NHS Highland

Highland Health Board

ANNUAL REPORT and ACCOUNTS

for

THE YEAR ENDED 31 MARCH 2018

Highland Health Board

INDEX

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THE PERFORMANCE REPORT

1. Overview

The challenges we are facing to sustain safe sevices across the board area are significant. While these are being faced across the UK, and indeed, further afield, compared to other boards in Scotland, NHS Highland face additional pressures due to the remoteness and rurality of some of our communities. We also have a higher proportion of older people than elsewhere in Scotland and, therefore, the way we curently deliver many of our services are very fragile and costly.

As set out in our Quality and Sustainability Vision and Plan (published May 2017), there is a compelling case for change, yet in general we continue to face some resistance to move to new models of care as quickly as we need to. This means at times, while our services have been reliably safe, it has not always been possible to achieve consistency in delivery with staff shortages the underpinning problem.

NHS Highland was only able to deliver financial balance in 2017/18 with the aid of £15m of financial brokerage from the Scottish Government. Significant savings of £35m were achieved but we would have recorded a £14.5m deficit against our annual budget of £817m if we have not received this brokerage payment. There were, and continue to be three main areas of significant rising costs: i) adult social care, ii) drugs and iii) locum, agency and supplementary staffing.

Clearly there are significant challenges with recruitment and retention especially in remote and rural areas, and across a number of specialities, where some models of care are no longer sustainable. One of our key pressures was the expenditure on medical locums, where we have spent £15m in each of the last 3 years. Overall we spent £35m on locum and supplementary staffing. One way this is illustrated is that we currently have 30 consultant and 21 GP posts vacant.

Priority at all times is made to protect emergency, cancer care and delivery of safe services. The Board continues to perform better than the Scottish average when it comes to the delivery of the emergency four hour performance target and waiting times targets. This has impacted on financial performance in 2017/18 and contributed to the Board's overspend and requirement for brokerage.

During the year, through a combination of redesign and investment, waiting times were reduced for outpatients across a number of specialities. Individual clinicians have successfully used Video Conferencing for virtual appointments for some time; however, the move to "NHS Near Me" will see tele-health rolled out at scale and bring opportunities for people to have appointments from their own home. This will significantly reduce the need for people to have to travel to access or deliver specialist care. The feed-back from patients and staff has been very positive.

The Elective Care Centre planned for Highland also took a step forward this financial year when the Capital Investment Group at the Scottish Government approved the initial agreement for the Project in November. Expected to cost £29m in capital funding, it will be located in Inverness and offer a best in class delivery of knee, hip and cataract surgery. The next phase is to submit the Outline Business Case with the Centre due to open in 2021.

Good progress is also being made on Raigmore Hospital's Critical Care Upgrade. This will be the single biggest investment the Inverness hospital has had since it was built. The upgrade, which is costing £32m, will greatly improve the facilities and efficient delivery of diagnosis and treatment.

Work continues to support major redesign services across Badenoch and Strathspey and Skye, Lochalsh and South West Ross. These projects, which got underway in 2012/13, will see new hospitals built in Aviemore and Broadford as part of wider redesign of health and social care services. Architects were appointed during the year, the building designs are almost finalised and contractors have been appointed. The Outline Business Case has been submitted to Scottish Government and we await their approval to move to the next stage.

We continue to have a strong emphasis on quality improvement through our Highland Quality Approach (HQA), our management system designed to deliver better health, better care and better value. The HQA is focussed on improving all elements of our care and supporting processes by daily attention to detail, monitoring and leaders standard work. Delivery of our quality improvement work will contribute to three percent efficiency savings. Our work continues to receive considerable interest from all over the world and we hosted a number of study tours for international colleagues.

One of the objectives the board set during 2016/17 was to reduce falls as part of the Scottish Patient Safety Programme. Our aim is to achieve a 25% reduction in all falls and a 20% reduction in falls with harm by July 2018. We successfully achieved this in the pilot wards and we are now rolling out the approach across all care settings. This improvement work is a good example of illustrating how improving quality care is safer, clearly better for patients and costs less.

NHS Highland's director of public health, Professor Hugo Van Woerden, reflected on how Realistic Medicine will play a vital role in shaping our health service for the future. In his annual report to the NHS Highland board in November 2017, he highlighted how the role technology, compassionate communities and new models of care provision will play and that, in order to meet the challenges for the future, we must do more for those that are most vulnerable in our communities. This important work is ongoing with a programme of work, led by the Medical Director underway.

We were pleased to be selected as an early adopter site for implementation of Best Start which is the Scottish Government's Five-Year Forward Plan for Maternity and Neonatal Care in Scotland. The main aim is to improve continuity of care across community and acute maternity care teams. Every woman will have a primary midwife for the majority of their care, and that obstetricians will be linked with midwives in multi-disciplinary teams.

At our last board meeting of 2017/18 the board approved a ground-breaking move to form a University Board, which will be the first for Scotland. We believe it will enhance the reputation of NHS Highland and in doing support investment, research and recruitment. Formalisation of links with the local University provider will ensure greater recognition of our longstanding commitment to research, education and training, and indicate that as an organisation we are committed to ensuring that joint work by staff is appropriately recognised.

The distance learning model of education delivered by the University of the Highlands and Islands amplifies the provision of NHS Highland in many settings, bringing together university and health service staff. The development will also facilitate the further development of the 'Highlands and Islands Improvement Institute' as a joint venture between NHS Highland and our local academic partners.

The magnitude of the challenge going into the new financial year is that the board will not be able to break-even. The estimated financial gap for 2018/19 is £50.8m. This represents an 8.3% savings target on baseline for the Board, or 7.2% when Adult Social Care funding is taken into account. Savings plans are in various stages of development but generally well progressed. It will not be possible, however, to deliver in year reductions of this magnitude without compromising care and therefore brokerage will again be required to deliver financial break-even. It is expected that this will be in the region of between £19m and £23m.

It is within this context the board is facing back to back three of if its most challenging savings targets ever: £50.8m 2018/19; £48 million for 2017/18 and £28.8m in 2016/17.

In order to get back into financial blance our plan and approach is to develop a three year plan to contain costs and redesign services that can be staffed and afforded. As highlighted in the accounts last year a *'more of the same approach'* will not deliver sustainable solutions, here in Highland, across the North of Scotland, nationally or indeed world-wide.

A quote from a recent report published in 2017 by the British Medical Association (BMA) about New Zealand exactly mirrors what we are experiencing here in Highland:

"We've got restrained funding, we have diminishing workforces, we have increasing burdens of disease, ageing populations and increasing expectations." **- The changing face of medicine and the role of doctors in the future, BMA, 2017**

Organisational Overview

NHS Highland is one of the fourteen territorial boards of NHS Scotland and employs around 10,000 people, making it one of the largest employers in the region. We provide health and social care services to our resident population of 321,900. The Health Board covers two Local Authority areas, Highland and Argyll & Bute. Geographically, it is the largest Health Board in Scotland covering an area of 32,500 km² stretching from Kintyre in the south-west to Caithness in the north-east.

	Area Sq. Km	Total Population (Persons)	Pop density per Sq. km
Argyll & Bute	7163	87130	12.2
North & West	18356	78034	4.3
Inner Moray Firth	7717	156736	20.3
NHS Highland	33237	321900	9.7

Data Source: Small Area Population Estimates (2016) produced by National Records of Scotland and best fit to NHS Highland Operational Geographies. Area in Sq.Km calculated using ArcGIS v10.2

Our diverse area 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).

Despite the often popular image of a rural idyll, deprivation, fuel poverty and inequalities also affect the population including health and wellbeing of the area, producing diverse challenges for service delivery across all public sector.

NHS Highland area also has a higher proportion of older people in the population than the Scottish average. Seasonal work is common, and in some parts of Highland, Argyll & Bute there are considerable difficulties in recruiting to some roles. This year new challenges emerged on the Island of Skye where securing accommodation for newly appointed staff has been problematic.

Our revenue budget for 2017/18 financial year was £817m. Revenue covers nearly all staff costs and a huge range of 'day-to-day' items such as drugs, fuel, stationery, catering supplies. Our capital budget was £22m. Capital covers a small amount of staff costs (staff who work on capital projects) and a wide range of 'one-off' items - ranging from medical equipment right up to new facilities such as health centres or hospitals. In 2012 NHS Highland took on responsibility for adult social care including 15 care homes and various day services. Capital funding for these facilities is provided via the Highland Council. Other key facts and figures are summarised (Box 1).

