477	**Net decrease**				**8,298**
	PROVISIONS				
	Statement of Financial Position	13a	55,397	56,515	
			55,397	56,515	
(3,382)	**Net decrease/(increase)**				**1,118**
7,125	**Net movement increase**	CFS			**2,270**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

3 OPERATING EXPENSES

3a Staff Costs

2019 Total £000			2020 Board £000	2020 Consolidated £000
83,199	Medical and Dental		89,672	89,672
135,079	Nursing		149,034	149,034
166,436	Other Staff		186,070	186,247
384,714	**Total**	SoCCNE	**424,776**	**424,953**

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

2019 Total £000		2020 Board £000	2020 Consolidated £000
	Independent Primary Care Services:		
55,961	General Medical Services	58,911	58,911
12,842	Pharmaceutical Services	14,119	14,119
17,430	General Dental Services	18,328	18,328
5,735	General Ophthalmic Services	5,917	5,917
91,968	**Total**	**97,275**	**97,275**
	Drugs and Medical Supplies:		
64,154	Prescribed drugs Primary Care	64,784	64,784
34,159	Prescribed drugs Secondary Care	36,167	36,167
25,856	Medical Supplies	25,698	25,698
124,169	**Total**	**126,649**	**126,649**
	Other Health Care Expenditure:		
214,553	Contribution to Integration Joint Boards	224,474	224,474
91,705	Goods & services from other NHSScotland bodies	97,077	97,077
1,442	Goods & services from other UK NHS bodies	384	384
8,327	Goods & services from private providers	9,866	9,866
6,014	Goods & services from voluntary organisations	5,399	5,399
4,971	Resource Transfer	0	0
53	Loss on disposal of assets	9	9
210,119	Other operating expenses	28,679	218,679
179	External Auditor’s Statutory Audit Fee	182	182
1,693	Endowment Fund expenditure	0	1,637
539,056	**Total**	**556,070**	**557,707**
755,193	**Total Other Operating Expenditure**	**779,994**	**781,631**

4 OPERATING INCOME

2019 Total £000		Note	2020 Board £000	2020 Consolidated £000
29,869	Income from other NHS Scotland bodies		32,348	32,348
2,287	Income from NHS non-Scottish bodies		2,825	2,825
444	Income from private patients		416	416
202,932	Income for services commissioned by Integration Joint Board		212,248	212,248
4,558	Patient charges for primary care		4,438	4,438
662	Donated asset additions		25	25
17	Profit on disposal of assets		11	11
2,815	Contributions in respect of clinical and medical negligence claims		2,166	2,166
12	Interest received	CFS	0	0
	Non NHS:			
668	Overseas patients (non-reciprocal)		802	802
1,619	Endowment Fund Income		0	1,232
121,926	Other		129,880	129,880
367,809	**Total Income**	SoCCNE	**385,159**	**386,391**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

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	2020
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net Operating Costs	209,839	200,077	156,062	226,266	3,615	(100,635)	11,047	113'340	819,611

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	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

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

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

	Note	Software Licences £000	IT – Software £000	Total £000
Cost or Valuation:				
At 1 April 2019		2,184	5,455	7,639
Additions		178	231	409
Disposals		(192)	(459)	(651)
At 31 March 2020		**2,170**	**5,227**	**7,397**
Amortisation				
At 1 April 2019		1,192	3,741	4,933
Provided during the year		303	669	972
Disposals		(192)	(459)	(651)
At 31 March 2020		**1,303**	**3,951**	**5,254**
Net book value at 1 April 2019		**992**	**1,714**	**2,706**
Net book value at 31 March 2020	SoFP	**867**	**1,276**	**2,143**

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 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				
At 31 March 2019			(49)	(49)
		1,192	**3,741**	**4,933**
Net book value at 1 April 2018				
Net book value at 31 March 2019	SoFP	**1,129**	**1,552**	**2,681**
		992	**1,714**	**2,706**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