Box 1 - NHS Highland: at a glance

- 41% of the landmass of Scotland with 36 populated Islands
- 321,900 residents
- 10,000 staff (headcount)/8,000 (WTE)
- 250 hospital based consultants
- 98 GP Practices (18 managed by NHS Highland)
- 25 hospitals, made up of the following
  - 1 District General Hospital – Raigmore (Inverness)
  - 2 Two psychiatric hospitals (New Craigs in Inverness and Argyll & Bute in Lochgilphead)
  - 3 Rural General Hospitals – Belford, Caithness General and Lorn and Islands
  - 20 Community Hospitals
- 5 Emergency Departments/A&E centres
- 14 Minor Injury Units
- 15 Care Homes (Highland Council area)
- 50,000 new outpatient appointments per annum
- 39,000 attendances at Raigmore Emergency Department per annum
- 38,000 inpatients per annum
- 13,000 day case patients per annum
- 2,000 births per annum (Raigmore Hospital)

Board and Committees

NHS Highland is managed by a board of directors which is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing. 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 Highland and Argyll & Bute.

The board is underpinned by a number of committees, including: Audit, Staff Governance, Clinical Governance, Area Clinical Forum, Highland Partnership Forum, Finance Sub-committee, Health and Safety.

Highland-wide departments or functions sit within our corporate services and include Clinical Governance and Risk Management; Dental Services; e-Health; Finance; Human Resources; Infections, Prevention and Control; Nursing and Midwifery; Pharmacy; Planning and Performance; Procurement; Public Health, and the Chief Executive's office.

In Argyll and Bute, The Integration Joint Board (IJB) is the governance Board of the Health and Social Care Partnership. It has responsibility for the planning, resourcing and overseeing of the operational delivery of integrated services. The membership of the IJB comprises elected councillors from Argyll and Bute Council, NHS Highland Board members and a number of other members from a range of sectors and stakeholder.

The governance Board of the Health and Social Care Partnership in the Highland Council area is through the Highland Health and Social Care Committee. Its membership is drawn from NHS

Highland Board members, Highland Councillors and a number of other members from a range of sectors and stakeholder.

Our Mission

Our overall mission is to provide quality of care to every person every day. We aim to achieve this by working with our partners to improve the health and wellbeing of local people and to ensure that national clinical and service standards are delivered.

Our Strategic Vision

NHS Highland is committed to providing high quality care to the population of the Highlands and Argyll & Bute in a safe, efficient and person centred way. Our strategic approach is founded on the triple aim: t**o deliver better health, better care and better value:**

- Delivering ***better health*** for our communities through population-wide and individually focussed initiatives. These aim to maximise health and wellbeing and prevent illness.

- Delivering ***better care*** through quick access to modern treatments provided in modern facilities. Care will be delivered in the most appropriate setting and in clean and infection-free facilities by well-trained, motivated and professional staff.

- Delivering ***better value*** to ensure that money is spent only on what is needed and reducing duplication, waste and errors, based on clinical evidence and improvement methodology.

Our Objectives

Our Approach

NHS Highland is continuing its work on what it calls the Highland Quality Approach (HQA) – a system of quality improvement – which is being embedded across the organisation. Improvements are maintained by a management system that includes identification of problems, waste and rapid problem solving. Organisational improvement activity is also aligned by a management system that includes cascading of corporate objectives.

Objectives for 2017/18 were agreed. In partnership with staff and were delivered under the themes of People, Quality and Care. They included making NHS Highland the employer of choice, minimising the time that people have to be away from home to receive care, providing timely access to clinically appropriate care, increasing the number of people who can be supported through the use of technology and preventing people from falling in hospital and care home settings.

Operational Delivery of Services

NHS Highland and Argyll and Bute Council has integrated health and social care services in the form of Argyll and Bute Health and Social Care Partnership (HSCP). The HSCP includes all health services, including contracted services (those that are purchased from NHS Greater Glasgow and Clyde), and all Adult and Children and Families social work. The Partnership went live on 1st April 2016. The work is led and co-ordinated by a Chief Officer.

Since 1st April 2012, health and social care in the Highland region has been formally integrated with NHS Highland the lead agent for the delivery of adult services across health and social care and the Highland Council the lead agency for children's services. The arrangements are managed through the Highland Health and Social Care Partnership which is responsible for providing acute care, emergency care, primary care, community based health and social care services. Covering the same area as The Highland Council, the Partnership is made up of two operational units: i) North & West and ii) Inner Moray Firth which includes South and Mid Highland and Raigmore Hospital (Box 2). The work is led and co-ordinated by a Chief Officer.

Some specialist services are provided on a regional basis such as plastic surgery and neurosurgery. We also have Service Level Agreements with other Boards for tertiary services including specialist paediatrics and transplant surgery. Other services are provided through contracts with third and independent sector and partner agencies.

Box 2 Raigmore Hospital (Inverness)

- Raigmore Hospital is our only district general hospital serving the population of the Highlands and has been based on the site since 1941. With around 450 beds it covers the majority of medical and surgical specialties and is the cancer treatment centre for the Highlands and Western Isles.
- It is a training hospital for nursing staff, midwifery, pharmacy students and medical students in association with the universities of Stirling, Aberdeen and Dundee. It also has postgraduate trainees and doctors in training foundation.
- Outreach services are provided to a number of sites across Highland as well as some to Western Isles and Orkney. The hospital enjoys close links to tertiary services in the central belt of Scotland, and Aberdeen, through both informal and formal managed clinical networks with Scotland-wide weekly video Multi-Disciplinary Teams.
- It is currently undergoing a £32 million major refurbishment which will see all critical care facilities co-located This will facilitate easier access to ITU, theatres, emergency department, and radiology services.
- The hospital hosts the National Lyme Borreliosis Testing Laboratory.

Planning of Services

Each Board within NHS Scotland is required to produce a Local Delivery Plan. This forms part of the board's contract with the Scottish Government for delivery of services. It is produced annually and our plan for 2017/18 was signed off by the board at their meeting held in March 2017. It set out our improvement priorities in areas such as health inequalities and prevention, ante natal and early years provision; featured a detailed financial and asset management plan; outlined changes to models of services and summarised the main workforce issues facing the board.

In May 2017 the board also published a Quality and Sustainability Vision and Plan which describes the national, regional and local health and social care strategic context. Increasing costs and demands, staffing pressures and the inextricably linked unprecedented savings targets all mean that some of the current models of health and social care delivery are not sustainable in Highland.

While in 2015 about one in twenty people in Highland were aged over 80 years old, by 2035 this figure will be over one in ten. Planning for this increase is important because older people tend to make more use of health and social services. Alongside this is the recognition that our workforce is also ageing and so we are facing a future scenario of having more people to look after with fewer paid workers to provide hands on care.

NHS Highland is committed to providing as much care and support as locally as possible. However, for some things this has to be balanced with making sure those services can be safely staffed, equipped and are affordable. Access to services is also changing with technological advances which are allowing greater opportunities for people to access specialist input but without the need to travel.

During 2017/18 momentum was gained to look at services across all North of Scotland Board with good progress made to develop a Regional Plan and collaborative working.

Capital Plans

Health and social care in the Highlands, Argyll & Bute is constantly evolving and it's important that the buildings and equipment we use are fit for purpose, all assets maximised, and when opportunities present, ensure they are strategically aligned

To that end, at the start of the Financial Year, the board approved NHS Highland's five year capital plan. This plan sets out the investment that the board plans to make to its infrastructure for the next five years. It included potential for new primary care premises in Inverness – to reflect rapid growth on in the population and poor condition of many premises. It also set out the investment for major redesign projects in Badenoch & Strathspey and in Skye, Lochalsh and South West Ross, which have been agreed in principle by the Cabinet Secretary for Health and Wellbeing.

The full business case for the upgrade of critical care provision at Raigmore Hospital was approved in April. The £32m funding for the project from the Scottish Government represents the biggest single investment in the hospital since it was built.

We also reported that services were due to transfer into the new children' unit at Raigmore at the end of April. The £3.9m unit was delivered with some £2m raised via the Archie Foundation representing significant generosity from local people and businesses across Highland. These developments were delivered as planned

Performance Summary

- **Annual Review**

The performance of all NHS boards is publicly reviewed by the Scottish Government Health Department at events knows as annual reviews. NHS Highland's Annual Review for 2016-17 was held on Thursday 31 August 2017 in the Macdonald Resort, Aviemore with Aileen Campbell, Minister for Public Health, in attendance. The public session was well attended and opened with a presentation from the chair of NHS Highland which is available on NHS Highland's website. The review provided an opportunity to highlight some of the year's achievements and challenges. Overall feed-back was positive and was formally communicated to the board through a letter from the Minister which is available on NHS Highland's website. here

- **Hospital Standardised Mortality Ratios (HSMR)**

The HSMR is calculated as a ratio between the number of *observed* and *predicted* deaths for the hospital, taking into account case mix. They are calculated four times a year for all hospitals in Scotland. A slight rise in actual mortality and a small decrease in the predicted mortality rate occurred for Belford Hospital.