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 2019		19,883	323,523	6,506	703	60,515	9,172	2,650	9,842	432,794
Additions - purchased		0	0	0	0	0	0	0	28,537	28,537
Additions - donated		0	0	0	0	25	0	0	0	25
Completions		0	11,317	32	0	5,072	1,341	0	(17,762)	0
Revaluations		(5)	(20,897)	67	0	0	0	0	0	(20,835)
Impairment charges		0	(637)	(725)	0	0	0	0	0	(1,362)
Disposals - purchased		0	0	0	(424)	(1,923)	(1,911)	(865)	0	(5,123)
Disposals - donated		0	0	0	0	(18)	0	0	0	(18)
As 31 March 2020		**19,878**	**313,306**	**5,880**	**279**	**63,671**	**8,602**	**1,785**	**20,617**	**434,018**
Depreciation										
At 1 April 2019		0	25,289	688	689	42,363	7,130	2,455	0	78,614
Provided during the year - purchased		0	9,891	356	0	4,160	681	109	0	15,197
Provided during the year - donated		0	119	5	1	62	3	0	0	190
Revaluations		0	(13,671)	(122)	0	0	0	0	0	(13,793)
Impairment charges		0	(185)	(690)	0	0	0	0	0	(875)
Disposals - purchased		0	0	0	(424)	(1,911)	(1,911)	(865)	0	(5,111)
Disposals - donated		0	0	0	0	(18)	0	0	0	(18)
At 31 March 2020		**0**	**21,443**	**237**	**266**	**44,656**	**5,903**	**1,699**	**0**	**74,204**
Net book value at 1 April 2019		**19,883**	**298,234**	**5,818**	**14**	**18,152**	**2,042**	**195**	**9,842**	**354,180**
Net book value at 31 March 2020	SoFP	**19,878**	**291,863**	**5,643**	**13**	**19,015**	**2,699**	**86**	**20,617**	**359,814**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

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		244						
Asset financing:										
Owned - Purchased		19,833	247,803	5,412	2	18,864	2,689	86	20,617	315,306
Owned - Donated		45	3,875	231	11	151	10	0	0	4,323
Held on finance lease		0	849	0	0	0	0	0	0	849
On-balance sheet PFI contracts		0	39,336	0	0	0	0	0	0	39,336
Net book value at 31 March 2020	SoFP	**19,878**	**291,863**	**5,643**	**13**	**19,015**	**2,699**	**86**	**20,617**	**359,814**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

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 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		**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 2020

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		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**

7b PROPERTY, PLANT AND EQUIPMENT DISCLOSURES

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
		Net book value of property, plant and equipment at 31 March			
349,299	349,299	Purchased		355,491	355,491
4,881	4,881	Donated		4,323	4,323
354,180	**354,180**	**Total**	SoFP	**359,814**	**359,814**
272	272	Net book value related to land valued at open market value at 31 March		272	272
250	250	New book value related to buildings valued at open market value at 31 March		244	244
		Total value of assets held under:			
924	924	Finance Leases		849	849
0	0	Hire Purchase Contracts		0	0
39,699	39,700	PFI and PPP Contracts		39,336	39,336
40,623	**40,624**			**40,185**	**40,185**
		Total depreciation charged in respect of assets held under:			
116	116	Finance Leases		120	120
88	88	Hire Purchase Contracts		88	88
1,183	1,183	PFI and PPP Contracts		1,208	1,208
1,387	**1,387**			**1,416**	**1,416**

All land and 20% of buildings were revalued by an independent valuer, Barr (A&B) & Burnetts (north Highland), as at 31/03/2020 on the basis of fair value (market value or depreciated replacement costs 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 £6,673m (2019-20: a decrease of £4,418m) which was credited to the revaluation reserve. Impairment of £0.452m (2019-20 £1,420m) was charged to the Statement of Comprehensive Net Expenditure and Summary of Resource Outturn.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

7c. ANALYSIS OF CAPITAL EXPENDITURE

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
		EXPENDITURE			
865	865	Acquisition of Intangible Assets	6	409	409
18,952	18,952	Acquisition of Property, Plant and Equipment	7a	28,537	28,537
662	662	Donated Asset Additions	7a	25	25
20,479	**20,479**	**Gross Capital Expenditure**			
		INCOME			
139	139	Net book value of disposal of Property, Plant and Equipment	7a	12	12
		Net book value of disposal of Donated Assets	7a		
3	3	HUB – Repayment of investment		0	0
662	662	Donated Asset Income		25	25
804	**804**	**Capital Income**		**37**	**37**
19,675	**19,675**	**Net Capital Expenditure**		**28,934**	**28,934**
		SUMMARY OF CAPITAL RESOURCE OUTTURN			
19,675	19,675	Core Capital Expenditure included above		28,934	28,934
19,675	19,675	Core Capital Resource Limit		28,934	28,934
0	0	**Saving/(excess) against Core Capital Resource Limit**		0	0
		Non Core Capital Expenditure included above			
		Non Core Capital Resource Limit			
0	**0**	**Saving/(excess) against Non Core Capital Resource Limit**		**0**	**0**
19,675	19,675	Total Capital Expenditure		28,934	28,934
19,675	19,675	Total Capital Resource Limit		28,934	28,934
0	**0**	**Saving/(excess) against Capital Resource Limit**		**0**	**0**

8 INVENTORIES

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
6,407	6,407	Raw Materials and Consumables		7,328	7,328
6,407	**6,407**	**Total Inventories**	SoFP	**7,328**	**7,328**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