While Hospital mortality ratios are not in themselves a measure of quality of care they are a valuable tool to flag up where some further investigation should be undertaken. Monitoring is taken very seriously and included reviewing all relevant clinical cases.

- **Scottish Patient Safety Programme**

One of our objectives is to achieve a reduction in falls as part of the Scottish Patient Safety Programme. Our aim is to achieve a 25% reduction in all falls and a 20% reduction in falls with harm by July 2018. We successfully achieved this in the pilot wards and we are now rolling out

the approach across all care settings. This improvement work is a good example of illustrating how quality care costs loss.

- **Hospital Waiting Times**

Significant progress was made during the year to reduce Outpatient Waiting Times especially in high volume surgical specialities ENT, ophthalmology, urology and orthopaedics.

Funding in principle to build an elective care centre for orthopaedic and ophthalmology was confirmed and is included in the capital plan. The development, which will be on the University of the Highland's and Islands Inverness campus (adjacent to Raigmore Hospital) is planned to open its door to patients in 2021.

- **Models of Care**

Embedding different models of care are ongoing and include transforming outpatients, out of hours urgent care, maternity services, mental health services, care at home, cardiac rehabilitation, radiology and rural general hospitals.

The major service redesigns in Badenoch and Strathspey and Skye, Lochalsh and South West Ross will also see new 'Hub and 'Spoke' arrangments with all community hospital inpatient care co-located. As well as supporting a more sustainable staffing model it will ensure 24/7 on site medical cover for all inpatients in these areas. During the year significant progress was made develop the business cases and carry out much of the prepratory work to invest in community services. The combined costs of the re-designs is £37m.

Out of hours urgent primary care provision has historically been highly dependent upon medical staff and with significant variation across Highland of costs, activity and cover. In the new models out of hours services will be provided by teams of GPs, advanced nurses and advanced paramedics. We are moving towards a smaller number of better-resourced out of hours bases to provide safe cover of the Highlands.

Engagement with communities and staff was ongoing in 2016/17 to review current provision and implement new arrangements. It's not been without controversy but several areas have now been fully transitioned to new models of care. To support with some of challenges being faced in Skye, Lochalsh and South West Ross we invited Sir Lewis Ritchie to come and provide an expert view and we look forward to implementing his recommendations in due course.

Corporate

At our last board meeting of 2017/18 the board approved a ground-breaking move to form a University Board, which will be the first for Scotland.

Bord na Gaidhlig approved the NHS Highland Gaelic Language Plan (2018-2023) on 8th March 2018. The plan will published in Quarter one of the 2018/19. The first annual monitoring report on delivery of the plan will be required by 8th March 2019.

The Project to redesign NHS Highland's office portfolio within the Inverness area was completed with refurbishment of Larch House and two floors of Assynt House. It has proved a catalyst to transform NHS Highland's office working environment, from reducing the amount of office space required through to upgrading of IT systems, going paper-light and more agile ways of working. Overall the programme will make significant recurring savings and produce a better environment for staff to work. The work was part of a national programme of office space modernisation led by Scottish Futures Trust and sits within NHS Highland's approved Property and Asset Management Strategy.

Workforce

Within Highland there are significant variations in demography with our most remote and rural communities having profiles that highlight large cohorts at older ages with limited numbers of people at working ages.

In the future in many areas of Highland, Argyll and Bute there will be even fewer people in the population of working age. It would therefore be anticipated, that attracting staff to work at all levels in health and social care will remain a challenge with particular problems in remote and rural areas that experience net out migration at younger ages.

There is often limited workforce availability particularly in areas where we have competing resources to staff care at home, care homes and hospital services all within close proximity. That is before we consider any competition from other industries which is becoming increasingly challenging in some areas with commercial developments and increase in tourism.

Based on the current way services are delivered Raigmore Hospital has an establishment of 208 consultants across 30 specialities with 16 vacancies. Outside of Raigmore there is an establishment of 63 consultants with 14 vacancies.

There are 98 GP practices in NHS Highland board area with between 260 to 270 GPs. Our latest figures show that there are 21 GP vacancies across NHS Highland (11 of them in salaried practices).

The 2018 GP Contract continues the move towards utilising other professions in the provision of primary care such as advanced practice nurses, paramedics and pharmacists. While this is something NHS Highland has been moving towards for sometime there are elements of the contract that require careful consideration for their implementation in remote and rural areas.

There are particular challenges for some staff groups including consultants, GPs, midwives, care at home, radiologists, health care scientists, sonographers and some Allied Health Professionals. In many cases this resuts in the use of costly locum or agency cover which is also not ideal in terms of providing continuity of care and reflects also out financial defecit.

We announced in April 2017 that pre-registration nurse training in Highland was transferred from the University of the Stirling to the University of the Highlands and Islands by September 2017. The Business plan has been agreed by the Chief Nursing Officer.

It was also confirmed that Scotland's first graduate medical programme will be delivered jointly by the universities of Dundee, St Andrews and the Highlands and islands. The four year programme will have a particular focus on the recruitment of Scottish graduates to increase the likelihood of trainees remaining in Scotland, and in particular in remote and rural areas.

University of the Highland and Islands (UHI) has also been successful in gaining Scottish Government approval for a three to five year pilot, to provide a post-graduate shortened midwifery programme. Delivered in conjunction with NHS Highland it will offer places for registered nurses to undertake midwifery training.

UHI are also looking to develop and run a three year direct entry, undergraduate programme and Return to Practice programme. This will give more opportunities for students and nurses living and working in Highland and who don't want to move out of area for placements and training. This will hopefully offer longer term solution for the current and ongoing recruitment challenges.

The move to University Board status will enhance the reputation of NHS Highland and support our expertise in the delivery of integrated health and adult social care. We also believe it will raise our profile and support with recruitment and retention.

NHS Highland is supporting a follow-up to the Channel 5 observational documentary series on Highland Midwives. The first series was shown over three one hour episodes (5th, 12th and 19th July) and featured midwives from NHS Highland working in Ross-shire and Argyll and Bute. The second series has broadened out to cover other parts of Highland. Our focus for participating is to raise the profile to work in NHS Highland and hopefully enhance recruitment and retention opportunities.

Annual turnover at 31st December 2017 was 10.66% but showing significant variation by area and profession. Our overall turnover rate is higher than the national average of 8.4% for the year 2016/17.

396.19 WTE posts vacant (with a decision to fill) at December 2017, which equates to 4.86% of our WTE filled posts. This overall figure hides a wide range of variation in vacancy rates across and within each job family. In a number of key areas the Board has consistently higher vacancy rates than the rest of Scotland and in most case has posts that are vacant for longer. There are various reasons for this from national supply shortages and the challenges of remote and rural service provision.

- **Winter Resilience**

For four days at the beginning March an Emergency Liaison Group led the co-ordination of emergency and vital services being maintained as blizzards and drifting snow swept across Scotland including parts of Highland and Argyll and Bute. The worst affected areas in Highland were Caithness, Sutherland and Easter Ross; and Helensburgh and Dunoon in Argyll and Bute.

However, across our board area, we were able to maintain all essential and emergency services. The organisations involved in the response included NHS Highland, Highland Council, Argyll and Bute Council, Police Scotland, Scottish Fire and Rescue Service, Scottish Ambulance Service, Bear Scotland, British Red Cross and Highland 4x4 Response.

The response to the conditions showed yet again how front line clinical teams, managers and the emergency services are very experienced and practiced at responding to medical emergencies.

Having registers of all vulnerable people and plans of how to respond worked well. Where we had difficulty reaching care at home clients, 4x4 response was activated. Family, friends, community nurses and staff who lived close to areas most affected also supported to cover visits and make contact with people we identified as potentially vulnerable. Support was also volunteered from people with all-terrain vehicles.

- **Campaigns, Events, Awards and Accolades**

2017/18 saw the board continue to target loneliness as part of a major campaign. A report to the board in April explained that there is growing body of research that suggests that social isolation and loneliness is a significant issue affecting people's health and wellbeing. Indeed, research suggests that more people die from loneliness than from being overweight or not exercising. Strands of work have included structured intergenerational work as well developing compassionate communities. The campaign has attracted a lot of publicity during the year and was backed by a number of local newspaper and politicians.

NHS Highland was the first territorial board in Scotland to sign up as diversity champion through the campaigning organisation Stonewall. The diversity champions programme is Britain's leading best-practice employer's forum for sexual orientation and gender identity, equality, diversity and inclusion.

There was also wide range of other awareness raising events including No Bystander, dementia, bowel cancer, antibiotic awareness, breast screening, breast feeding awareness and realistic

medicine. These campaigns were supported by events, publicity and media awareness including extensive use of social media.