9 TRADE AND OTHER RECEIVABLES

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
		Receivables due within one year – NHS Scotland			
185	185	Scottish Government Health & Social Care Directorate		207	207
4,085	4,085	Boards		3,677	3,677
4,270	**4,270**	**Total NHSScotland Receivables**		**3,884**	**3,884**
589	589	NHS Non-Scottish Bodies		696	696
529	529	VAT recoverable		584	584
5,211	5,211	Prepayments		4,941	4,941
5,035	5,035	Accrued income		5,924	5,924
1,040	1,168	Other Receivables		1,282	1,570
2,171	2,171	Reimbursement of provisions		9,491	9,491
23,760	23,760	Other Public Sector Bodies		25,605	25,605
42,605	**42,733**	**Total Receivables due within one year**	SoFP	**52,407**	**52,695**
0	0	Other Public Sector Bodies		6,679	6,679
1,380	1,380	Prepayments		1,308	1,308
4,296	4,296	Accrued income		4,537	4,537
16	16	Other Receivables		16	16
14,795	14,795	Reimbursement of Provisions		4,370	4,370
20,487	**20,487**	**Total Receivables due after more than one year**	SoFP	**16,910**	**16,910**
63,092	**63,220**	**TOTAL RECEIVABLES**		**69,317**	**69,605**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

9 TRADE AND OTHER RECEIVABLES, Contd

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
1,122	1,122	The total receivables figure above includes a provision for impairments of :		1,288	1,288
		WGA Classification			
4,085	4,085	NHS Scotland		3,677	3,677
673	673	Central Government bodies		590	590
23,576	23,576	Whole of Government bodies		26,294	26,294
589	589	Balances with NHS Bodies in England & Wales		696	696
34,169	34,297	Balances with bodies external to Government		38,060	38,348
63,092	**63,220**	**Total**		**69,317**	**69,605**
		Movements on the provision for impairment of receivables are as follows:			
631	631	At 1 April		1,122	1,122
704	704	Provision for impairment		277	277
(196)	(196)	Receivables written off during the year as uncollectible		(111)	(111)
(17)	(17)	Unused amounts reversed		0	0
1,122	**1,122**	At 31 March		**1,288**	**1,288**

As at 31 March 2020, receivables with a carrying value of £1.288m (2019: £1.122m) were impaired and provided for. The ageing of these receivables is as follows:

2019 £000	2019 £000		2020 £000	2020 £000
		3 to 6 months past due		
1,122	1,122	Over 6 months past due	1,288	1,288
1,122	**1,122**		**1,288**	**1,288**

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 2020, receivables with a carrying value of £3.154 million (2019: £2.144 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 2020

9 TRADE AND OTHER RECEIVABLES, Cont

2019 £000	2019 £000		2020 £000	2020 £000
606	606	Up to 3 months past due	1,132	1,132
504	504	3 to 6 months past due	621	621
1,039	1,039	Over 6 months past due	1,401	1,401
2,149	**2,149**		**3,154**	**3,154**

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

2019 £000	2019 £000	Currencies:	2020 £000	2020 £000
63,092	63,220	Pounds	69,317	69,605
63,092	**63,220**		**69,317**	**69,605**

All non-current receivables are due within 15 years (2019: 16 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 £16.910m (2019: £20.487m)
The effective interest rate on non-current other receivables is 0% (2019: 0%). Pension liabilities are discounted at -.5% (2019: 0.29%)

10 INVESTMENTS

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
549		Government securities		555	
7,979	113	Other		6,699	113
8,528	**113**	**TOTAL**	SoFP	**7,254**	**113**
8,791	116	**At 1 April**		8,528	113
540		Additions	CFS	156	
(974)	(3)	Disposals		(551)	
171		Revaluation surplus / (deficit) transferred to equity	SoCTE	(879)	
8,528	**113**	**At 31 March**		**7,254**	**113**
8,528	113	Non Current	SoFP	7,254	113
8,528	**113**	At 31 March		**7,254**	**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	2020 £000	2019 £000
Balance at 1 April		1,035	1,080
Net change in cash and cash equivalent balances	CFS	975	(45)
Balance at 31 March	SoFP	**2,010**	**1,035**
Total Cash – Cash Flow Statement		2,010	**1,035**

The following balances at 31 March were held at:

	2020 £000	2019 £000
Government Banking Services	977	39
Commercial banks and cash in hand	46	159
Endowment cash	987	837
Balance at 31 March	**2,010**	**1,035**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