During the year staff from NHS Highland were put forward for various awards and successes included Laura Menzies, Midwifery Team Leader (Henderson Maternity Unit at Caithness General Hospital) who won the Healthcare Professional Category at the first- ever Highland Heroes award ceremony organised by the Scottish Provincial Press.

Finalists at the 2017 Scottish Health Awards were David Mackay, Domestic Service Manager Raigmore Hospital (Unsung Hero Award), Marie Milne, Midwifery Team Lead Skye (Midwife Award), Nick Dunn GP (Doctor Award), Glen Hall GP (Doctor Award) and Craig Campbell (Optometrist Award).

We recognised the work of dedicated specialist healthcare workers in supporting people living with dementia and their families. Over 50 staff across the NHS Highland board area have now graduated from the national Dementia Champions training programmes.

The international Handbook on Integrated Care Editors: Amelung, V., Stein, V., Goodwin, N., Balicer, R., Nolte, E., Suter, E. (Eds.) published in July included a case study by the chief executive of NHS Highland on the Lead Agency model in Highland.

NHS Highland is also at the forefront of a prescribing revolution that could dramatically improve patient safety and help make considerable cost savings over the next decade, according to a report presented at an international conference.

The report "Polypharmacy Management by 2030: a patient safety challenge" was presented at a SIMPATHY Project conference on Wednesday 27th April 2017 held at Scotland House, the Scottish Government's EU office in Brussels

Co-authored by Dr Martin Wilson, a consultant based at Raigmore Hospital in Inverness it aims to address issues faced by adult patients who have to take multiple medications. Taking one or more prescribed drugs for their treatment is known as polypharmacy. NHS Highland started work in this area in 2010 after developing innovative guidelines, then funding polypharmacy reviews of patients' medications.

- **Management of Risks**

The Board approved a paper on risk appetite at its meeting in March 2017 and more details can be found here. By formalising our risk appetite it should reduce the Board's overall risk by giving staff guidance as to how to manage risks across various categories:

- Strategic/reputational
- Clinial
- People
- Innovation and trasnformation
- Finance and Sustainability

The Board has agreed a clear and appropriate management structure for ensuring that NHS Highland has effective systems to enable risk to be identified and decisions to be taken at an appropriate level. The Board has delegated aspects of risk governance to its Governance Committees and the Strategic Risk Register is reviewed and updated on a quarterly basis by the Risk Management Steering Group.

One risk highlighted last year was the pace with which we are able to intitiate the necessary changes. Despite significant public engagement in all areas about the need to change over the years, some ongoing resistance was expected and more can be anticpated. Protacted engagement processes introduce risk to the implentation of some of our plans and delays to making progress on the necessary changes.

The current ways of working will 'fall over' in an unplanned way which is inherently more risky. Recent examples of staffing challenges in out of hours Minor Injury Units (Dunbar, Ross Memorial, Invergordon, Nairn, Potree), inpatients (Dunbar, Portree, St Vincent's, Ross Memorial) have seen short-term disruption to services, either through reduced hours or temporary bed closures. These all serve to illustrate why these services are not sustainable and require to be redesigned.

2 Performance Analysis

Financial Performance

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

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

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

		Limit as set by SGHSCD	Actual Outturn	Variance Underspend
		£000	£000	£000
	Revenue Resource Limit			
1	Core	693,631	693,154	477
	Non-core	28,202	28,202	0
	Capital Resource Limit			
2	Core	21,936	21,936	0
	Non-core	0	0	0
3	Cash Requirement	738,750	738,750	0

Memorandum For In Year Outturn	**£000**
Brought forward surplus from previous financial year	111
Underspend against in year total Revenue Resource Limit	366

The financial challenges facing NHS Highland in 2017/18 were unprecedented, with the requirement to deliver against a savings target of £48m in order to deliver financial breakeven against its Revenue Resource Limit (RRL). This compares to a target of £28.8m in 2016/17 and equated to around 8.3% of its baseline budget and 7.2% on its baseline plus Adult Services Quantum (a more meaningful comparison).

In addition to this, a number of cost pressures were experienced during the year, including additional costs associated with "paid as if at work" (Agenda for Change staff who were on sick leave or annual leave entitled to payments to reflect what they would have earned if they had been at work i.e. enhancements and on call payments), increased costs of drugs on short supply and higher than expected costs in respect of Adult Social Care services. At the end of the year, £35.3m of savings had been achieved and whilst this was significantly below the target, it was considerably higher than savings achieved in previous years.

As a result of these factors, financial break-even was only achieved with the aid of financial brokerage of £15m from the Scottish Government. It should also be noted that of the £35m savings achieved, £25m was achieved non-recurrently. Taking account of the full year effect of

part year savings, a carry forward of savings into 2018/19 totals £26.7m, before additional costs are factored into position. This emphasises the fact that the current service models are not sustainable – not just from a financial point of view but also from a workforce and sustainability point of view and efforts are now being focused in the development of a three year plan to bring NHS Highland back into financial balance over that timescale and discussions continue with the Scottish Government with regards to additional brokerage requirements over that period.

Ignoring brokerage, the board's final outturn would have been an overspend on RRL of £14.52m however, the allocation of £15m of brokerage allowed the Board to deliver its financial targets with an underspend of £477k on Revenue Resource Limit (equivalent to 0.01%) and a break even on Capital Resource Limit.

As touched upon above, the outlook for 2018/19 is increasingly challenging. NHS Scotland has continued to enjoy relative protection from the impact of public sector austerity and NHS Highland will benefit from a baseline uplift of 1.5% (1.5% baseline plus £3m of NRAC parity funding), however, despite these factors, the board will face a savings target of £51.8m in 2018/19 (compared with £48m in 2017/18). The receipt of NRAC resources places NHS Highland within the 1% target set by Scottish Government.

The savings programme is set in the context of the Quality and Sustainability Plan, which was approved by the Board in March 2017 and at the time of writing, plans totalling around £32m of the required £50.8m savings for 2018/19 have been identified, leaving a shortfall of £19m. In addition, a number of those plans identified carry varying degrees of risk and, in the submission of the NHS Highland Annual Operational Plan (AOP), the likelihood of further brokerage of between £19m to £23m has been identified and will be the subject of further discussion with the Scottish Government.

It should be noted that these figures include a savings target of £44.5m for the Highland Health and Social Care Partnership and £6.3m of savings required for the health services delivered in Argyll & Bute under the direction of the Integration Joint Board. An opening budget offer of £206.7m for 2018/19 (which was approved by the Board in March) has been made to the IJB.

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

Public Finance Initiative/Public Private Partnerships

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

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

Provision of Mid Argyll Community Hospital and Integrated Care Centre, Lochgilphead

We financed the development of Mid Argyll Community Hospital and Integrated Care Centre in Lochgilphead by way of a PFI scheme. The period of the contract runs from June 2006 to May 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 2017, 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 2017 could potentially amount to £252,377.

Performance against Key Non Financial Targets

Local Delivery Plan 2017/18

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 Local Delivery Plan (LDP) using a suite of performance indicators. The LDP gives detailed targets and trends for a number of key performance indicators towards achieving these outcomes. The Board also measures its performance against the financial targets set by the Scottish Government Health and Social Care Directorate. Performance against these targets is monitored by the management team and reported to the Board a quarterly basis.

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

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 LDP scorecard for NHS Highland can be found here. The most recent Health & Wellbeing Outcomes for NHS North Highland can be found here and for the Argyll & Bute Integrated Joint Board can be found here.

Payment Policy

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

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

Prior to this, the Board did endeavour to comply with the principles of The Better Payment Practice Code by processing suppliers invoices for payment without unnecessary delay and by settling them in a timely manner.

	2017/18	2016/17
Average period of credit taken	11 days	10 days
Percentage of invoices paid within 30 days:		
- by volume	91.19%	93.38%
- by value	92.29%	94.01%
Percentage of invoices paid within 10 days:		
- by volume	82.74%	84.19%
- by value	83.21%	80.82%

The target has not been achieved this year due to significant staffing changes in year. Additional resource has been introduced to improve this performance for 2018/19.

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 developed and publicised a Whistleblowing Policy and is committed to ensuring that no member of staff who raises a genuine concern in good faith will be victimised or suffer for doing so.

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 Act, along with copies of prior year national reports, can be found at the following resource:

Keep Scotland Beautiful

26 JUNE 2018 ..Elaine Mead.....Chief Executive

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 2018.

Date of Issue

Financial statements were approved by the Board and authorised for issue on 26 June 2018.

Appointment of auditors

The Public Finance and Accountability (Scotland) Act 2000 places personal responsibility on the Auditor General for Scotland to decide who is to undertake the audit of each health body in Scotland. For the financial years 2016/17 to 2020/21 the Auditor General appointed, Grant Thornton UK LLP to undertake the audit of NHS Highland. The general duties of the auditors of health bodies, including their statutory duties, are set out in the Code of Audit Practice 2016 issued by Audit Scotland and approved by the Auditor General.

Board Membership

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

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

Non-Executive Members

David Alston	Board Chair
James Brander	Non Executive Director from 28 November 2017
Alasdair Christie	Non Executive Director from 28 November 2017
Sarah Compton-Bishop	Non Executive Director from 28 November 2017
Robin Creelman	Non Executive Director Vice-Chair of Argyll and Bute IJB until 30 May 2017 Chair of Argyll and Bute IJB from 31 May 2017
Ann Clark	Non Executive Director from 1 April 2017
Mary Jean Devon	Argyll and Bute Council Local Authority Member from 7 June 2017
Jaci Douglas	Highland Council Local Authority Member until 30 April 2017
Myra Duncan	Non Executive Director until 31 May 2017
Mike Evans	Non-Executive Member until 19 April 2017
Andrew Evennett	Chair Area Clinical Forum until 16 January 2018
Michael Foxley	Non-Executive Member
Alasdair Lawton	Non-Executive Member
Deirdre MacKay	Highland Council Local Authority Member from 14 June 2017
John McAlpine	Argyll and Bute Council Local Authority Member until 30 April 2017
Melanie Newdick	Non-Executive Member
Adam Palmer (from 01/10/13)	Employee Director, Staff Side Chair – Highland Partnership Forum

Ann Pascoe	Non-Executive Member
Gaener Rodger	Non-Executive Member
Elaine Wilkinson	Non-Executive Member until 21 August 2017

Executive Members

Elaine Mead	Board Chief Executive
Rod Harvey	Medical Director
Anne Gent	Director of Human Resources until 30 September 2017
Nick Kenton	Director of Finance until 3 July 2017
Heidi May	Nurse Director
Hugo Van Woerden	Director of Public Health
David Garden	Interim Director of Finance from 1 October 2017

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 2018 and of its operating costs for the year then ended. In preparing these accounts the Directors are required to:

- apply on a consistent basis the accounting policies and standards approved for the NHS Scotland by Scottish Ministers.
- make judgements and estimates that are reasonable and prudent.
- state where applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material.
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Board will continue to operate.

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

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

Board members' and senior managers' interests

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

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

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

Dr Michael Foxley	Mallaig Harbour Authority, Scottish Fire and Rescue Service Board, University of the Highlands and Islands, Further Education Regional Board, Colleges Scotland, Highlands and Islands Forestry Form, Crown Estates Scotland Board, BP Shares and SSE Shares
Dr Roderick Harvey	British Medical Association
Alasdair Lawton	MacWilliams Consulting Ltd, Highland Events Ltd, Strathpeffer Ltd, Torridon and Kinlochewe Mountain Rescue Team
Elaine Mead	Calman Trust, Ireland East Hospital Group Board
Melanie Newdick	The Co-operative, Cantraybridge College, Scottish Dementia Working Group, Carers Forum, including Carers United, Food & Behaviour Research Scotland
Adam Palmer	UNISON
James Brander	RSPB
Alasdair Christie	Inverness, Badenoch and Strathspey Citizens Advice Bureau, Highland Council, Highlands and Islands Society for Blind People, Highland Third Sector Interface
Ann Clark	Partnership for Wellbeing Limited
David Garden	Health and Happiness in the Highlands
Anne Pascoe	Dementia Friendly Communities Ltd, The Life Changes Trust
Gaener Rodger	Waverly Care Highland
Hugo van Woerden	UHI Inverness, NICE, Member of Save The Storks
Sarah Compton-Bishop	Isle of Jura Development Trust, Jura Care Centre
Mary Jean Devon	Argyll and Bute Council
Deirdre Mackay	Highland Council, Brora Hub, Voluntary Group East Sutherland, East Sutherland CAB

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

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

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

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

Personal Data Related Incidents
There are no incidents to disclose.

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

The statement of the Chief Executive's 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 am responsible for ensuring proper records are maintained and that the Accounts are prepared under the principles and in the format directed by Scottish Ministers. To the best of my knowledge and belief, I have properly discharged my responsibilities as accountable officer as intimated to me in the Departmental Accountable Officers letter.

GOVERNANCE STATEMENT

Scope of Responsibility

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

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.

NHS Endowments

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

Governance Framework

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

The Board's key planned outcomes for 2018-2019 are set out in an Annual Operational Plan which outlines how we plan to deliver our key outcomes and draws together key planning assumptions which reflect the local system priorities and focusses on performance, finance and workforce. The Annual Operational Plan is agreed with the Scottish Government Health and Social Care Directorate annually.

The component parts of the Annual Operational Plan are monitored regularly through the Highland Health & Social Care Committee and the Argyll & Bute Integration Joint Board, which provide assurance to the Board that the operational units are on track to deliver the key objectives. This reporting includes financial performance across Highland directly to the Board and for part of the year, through the newly formed Finance Sub-Committee which first met in November 2017.

There are a number of Governance Committees which support me in the discharge of my responsibilities. Each of these Committees has a clear role and remit which is set out in NHS Highland's Standing Orders. The Standing Orders and Standing Financial Instructions of the Board are approved by the Board annually. Each Governance Committee is chaired by a Non-

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

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

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

During the latter part of 2017/18, the Chair of Board, in consultation with Scottish Government, commissioned a review of the Board's Governance arrangements and this is due to report in the early part of 2018/19 and changes may well be implemented as a result of this.

The Board promotes good governance throughout its joint working with a wide range of organisations, Local Authority, 3rd Sector and other organisations both within and external to the NHS in particular through the Highland and Argyll and Bute Community Planning Partnerships. Over the course of 2017, Local Outcome Improvement Plans have been developed.

The Integration Joint Board (IJB) for Argyll & Bute was formally established on 18 August 2015. The IJB assumed responsibility for managing resources on 1 April 2016, following the approval of its Strategic Plan.

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

Review of Adequacy and Effectiveness

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

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

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

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

External auditors consider the work of the internal audit service as part of forming a view over the financial statements. They report on its adequacy to the Committee including reliance on their work to inform their annual audit report to the Board. The Audit Committee has reported to the Board regularly and highlighted key issues throughout the year.

Best Value

In accordance with the principles of Best Value, the Board aims to foster a culture of continuous improvement. As part of this, directors and managers are encouraged to review, identify and improve the efficient and effective use of resources. I can confirm that arrangements have been made to secure Best Value as set out in the SPFM and the Best Value Framework.

Risk Assessment

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.

The key elements of the risk management policy are:-

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

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

Disclosures

Financial Brokerage

NHS Highland required financial brokerage of £15m in 2017/18, in order to deliver financial breakeven. The need for brokerage was alerted to Board Members in September 2017 and subsequently discussions were initiated with the Scottish Government. Brokerage requirements were reported and discussed at a number of Board and Committee meetings following this, and a formal request was made on 21 February 2018 following approval from the Finance Sub-Committee. The Scottish Government confirmed this funding in a letter dated 29 March 2018.

Treatment Time Guarantee
During 2017/18, NHS Highland has focused on reducing the number of Outpatients waiting longer than 12 weeks. This has been aimed at both transforming and improving the services to bring them into balance with demand, as well as addressing the existing backlogs via additional funding from Scottish Government.

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

To manage treatment times, there have been a number of initiatives which have mitigated the rate of growth. This was achieved through a team approach of removing duplicate entries, providing additionality and reviewing patients who were erroneously on the waiting list with a booked date in the past. This is reflected in a reduction in conversion rate from 95% to 35%.

NHS Highland also designated a short stay elective unit during 2017/18, which created a reserved bed capacity for short stay patients which has led to a more effective scheduling process and fewer cancellations due to hospital flow, eg. we have seen up to 100 additional procedures in a month compared to the same period in the previous year.

The overall effect to inpatient treatment times, however, is that an additional 675 patients breaching have been added from March 2017 to March 2018, to a total of 2008.

NHS Highland is committed to further reducing the number of patients who are waiting longer than 12 weeks for a first appointment. This is be achieved through continuous improvement and transformation of the way we deliver care. During 2018/19 it is planned that improvements to outpatient waiting times will be achieved in the Orthopaedic and Ophthalmology specialties. Plans are also in the process of being developed in conjunction with the Scottish Government that will reduce the total number of patients waiting for an operation.

GDPR (EU General Data Protection Regulations)
In May 2018, the Internal Audit assignment on eHealth identified that compliance with GDPR regulations had not been achieved. NHS Highland has since set up a Project Board (including a non-executive Board member) to review all aspects of GDPR which will ensure compliance in 2018/19.