12 TRADE AND OTHER PAYABLES

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
		Payables due within one year NHS Scotland			
19,968	19,968	Boards		30,551	30,551
19,968	**19,968**	**Total NHSScotland Payables**		**30,551**	**30,551**
1,263	1,263	NHS Non-Scottish Bodies		676	676
198	198	Amounts payable to General Fund		1,023	1,023
13,206	13,206	FHS Practitioners		14,532	14,532
4,870	4,870	Trade Payables		4,793	4,793
24,709	24,691	Accruals		23,583	23,565
1,475	1,475	Deferred income		1,030	1,030
6	6	Payments received on account		71	71
148	148	Net obligations under Finance Leases	17	192	192
1,824	1,824	Net obligations under PPP/PFI Contracts	18	2,000	2,000
7,724	7,724	Income tax and social security		7,729	7,729
4,892	4,892	Superannuation		6,976	6,976
721	721	Holiday Pay Accrual		1,141	1,141
3,149	3,149	Other Public Sector Bodies		3,961	3,961
4,919	4,919	Other payables		1,670	1,670
505	505	Other significant Payable - Pension contribution to Local Gvt Pension Scheme		326	326
89,577	**89,559**	**Total Payables due within one year**	SoFP	**100,254**	**100,236**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

12 TRADE AND OTHER PAYABLES, Contd

Consolidated 2019 £000	Board 2019 £000		Note	Consolidated 2020 £000	Board 2020 £000
		Payables due after more than one year			
		Other public sector bodies			
191	191	Net obligations under Finance Leases due within 2 years	17	236	236
782	782	Net obligations under Finance Leases due after 2 years but within 5 years	17	863	863
753	753	Net obligations under Finance Leases due after 5 years	17	435	435
2,000	2,000	Net obligations under PPP/PFI Contracts due within 2 years	18	2,194	2,194
7,272	7,272	Net obligations under PPP/PFI Contracts after 2 years but within 5 years	18	8,014	8,014
20,179	20,179	Net obligations under PPP/PFI Contracts due after 5 years	18	17,243	17,243
		Accruals			
31,177	**31,177**	**Total Payables due after more than one year**	SoFP	**28,985**	**28,985**
120,754	**120,736**	**TOTAL PAYABLES**		**129,239**	**129,221**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

13a PROVISIONS – CONSOLIDATED AND BOARD

	Note	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2020 Total
		£000	£000	£000	£000	£000
At 1 April 2019		9,535	17,230	28,425	207	55,397
Arising during the year		550	594	4,231	102	5,477
Utilised during the year		(686)	(2,341)	(225)	(83)	(3,335)
Unwinding of discount		753	0	0	0	753
Reversed unutilised		(51)	(1,655)	0	(71)	(1,777)
At 31 March 2020	**2**	**10,101**	**13,828**	**32,431**	**155**	**56,515**

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 March 2020

	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2020 Total
	£000	£000	£000	£000	£000
Payable in one year	858	9,408	5,512	155	15,933
Payable between 2-5 years	2,752	1,434	19,459	0	23,645
Payable between 6-10 years	2,740	1,742	1,622	0	6,104
Thereafter	3,751	1,244	5,838	0	10,833
Total as at 31 March 2020	**10,101**	**13,828**	**32,431**	**155**	**56,515**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

13a PROVISIONS – CONSOLIDATED AND BOARD, Contd

PROVISIONS – CONSOLIDATED AND BOARD (PRIOR YEAR)

	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	**9,535**	**17,230**	**28,425**	**207**	**55,397**

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 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		836	2,343	5,087	92	8,358
Payable between 2-5 years		2,569	11,587	17,477	115	31,748
Payable between 6-10 years		2,587	1,500	1,456		5,543
Thereafter		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 2020

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.

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

2019 £000		Note	2020 £000
17,437	Provision recognising individual claims against the NHS Board as at 31 March	13a	15,274
(16,966)	Associated CNORIS receivable at 31 March	9	(13,861)
28,425	Provision recognising the NHS Board's liability from participating in the scheme at 31 March	13a	32,431
28,896	**Net Total Provision relating to CNORIS at 31 March**		**33,844**

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

14 CONTINGENT LIABILITIES

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

2019 £000	Nature	2020 £000
1,897	Clinical and medical compensation payments	1,056
121	Employer's liability	178
5	Third party liability	58
2,023	**TOTAL CONTINGENT LIABILITIES**	**1,292**

2019 £000	CONTINGENT ASSETS	2020 £000
1,500	Clinical and medical compensation payments	710
	Employer's liability	20
	Third party	15
1,500		**745**

The Sturrock Report was published in May 2019 and made a series of recommendations for NHS Highland to consider and implement to address the cultural issues related to bullying and harassment identified in the Report.

Recommendations contained in section 34 of the Report identified a need for a process to be established to provide individualised support for affected individuals (paras 34.1 to 34.5) using an independent process (34.10 to 34.11) and with consideration of financial claims where appropriate (34.18).

There are a range of services available to those affected individuals including psychological therapies and ultimately consideration by an Independent Review Panel (IRP).

The IRP has the power to make a recommendation for one or more of the following in each case:

i) an apology and/or recommendation for organisational learning;
ii) assessment for provision of psychological therapies;
iii) financial payment or consideration for: Re-engagement or Re-employment or Re-deployment;
iv) referral to an internal process for consideration; or
v) no further action by NHS Highland (NHSH).