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.

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) 2017/01).

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

David Alston, Chair
Melanie Newdick, Non Executive Director
Robin Creelman, Non Executive Director
Alasdair Lawton, Non Executive Director
Adam Palmer, Employee Director

Performance Related Pay has not been processed at the year end for 2017/2018.

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.

Highland Health Board

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

	Gross Salary (Bands of £5,000)	Benefits in Kind (£'000)	Total Earnings in Year (Bands of £5,000)	Pension benefits (£'000)	Total Remuneration (Bands of £5,000)	Accrued pension at pensionable age as at 31 Mar 18 (bands of £5,000)	Total accrued lump sum at pensionable age (bands of £5,000)	Real increase in pension at pensionable age (bands of £2,500)	Real increase in lump sum at pensionable age (bands of £2,500)	Cash Equivalent Transfer Value (CETV) at 31 Mar 18 £000	Cash Equivalent Transfer Value (CETV) at 31 Mar 17 £000	Real increase in CETV in year £000
Executive Members												
Chief Executive: Elaine Mead	135 - 140	3.8	135 - 140	30	165 - 170	45 - 50	145 - 150	0 - 2.5	5 - 7.5	1096	1019	56
Director of Finance: Nick Kenton until 03/07/2017	25 - 30		25 - 30		25 - 30							
Interim Director of Finance: David Garden from 01/10/2017	40 - 45		40 - 45	48	90 - 95	20 - 25	55 - 60	2.5 - 5	2.5 - 5	438	386	53
Medical Director: Rod Harvey	185 - 190		185 - 190	304	490 - 495	85 - 90	265 - 270	12.5 - 15	37.5 - 40	2090	1769	321
Nursing Director: Heidi May	90 - 95		90 - 95	25	115 - 120	15 - 20	40 - 45	1.75 - 2	0 - 2.5	302	269	33
Director of Human Resources: Anne Gent until 30/09/2017	50 - 55		50 - 55		50 - 55							
Director of Public Health & Health Policy: Hugo Van Woerden	consent to disclosure withheld											
Non Executive Members												
The Chair: David Alston	30 - 35	2.1	30 - 35		30 - 35							
Adam Palmer *	40 - 45		40 - 45	nil	40 - 45	10 - 15	40 - 45	nil	nil	293	291	nil
Robin Creelman	10 - 15	2.3	15 - 20		15 - 20							
Jaci Douglas until 30/04/2017	0 - 5	0.1	0 - 5		0 - 5							
Myra Duncan until 31/05/2017	0 - 5	0.7	0 - 5		0 - 5							
Mike Evans until 19/04/2017	0 - 5		0 - 5		0 - 5							
Andrew Evennett until 16/01/2018	5 -10		5 -10		5 -10							
Michael Foxley	5 -10	0.3	5 -10		5 -10							
Alasdair Lawton	5 -10		5 -10		5 -10							
John McAlpine until 30/04/2017	0 - 5	0.5	0 - 5		0 - 5							
Melanie Newdick	20 - 25	1.1	20 - 25		20 - 25							
Ann Pascoe	5 -10	1.9	10 -15		10 -15							
Gaener Rodgers	5 -10		5 -10		5 -10							
Elaine Wilkinson until 21/08/2017	0 - 5	0.6	0 - 5		0 - 5							
Sarah Compton-Bishop from 28/11/2017	0 - 5	0.2	0 - 5		0 - 5							
James Brander from 28/11/2017	0 - 5	0.2	0 - 5		0 - 5							
Alasdair Christie from 28/11/2017	0 - 5		0 - 5		0 - 5							
Deirdre MacKay until 14/06/2017	5 - 10		5 - 10		5 - 10							
Mary-Jean Devon from 07/06/2017	5 - 10		5 - 10		5 - 10							
Pamela Clark from 01/04/2017	5 - 10		5 - 10		5 - 10							
Senior Employees												
Director of Adult Care: Jan Baird	45 - 50		45 - 50		45 - 50							
Board Secretary: Ruth Daly	40 - 45		40 - 45	13	50 - 55	0 - 5	nil	0 - 2.5	nil	21	10	11
Director of Strategic Commissioning, Planning & Performance: Deborah Jones	115 - 120		115 - 120	15	135 - 140	45 - 50	115 - 120	0 - 2.5	nil	898	855	43
Director of Adult Social Care: Joanna Macdonald	75 - 80	3.1	75 - 80	21	100 -105	10 - 15	nil	0 - 2.5	nil	130	108	22
Director of Operations: Gill McVicar until 16/10/2017 **	85 - 90		85 - 90	14	100 -105	15 - 20	55 - 60	0 - 2.5	2.5 - 5.0	432	395	25
Chief Officer: David Park from17/10/2017	105 - 110		105 - 110	26	130 - 135	0 - 5	nil	0 - 2.5	nil	32	6	26
Head of Public Relations & Engagement: Maimie Thompson	50 - 55		50 - 55	15	65 - 70	10 - 15	25 - 30	0 - 2.5	0 - 2.5	198	179	19

Footnotes

There are no bonus payments to disclose

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

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

** Bandings relate to full year salary

Remuneration Report for the year ended 31 March 2017 (audited)

	Gross Salary (Bands of £5,000) 2016-17	Benefits in Kind (£'000) 2016-17	Total Earnings in Year (Bands of £5,000) 2016-17	Pension benefits (£'000) 2016-17	Total Remuneration (Bands of £5,000) 2016-17	Accrued pension at pensionable age as at 31 Mar 17 (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 17 £000	Cash Equivalent Transfer Value (CETV) at 31 Mar 16 £000	Real Increase in CETV in year £000
Executive Members												
Chief Executive: Elaine Mead	130 - 135	3.2	130 - 135	9	140 -145	45 - 50	135 - 140	0 - 2.5	2.5 - 5	990	936	34
Director of Finance: Nick Kenton	95 - 100		95 - 100	23	145 - 150	35 - 40	95 - 100	0 - 2.5	N/A	660	620	41
Medical Director: Rod Harvey	185 - 190		185 - 190		185 - 190	70 - 75	215 - 220	0 - 2.5	0 - 2.5	1,717	1,666	41
Nursing Director: Heidi May	90 - 95		90 - 95		90 - 95	10 - 15	35 - 40	0 - 2.5	N/A	261	250	11
Director of Human Resources: Anne Gent	100 - 105		100 - 105	6	105 - 110	45 - 50	135 - 140	0 - 2.5	2.5 - 5	1,088	1,040	34
Non Executive Members												
The Chair: David Alston	30 - 35		30 - 35		30 - 35							
Adam Palmer *	40 - 45		45 - 50	7	55 - 60	10 - 15	40 - 45	0 - 2.5	0 - 2.5	283	266	13
Robin Creelman	10 - 15	3.1	15 - 20		15 - 20							
John Crerar	0 - 5		0 - 5		0 - 5							
Jaci Douglas	5 - 10	0.6	5 - 10		5 - 10							
Myra Duncan	10 - 15	2.1	10 - 15		10 - 15							
Mike Evans	5 - 10		5 - 10		5 - 10							
Andrew Evennett	5 - 10		5 - 10		5 - 10							
Michael Foxley	5 - 10	0.4	5 - 10		5 - 10							
Alasdair Lawton	5 - 10		5 - 10		5 - 10							
John McAlpine	5 - 10	1.5	5 - 10		5 - 10							
Melanie Newdick	10 - 15	1.2	10 - 15		10 - 15							
Ann Pascoe	5 - 10	3.2	10 - 15		10 - 15							
Gaener Rodgers	0 - 5		0 - 5		0 - 5							
Sarah Wedgwood	10 - 15	2.2	10 - 15		10 - 15							
Elaine Wilkinson	5 - 10	1.3	5 - 10		5 - 10							
Senior Employees												
Director of Adult Care: Jan Baird	45 - 50		45 - 50		45 - 50							
Board Secretary: Ruth Daly	35 - 40		35 - 40	11	50 - 55	0 - 5	N/A	0 - 2.5	N/A	9	0	9
Director of Strategic Commissioning, Planning & Performance: Deb Jones	115 - 120		115 - 120	27	140 - 145	35 - 40	115 - 120	0 - 2.5	5 - 7.5	769	712	40
Director of Adult Social Care: Joanna Macdonald	70 - 75		70 - 75	20	90 - 95	5 - 10	5 - 10	0 - 2.5	N/A	78	58	20
Director of Operations: Gill McVicar	80 - 85		80 - 85	9	90 - 95	15 - 20	50 - 55	0 - 2.5	2.5 - 5	383	353	19
Director of Operations: David Park	25 - 30		25 - 30	6	30 - 35	0 - 5	N/A	0 -2.5	N/A	6	0	6
Head of Public Relations & Engagement: Maimie Thompson	50 - 55		50 - 55	8	55 - 60	5 - 10	25 - 30	0 - 2.5	0 - 2.5	173	159	10
Director of Public Health & Health Policy: Hugo Van Woerden	consent to disclosure withheld											