The costs (if any) of any payments made to participants in the Healing Process will be paid for by NHS Highland and funding for these costs will be discussed with Scottish Government.

The appropriate accounting treatment is to disclose any possible claims as a contingent liability that is not possible to quantify as this point in time.

15 EVENTS AFTER THE END OF THE REPORTING YEAR

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

16 COMMITMENTS

Capital Commitments

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

2019 £000		Property, plant & equipment 2020 £000
	Contracted	
5,328	Mid Argyll PFI Lifecycle costs	4,925
3,347	Easter Ross PFI Lifecycle Costs	3,038
3,250	Raigmore Critical Care and Theatres	0
567	Skye, B&S Hospital HUB Projects	29,190
	Elective Care Centre	41,250
	eHealth Rolling Programme	130
	Radiotherapy	143
12,492	**Total**	**78,676**
	Authorised but not Contracted	
0	Badenoch & Strathspey Land Purchase	0
	Radiotherapy	0
30,000	Skye, B&S Hospital Bundle	0
306	Skye, B&S Hospital Bundle – sub debt	0
1,450	Skye, B+S Hospital Bundle - equipping	1,591
29,700	Elective Care Centre	0
1,500	Elective Care Centre - equipping	0
2,150	Grantown Health Centre Refurbishment	1,759
4,450	Portree Spoke Reconfiguration	641
550	HEPMA	0
29,300	Belford Hospital Replacement	0
5,300	CGH extension / modernisation	0
4,727	Rolling Replacement Programmes	6,070
4,699	Radiotherapy	639
0	Increased hospital / community capacity	4,600
0	Raigmore HV generator replacement	1,200
114,132	**Total**	**16,500**

17 COMMITMENTS UNDER LEASES

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

Obligations under operating leases comprise:

2019 £000		2020 £000
	Buildings	
3,193	Not later than one year	3,036
2,005	Later than one year, not later than 2 years	2,085
5,544	Later than two years, not later than five years	5,112
13,011	Later than five years	11,693
	Other	
3,005	Not later than one year	2,686
2,028	Later than one year, not later than two years	1,421
1,005	Later than two years, not later than five years	1,664
	Amounts charged to Operating Costs in the year were:	
4,114	Hire of equipment (including vehicles)	3,516
3,699	Other operating leases	4,725
7,813	**Total**	**8,241**

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:

2019 £000		Note	2020 £000
	Buildings		
331	Rentals due within one year		359
357	Rentals due between one and two years (inclusive)		383
1,150	Rentals due between two and five years (inclusive)		1,150
891	Rentals due after five years		507
2,729			2,399
(855)	Less interest element		(673)
1,874		12	**1,726**

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

2019 £000		2020 £000
	Aggregate Rentals Receivable in the year	
391	Total of finance & operating leases	**871**

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:

2019 £000	Gross Minimum Lease Payments	Note	New Craig's £000	Easter Ross £000	Mid Argyll £000	Tain HC HUB £000	2020 Total £000
4,182	Rentals due within 1 year		1,922	622	1,229	412	4,185
4,185	Due within 1 to 2 years		1,922	622	1,228	414	4,186
12,569	Due within 2 to 5 years		5,767	1,866	3,686	1,258	12,577
27,978	Due after 5 years		778	3,022	13,807	6,177	23,784
48,914	**Total**		10,389	6,132	19,950	8,261	44,732
	***Less* Interest Element**						
(2,358)	Rentals due within 1 year		(948)	(235)	(660)	(342)	(2,185)
(2,185)	Due within 1 to 2 years		(808)	(216)	(632)	(336)	(1,992)
(5,297)	Due within 2 to 5 years		(1,359)	(524)	(1,717)	(963)	(4,563)
(7,799)	Due after 5 years		(53)	(390)	(3,353)	(2,745)	(6,541)
(17,639)	**Total**		(3,168)	(1,365)	(6,362)	(4,386)	(15,281)
	Present value of minimum lease payments						
1,824	Rentals due within 1 year	12	974	387	569	70	2,000
2,000	Due within 1 to 2 years	12	1,114	406	596	78	2,194
7,272	Due within 2 to 5 years	12	4,408	1,342	1,969	295	8,014
20,179	Due after 5 years	12	725	2,632	10,454	3,432	17,243
31,275	**Total**		7,221	4,767	13,588	3,875	29,451
	Service elements due in further periods						
4,471	Rentals due within 1 year		2,689	747	981	88	4,505
4,505	Due within 1 to 2 years		2,689	828	1,034	86	4,637
14,243	Due within 2 to 5 years		8,067	2,649	3,809	243	14,768
34,774	Due after 5 years		672	5,880	22,166	895	29,613
57,993	**Total**		14,117	10,104	27,990	1,312	53,523
89,268	**Total Commitments**		**21,338**	**14,871**	**41,578**	**5,187**	**82,974**

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

2019 £000		Note	2020 £000
2,160	Interest charges	2	2,012
4,485	Service Charges		4,720
1,616	Principal repayment		1,824
13	Other Charges		16
8,274	**Total**		**8,572**
13	Contingent Rents – (including other charges)		16

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2019

19 PENSION COSTS

IAS 19 Multi-employer plans

a) The Board participates in the NHS Pension 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 2016. This valuation informed an employer contribution rate from 1 April 2019 of 20.9% of pensionable pay and an anticipated yield of 9.6% employees contributions.

(b) The 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 Board is unable to identify its share of the underlying assets and liabilities of the scheme.
(iii) The employer contribution rate for the period from 1 April 2019 is 20.9% of pensionable pay. The employee rate applied is variable and is anticipated to provide a yield of 9.6% of pensionable pay.
(iv) While a valuation was carried out as at 31 March 2016, it is not possible to say what deficit or surplus may affect future contributions. Work on the valuation was suspended by the UK Government pending the decision from the Court of Appeal (McCloud (Judiciary scheme)/Sargeant (Firefighters' Scheme) cases) that held that the transitional protections provided as part of the 2015 reforms was unlawfully discriminated on the grounds of age. The cost cap will be reconsidered once the final decision on a remedy and how this affects the NHS Pension Scheme (Scotland) is known and its impact fully assessed in relation to any additional costs to the scheme.

(v) The Board's level of participation in the scheme is 7.13% based on the proportion of employer contributions paid in 2018-19.

<u>Description of schemes</u>

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 re-valued 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 2019-20 members paid tiered contribution rates ranging from 5.2% to 14.7% of pensionable earnings. The normal pension age (NPA) 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.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

All other members automatically joined the NHS 2015 scheme on 1 April 2015. Further information is available on the Scottish Public Pensions Agency (SPPA) web site at www.sppa.gov.uk

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 choose 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.

	2020	**2019**
	£000	**£000**
Pension cost charge for the year	56,514	39,969
Pension cost in year of staff transferred from Highland Council	6,560	4,535
Provisions/Liabilities/Pre-payments included in the SoFP	1,553	1,674

PENSION COSTS FOR STAFF TRANSFERRED FROM HIGHLAND COUNCIL

As part of the terms and conditions of employment for the staff transferred from The Highland Council, the Board participates in the Local Government Pension Scheme administered by The 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 The 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.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

The Highland Council recognises the liability of the Pension Fund at 31/03/2012 attributable to these NHS Highland staff in the The Highland Council accounts. NHS Highland recognises the gain in the Fund for the year from 1 April 2019 to 31 March 2020 of £3.231m, giving a total to 31st March 2020 of £21.845m (total to 31st March 2019 of £25.076m). This is included in two parts in NHS Highland's accounts:-

a) £28.525m of realised deficit in SOCCNE which has been covered by funding from Scottish Government and

b) £6.680m of unrealised gains 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:

	2020 £000	Restated 2019 £000
Current Service cost	8,372	7,990
Interest Cost	1,901	1,710
Return in the Fund Assets	(1,238)	(1,213)
IAS 19 charge to service costs	**9,035**	**8,487**
Financial Assumptions Gain / (loss)	9,791	(4,128)
Gain / (loss) through other comprehensive net expenditure	**9,791**	**(4,128)**

The 2019 financial assumptions disclosure was incorrectly disclosed as a gain in year. The recognition in the primary financial statements was correct.

The current assets and liabilities are made up of :-

	2020	2019
Present Value of the Scheme Liabilities		
Opening defined benefit obligation	75,320	59,321
Current Service Cost	8,372	7,990
Interest Cost	1,901	1,710
Change in financial assumptions	(8,876)	6,151
Estimated benefits paid	(734)	(850)
Changes in demographic assumptions	(2,903)	-
Other experience	(453)	-
Contributions by scheme participants	959	998
Closing Value	73,586	75,320
Fair Value of the Scheme Assets		
Opening Fair Value of scheme assets	50,244	42,908
Expected return on scheme assets	(2,441)	2,023
Interest Income	1,238	1,213
Contributions by employer	2,475	3,952
Contributions by Scheme participants	959	998
Estimated benefits paid (net of transfers in)	(734)	(850)
Closing value	51,741	50,244

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

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 2020 are as follows:

		2020	2019
(a) Long term expected rate of return on assets in the scheme		2.0%	2.9%
(b) Life expectancy from age 65 (years)			
Retiring today:			
	Males	21.0	21.9
	Females	23.2	24.3
Retiring in 20 years:			
	Males	22.0	23.3
	Females	24.8	26.1
(c) Financial assumptions			
Rate of increase in salaries		2.8%	3.5%
Rate of increase in pensions (CPI)		1.9%	2.5%
Rate of discounting scheme liabilities		2.3%	2.4%
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		-	-
Private Equity		9%	9%
Real Estate		10%	10%
Investment Funds & Unit Trusts		31%	31%
Cash		3%	3%
Total		100%	100%