Footnotes

There are no bonus payments to disclose

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

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

2017 (audited)		2018 (audited)	
Range of staff remuneration	1,000 – 229,000	Range of staff remuneration	5,000 – 430,000
Highest Earning Director's Total Remuneration (£000s)	186,000	Highest Earning Director's Total Remuneration (£000s)	187,000
Median Total Remuneration	26,347	Median Total Remuneration	27,730
Ratio	7.05	Ratio	6.73

a) Number of senior staff by band

Employees whose remuneration fell within the following ranges:

Clinicians	2018 Number of Staff	2017 Number of Staff
£50,001 - £60,000	196	163
£60,001 - £70,000	80	73
£70,001 - £80,000	63	55
£80,001 - £90,000	56	46
£90,001 - £100,000	49	34
£100,001 - £110,000	32	45
£110,001 - £120,000	31	27
£120,001 - £130,000	24	25
£130,001 - £140,000	25	20
£140,001 - £150,000	25	18
£150,001 - £160,000	15	18
£160,001 - £170,000	12	14
£170,001 - £180,000	4	3
£180,001 - £190,000	6	2
£190,001 - £200,000	1	1
£200,001 and above	8	4

Other	2018 Number of Staff	2017 Number of Staff
£50,001 - £60,000	34	37
£60,001 - £70,000	28	18
£70,001 - £80,000	12	12
£80,001 - £90,000	3	4
£90,001 - £100,000	2	2
£100,001 -£110,000	1	1
£110,001 - £120,000	1	1
£120,001 - £130,000	1	0
£130,001 - £140,000	0	1
£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)

STAFF COSTS	Executive Board Members £000	Non Executive Members £000	Permanent Staff £000	Inward Secondees £000	Other Staff £000	Outward Secondees £000	2018 Total £000	2017 Total £000
Salaries and wages	695	151	293,593			(1,267)	**293,172**	**285,670**
Social security costs	90	7	29,156			(145)	**29,108**	**27,514**
NHS scheme employers' costs	72		40,171			(152)	**40,091**	**35,678**
Other employers' pension costs								**3,607**
Inward secondees				35			**35**	**35**
Agency staff					16,202		**16,202**	**16,393**
TOTAL	**857**	**158**	**362,920**	**35**	**16,202**	**(1,564)**	**378,608**	**368,897**

This note was a standalone note in earlier years and as such other employers pension costs was included but not included 1718 onwards due to national coding

Included in the total Staff Costs above were costs of staff engaged directly on capital projects, charged to capital expenditure of: 266

STAFF NUMBERS

	Executive Board Members	Non Executive Members	Permanent Staff	Inward Secondees	Other Staff	Outward Secondees	2018 Total	2017 Total
Whole time equivalent (WTE)	5	14	8,616	2	121	(36)	**8,722**	**8,734**

Included in the total staff numbers above were staff engaged directly on capital projects, charged to capital expenditure of: **5**

Included in the total staff numbers above were disabled staff of: **108** **106**

STAFF COMPOSITION

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

	2017			2018		
	Male	Female	Total	Male	Female	Total
Executive Directors	2	3	5	3	2	5
Non Executive Directors and Employee Director	8	7	15	7	7	14
Senior Employees	2	6	8	1	4	5
Other	1,776	8,564	10,340	2,377	12,231	14,608
Total Headcount	**1,786**	**8,582**	**10,368**	**2,388**	**12,244**	14,632

SICKNESS ABSENCE

	2017	2018
Sickness Absence Rate	5.1%	5.2%

a) 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

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

There were no exit packages agreed in prior year.

TRADE UNION DISCLOSURE

The Trade Union (Facility Time Publication Requirements) Regulations 2017 came into force on 1 April 2017. The regulations place a legislative requirement on relevant public sector employers to collate and publish, on an annual basis, a range of data on the amount and cost of facility time within their organisation. The data is required to be published on a website maintained by or on behalf of the employer before 31st July each year. We intend to publish this data within the HR Connect section of the Board's website.

Requirements for the data to be disclosed within the annual report and accounts was unclear at the time of issue. The Cabinet Office published supporting guidance on 2 June 2018 which has clarified the data should be disclosed. Due to the timing of this confirmation, we were unable to collate reliable data to publish within the 2017/18 annual report and accounts therefore we will publish from 2018/19 onwards.

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 over £100k 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	534	2,473

There were 2 claims individually greater than £250,000 settled under the CNORIS scheme in 2017/18 and none in 2016/17. 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 13.

Signed: Elaine Mead Date: 26 JUNE 2018

Chief Executive

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

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 approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of Highland Health Board and its group for the year ended 31 March 2018 under the National Health Service (Scotland) Act 1978. The financial statements comprise the Statement of Consolidated Comprehensive Net Expenditure, Summary of Core Resource Outturn, Consolidated Statement of Financial Position as at 31 March 2018, the Statement of Consolidated Cashflows, the Consolidated Statement of Changes in Taxpayers' Equity and notes to the accounts, 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 2017/18 Government Financial Reporting Manual (the 2017/18 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 2018 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 2017/18 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)). 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

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

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going concern

basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 achieve 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.

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

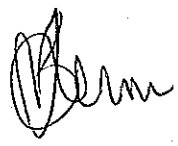
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by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



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

Grant Thornton UK LLP
110 Queen Street
Glasgow
G1 3BX
28 June 2018

STATEMENT OF CONSOLIDATED COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2018

2017 £000		Note	2018 £000
368,897	Staff Costs	3a	378,608
	Other operating expenditure	3b	
84,557	Independent Primary Care Services		86,140
116,581	Drug and medical supplies		122,420
506,450	Other health care expenditure		518,587
1,076,485	Gross expenditure for the year		1,105,755
(348,047)	Less: operating income	4	(355,850)
(220)	Associates and join venture accounted for on an equity basis		220
728,218	**Net Expenditure for the year**		**750,125**

OTHER COMPREHENSIVE NET EXPENDITURE

2017 £000		2018 £000
(4,333)	Net (gain) on revaluation of property, plant and equipment	(8,465)
9,143	Actuarial Change in Local Government Pension	**(11,198)**
4,810	**Other comprehensive expenditure**	(19,663)
733,028	**Comprehensive net expenditure**	**730,462**

The Notes to the Accounts, numbered 1 to 27, form an integral part of these Accounts.

The presentation of the Consolidated Statement of Comprehensive Net Expenditure has been changed following a review of our financial statements in order to provide information which better reflects the activities of NHS Highland. The comparative information in respect of 2016-17 has been presented above in the new format.

Comparative information in respect of 2016-17 has not been restated. Details of the restatement are disclosed in Note 21.)

Full details of changes to the presentation of the Statement of Comprehensive Net Expenditure are disclosed in Note 20.

SUMMARY OF CORE RESOURCE OUTTURN
for the year ended 31 March 2018

	Note	2018 £000	2018 £000
Net Expenditure	SoCNE		**750,125**
Total Non Core Expenditure (see below)			(28,202)
Family Health Services Non-Discretionary Allocation			(28,467)
Donated Asset Income	2a		44
Endowment Net Expenditure			(126)
Associates and joint ventures accounted for on an equity basis			(220)
Total Core Expenditure			**693,154**
Core Revenue Resource Limit			693,631
Saving/(excess) against Core Revenue Resource Limit			**477**

SUMMARY OF NON CORE REVENUE RESOURCE OUTTURN

Capital Grants to Other Bodies		50	
Depreciation/Amortisation		13,354	
Annually Managed Expenditure - Impairments		33	
Annually Managed Expenditure – Creation of Provisions		3,502	
Annually Managed Expenditure – Depreciation of Donated Assets	2a	174	
Annually Managed Expenditure – pension valuation		4,592	
Additional Scottish Government non-core funding		5,834	
IFRS PFI Expenditure		663	
Total Non Core Expenditure			**28,202**
Non Core Revenue Resource Limit			28,202
Saving/(against) Non Core Revenue Resource Limit			**(0)**

SUMMARY RESOURCE OUTTURN	**Resource**	**Expenditure**	**Saving**
	£000	**£000**	**£000**
Core	693,631	693,154	477
Non Core	28,202	28,202	(0)
Total	**721,833**	**721,356**	**477**

Details on brokerage is explained on both pages 14 and 24.