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

20 FINANCIAL INSTRUMENTS

20a Financial Assets

CONSOLIDATED	Notes	Loans & Receivables	Available for Sale	Total
At 31 March 2020		**£000**	**£000**	**£000**
Assets per SoFP				
Investments	10		7,254	7,254
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	9	44,739		44,739
Cash and cash equivalents	11	2,010		2,010
		46,749	**7,254**	**54,003**

BOARD	Notes	Loans & Receivables	Available for Sale	Total
At 31 March 2020		**£000**	**£000**	**£000**
Assets per SoFP				
Investments	10		113	113
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	9	45,027		45,027
Cash and cash equivalents	11	1,023		1,023
		46,050	**113**	**46,163**

CONSOLIDATED (Prior Year)	Notes	Loans & Receivables	Available for Sale	Total
At 31 March 2019				
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 (Prior Year)	Notes	Loans & Receivables	Available for Sale	Total
At 31 March 2019				
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**

20 Financial Instruments (cont'd)

Financial Liabilities

CONSOLIDATED		Liabilities at Fair Value through profit and loss	Other financial liabilities	Total
at 31 March 2020	**Note**	**£000**	**£000**	**£000**
Liabilities per SoFP				
Finance lease liabilities	12		1,726	1,726
PFI Liabilities	12		29,451	29,451
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation recoverable.	12		51,776	51,776
		0	**82,953**	**82,953**

BOARD				
at 31 March 2020	**Note**	**£000**	**£000**	**£000**
Liabilities per SoFP				
Finance lease liabilities	12		1,726	1,726
PFI Liabilities	12		29,451	29,451
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation recoverable.	12		51,758	51,758
			82,935	**82,935**

CONSOLIDATED (Prior Year)				
at 31 March 2019	**Note**	**£000**	**£000**	**£000**
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	12		53,546	53,546
			86,695	**86,695**

BOARD (Prior Year)				
at 31 March 2018	**Note**	**£000**	**£000**	**£000**
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	12		53,528	53,528
			86,677	**86,677**

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 2020	**£000**	**£000**	**£000**	**£000**
PFI Liabilities	4,185	4,186	12,577	23,784
Finance lease liabilities	359	383	1,150	507
Trade and other payables exc statutory liabilities				
Total	**4,544**	**4,569**	**13,727**	**24,291**
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**

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 enters into transactions with other Scottish Government and United Kingdom Government agencies and publicly funded bodies (such as Councils and educational institutions) in the ordinary course of its operations. These transactions take place at arms length. Scottish Ministers issue instructions and guidance on special transactions between publicly funded bodies in areas such as property transfers and joint venture investments.

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Ann Pascoe is a non- executive director of the Board and is also a director of Dementia Friendly Communities Ltd, during the year we entered into the following transactions

	2020 £'000	2019 £'000
Expenditure	62	10

From 1 April 2012, The Highland Council and NHS Highland 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 The Highand Council 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 The Highland Council which provides pensions for the social care staff of NHS Highland

	2020 £'000	2019 £'000
Income	100,635	94,250
Expenditure	11,047	10,100
Payables	2,827	2,525
Receivables	25,322	23,700

The integration of adult health and social services resulted in the creation of the Argyll and Bute Health and Social Care Partnership (IJB) established between Highland NHS Board and the Argyll and Bute Council. The voting members of the IJB are appointed through nomination by NHS Highland and Argyll and Bute Council. The voting membership of the IJB Board is split equally between both organisations. Nomination of the IJB Chair and Vice Chair post holders alternates between a councillor and a health board representative.

	2020 £'000	2019 £'000
Income	212,248	202,932
Expenditure	224,474	214,555
Payables	635	325

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.

	2019 £000	Gross Inflows £000	Gross Outflows £000	2020 £000
Monetary amounts such as bank balances and monies on deposit	1,575	3,246	(2,997)	1,824
Total Monetary Assets	**1,575**	**3,246**	**(2,997)**	**1,824**

24a CONSOLIDATED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

Group 2019 £000		Note	Board 2020 £000	Endowment 2020 £000	Intra Group adjustment 2020 £000	A&B IJB 2020 £000	Consolidated 2020 £000
	Total Income and Expenditure						
384,714	Staff Costs	3	418,216				418,216
	Other operating expenditure	3					
91,968	Independent Primary Care Services		97,275				97,275
124,169	Drugs and medical supplies		126,649				126,649
539,056	Other health care expenditure		564,267	1,637	(121)		565,783
1,139,907	**Gross expenditure for the year**		**1,204,891**	**1,637**	**(121)**	**0**	**1,206,407**
(367,809)	Less: Operating Income	4	(385,280)	(1,232)	121		(386,391)
0	Associates & joint ventures accounted for on an equity basis		0				0
772,098	**Net Expenditure**		**819,611**	**405**	**0**	**0**	**820,016**

Other health care expenditure and income relates to the consolidation of the Endowment Accounts, realised losses from endowment investments of £35k 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 2019 £000		Note	Board 2020 £000	Endowment 2020 £000	Intra Group adjustment 2020 £000	A&B IJB 2020 £000	Group 2020 £000
	Non-current Assets:						
354,180	Property, plant and equipment	SoFP	359,814				359,814
2,706	Intangible assets	SoFP	2,143				2,143
	Financial assets:						
8,528	Available for sale financial assets	SoFP	113	7,141			7,254
20,487	Trade and other receivables	SoFP	16,910				16,910
385,901	**Total non-current assets**		**378,980**	**7,141**	**0**	**0**	**386,121**
	Current Assets:						
6,407	Inventories	SoFP	7,328				7,328
	Financial assets:						
42,605	Trade and other receivables	SoFP	52,695	4	(292)		52,407
1,035	Cash and cash equivalents	SoFP	1,023	987			2,010
50,047	**Total current assets**		**61,046**	**991**	**(292)**		**61,745**
435,948	**Total Assets**		**440,026**	**8,132**	**(292)**	**0**	**447,866**
	Current liabilities						
(8,358)	Provisions	SoFP	(15,933)				(15,933)
	Financial liabilities:						
(89,577)	Trade and other payables	SoFP	(100,236)	(310)	292		(100,254)
(97,935)	**Total current liabilities**		**(116,169)**	**(310)**	**292**	**0**	**(116,187)**
338,013	**Non-current assets plus / less net current assets / liabilities**		**323,857**	**7,822**	**0**	**0**	**331,679**
	Non-current liabilities						
(47,039)	Provisions	SoFP	(40,582)				(40,582)
	Financial liabilities:						
(31,177)	Trade and other payables	SoFP	(28,985)				(28,985)
(78,216)	**Total non-current liabilities**		**(69,567)**	**0**	**0**	**0**	**(69,567)**
259,797	**Assets less liabilities**		**254,290**	**7,822**	**0**	**0**	**262,112**
	Taxpayers Equity						
120,050	General Fund	SoFP	116,891				116,891
111,787	Revaluation reserve	SoFP	102,194				102,194
18,854	Other reserves	SoFP	35,205				35,205
9,106	Funds Held on Trust	SoFP		7,822			7,822
259,797	**Total taxpayers' equity**		**254,290**	**7,822**	**0**	**0**	**262,112**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2020

24c CONSOLIDATED STATEMENT OF CASHFLOWS

Consolidated 2019 £000		Board 2020 £000	Intra Group adjustment 2020 £000	Endowment 2020 £000	A&B IJB Adjustment 2020 £000	Consolidated 2020 £000
	Cash flows from operating activities					
(772,098)	Net operating expenditure	(819,611)	(405)			(820,016)
16,669	Adjustments for non-cash transactions	33,170				33,170
2,473	Add back: interest payable recognised in net operating expenditure	3,290				3,290
(12)	Deduct: Interest receivable recognised in net operating expenditure					
7,125	Movements in working capital	2,110	160			2,270
(745,843)	**Net cash outflow from operating activities**	**(781,041)**	**(245)**	**0**	**0**	**(781,286)**
	Cash flows from investing activities					
(19,112)	Purchase of property, plant and equipment	(27,203)				(27,203)
(865)	Purchase of intangible assets	(409)				(409)
(540)	Investment additions		(156)			(156)
0	Transfer of assets to/(form) other NHS bodies	14				14
106	Proceeds of disposal of property, plant and equipment					
970	Receipts from sale of investments		551			551
12	Interest and dividends received					
(19,429)	**Net cash outflow from investing activities**	**(27,598)**	**395**	**0**	**0**	**(27,203)**
	Cash flows from financing activities					
769,521	Funding	813,901				813,901
(12)	Movement in general fund working capital	825				825
769,509	Cash drawn down	814,726	0	0	0	814,726
(1,809)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(1,972)				(1,972)
248	Interest paid	(753)				(753)
(2,721)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	(2,537)				(2,537)
765,227	**Net Financing**	**809,464**	**0**	**0**	**0**	**809,464**
(45)	**Net increase / (decrease) in cash and cash equivalents in the period**	825	150			975
1,080	**Cash and cash equivalents at the beginning of the period**	198	837			1,035
1,035	**Cash and cash equivalents at the end of the period**	**1,023**	**987**	**0**	**0**	**2,010**
	Reconciliation of net cash flow to movement in net debt/cash					
(45)	Increase / (decrease) in cash in year	826	149			975
1,080	Net cash at 1 April	198	837			1,035
1,035	**Net cash at 31 March**	**1,024**	**986**			**2,010**

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