The Notes to the Accounts, numbered 1 to 27, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 March 2018

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
		Non-current assets:			
328,792	328,792	Property, plant and equipment	7c	345,185	345,185
2,852	2,852	Intangible assets	6a	2,681	2,681
		Financial assets:			
8,944	120	Available for sale financial assets	10	8,791	116
220	0	Investments in associated and joint ventures			
6,536	6,536	Trade and other receivables	9	15,754	15,754
347,344	**338,300**	**Total non-current assets**		**372,411**	**363,736**
		Current Assets:			
6,559	6,559	Inventories	8	6,248	6,248
0	0	Intangible assets	6b		
		Financial assets:			
57,767	57,867	Trade and other receivables	9	53,527	54,040
917	189	Cash and cash equivalents	15	1,080	210
65,243	**64,615**	**Total current assets**		**60,855**	**60,498**
412,587	**402,915**	**Total assets**		**433,266**	**424,234**
		Current liabilities:			
(27,016)	(27,016)	Provisions	13a	(23,923)	(23,923)
		Financial liabilities:			
(66,592)	(66,575)	Trade and other payables	12	(85,111)	(85,090)
(93,608)	**(93,591)**	**Total current liabilities**		**(109,034)**	**(109,013)**
318,979	**309,324**	**Non-current assets plus/less net current assets/liabilities**		**324,232**	**315,221**
		Non-current liabilities			
(30,171)	(301,710)	Provisions	13a	(34,856)	(34,856)
		Financial liabilities:			
(45,123)	(45,123)	Trade and other payables	12	(33,147)	(33,147)
(75,294)	**(75,294)**	**Total non-current liabilities**		**(68,003)**	**(68,003)**
243,685	**234,030**	**Assets Less liabilities**		**256,229**	**247,218**
		Taxpayers' Equity			
128,546	128,546	General fund	SoCTE	119,947	119,947
102,827	102,827	Revaluation reserve	SoCTE	108,824	108,824
2,657	2,657	Other reserves	SoCTE	18,447	18,447
220	0	Other reserves – associated and joint ventures	SoCTE		
9,435	0	Fund held on trust	SoCTE	9,011	
243,685	**234,030**	**Total taxpayers' equity**		**256,229**	**247,218**

The Notes to the Accounts, numbered 1 to 27, form an integral part of these Accounts.

The financial statements on pages 37 to 39 were approved by the Board on 26 June 2018 and signed on their behalf by:

.....Director of Finance

Elaine Mead.....Chief Executive

STATEMENT OF CONSOLIDATED CASH FLOWS
for the year ended 31 March 2018

2017 £000		Note	2018 £000	2018 £000
	Cash flows from operating activities			
(728,218)	Net operating cost	SoCTE	(750,125)	
8,348	Adjustments for non-cash transactions	2a	30,154	
3,936	Add back: interest payable recognised in net operating cost	2b	2,879	
(7)	Deduct: interest receivable recognised in net operating cost	4	(19)	
16,999	Movements in working capital	2c	3,794	
(698,942)	**Net cash outflow from operating activities**	27c		**(713,317)**
	Cash flows from investing activities			
(11,813)	Purchase of property, plant and equipment		(20,087)	
(1,013)	Purchase of intangible assets		(560)	
(203)	Investment Additions	10	(2,168)	
	Transfer of assets to / (from) other NHS Scotland bodies		(22)	
91	Proceeds of disposal of property, plant and equipment		82	
321	Receipts from sale of investments		2,019	
7	Interest received		19	
(12,612)	**Net cash outflow from investing activities**	27c		**(20,717)**
	Cash flows from financing activities			
715,970	Funding	SoCTE	738,729	
(2)	Movement in general fund working capital	SoCTE	21	
715,968	Cash drawn down		738,750	
(1,461)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	2c	(1,674)	
(931)	Interest paid		(6)	
(3,005)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	2b	(2,873)	
710,571	**Net Financing**	27c		**734,197**
(983)	**Net Increase/(decrease) in cash and cash equivalents in the period**			163
1,900	**Cash and cash equivalents at the beginning of the period**			917
917	**Cash and cash equivalents at the end of the period**			**1,080**
	Reconciliation of net cash flow to movement in net debt/cash			
(983)	Increase/(decrease) in cash in year			163
1,900	Net debt at 1 April			917
917	**Net cash at 31 March**			**1,080**

The Notes to the Accounts, numbered 1 to 27, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2018

	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 2017		**128,546**	**102,827**	**2,657**	**220**	**9,435**	**243,685**
Prior year adjustments for changes in accounting policy and material errors							
Restated balance at 1 April 2017		**128,546**	**102,827**	**2,657**	**220**	**9,435**	**243,685**
Changes in taxpayers' equity for 2017/18							
Net gain on revaluation/indexation of property, plant and equipment	7a		8,464				8,464
Net gain/(loss) on revaluation of available for sale financial assets	10					(298)	(298)
Impairment of property, plant and equipment			(27)				(27)
Revaluation & impairments taken to operating costs	2a		33				33
Transfers between reserves		2,473	(2,473)				
Other non cash costs (Asset Transfer) (THC ASC Pension)		(22)		15,790			15,768
Net operating cost for the year	CFS	(749,779)			(220)	(126)	(750,125)
Total recognised income and expense for 2017-18		(747,328)	5,997	15,790	(220)	(424)	(726,185)
Funding:							
Drawn down	CFS	738,750					738,750
Movement in General Fund (Creditor)	CFS	(21)					(21)
Balance at 31 March 2018	SoFP	**119,947**	**108,824**	**18,447**	**0**	**9,011**	**256,229**

The Notes to the Accounts, numbered 1 to 27, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY – PRIOR YEAR

	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 2016		**138,904**	**101,080**	**9,209**		**7,829**	**257,022**
Prior year adjustments for changes in accounting policy and material errors	22						0
Restated balance at 1 April 2016		**138,904**	**101,080**	**9,209**		**7,829**	**257,022**
Changes in taxpayers' equity for 2016/17							
Net gain on revaluation / indexation of property, plant and equipment	7a		4,333				4,333
Net gain on revaluation of available for sale financial assets	10		0			1,130	1,130
Impairment of property, plant and equipment			(1,640)				(1,640)
Revaluation & impairments taken to operating costs	2a		1,640				1,640
Transfers between reserves		2,586	(2,586)				0
Other non cash costs (movement in year ASC pension costs)				(6,552)			(6,552)
Net operating cost for the year	CFS	(728,914)			220	476	(728,218)
Total recognised income and expense for 2016-17		(726,328)	1,747	(6,552)	220	1,606	(729,307)
Funding:							
Drawn down	CFS	715,968					715,968
Movement in General Fund (Creditor)	CFS	2					2
Balance at 31 March 2017	SoFP	**128,546**	**102,827**	**2,657**	**220**	**9,435**	**243,685**

The Notes to the Accounts, numbered 1 to 27, form an integral part of these Accounts.

ACCOUNTING POLICIES

1. Authority

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in section 30 below.

(a) Standards, amendments and interpretations effective in 2017-18.

IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors requires disclosure of information on the expected impact of new accounting standards that have been issued but not yet in effect. The following standards (amendments) which are expected to be relevant to the consolidated entity have been issued but are not yet effective.

IAS 7 Statement of Cash Flows (amendment).

IAS 28 Investments in Associates and Joint Ventures (amendment).

IFRS 12 Disclosure of interests in other entities (amendment).

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

IFRS 15 Revenue from Contracts with Customers (IAS 18 Revenue – replacement).

It is not anticipated that the amendments to standards noted above will have any material effect on the accounts of the Board or consolidated entity.

IFRS 16 Leases was published by the International Accounting Standards Board in January 2016 and is applicable for accounting periods beginning on or after 1 January 2019. This means that for NHS Highland, the standard will be effective for the year ending 31 March 2020.

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

(b) Standards, amendments and interpretation early adopted in 2017-18.

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

2. Basis of Consolidation

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

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

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

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

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

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

Note 27 to the Annual Accounts, details how these consolidated Financial Statements have been calculated.

3. Prior Year Adjustments

There are no prior year adjustments to disclose.

4. Going Concern

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

5. Accounting Convention

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

6. Funding

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

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

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

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

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

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

Expenditure on goods and services is recognised when, and to the extent that they have been received, and is measured at the fair value of those goods and services. Expenditure is recognised in the Statement of Comprehensive Net Expenditure (SOCNE) except where it results in the creation of a non-current asset such as property, plant and equipment.

7. Property, plant and equipment

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

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

7.1 Recognition

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

All assets falling into the following categories are capitalised:

1) Property, plant and equipment assets which are capable of being used for a period which could exceed one year, and have a cost equal to or greater than £5,000.

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

3) Assets of lesser value may be capitalised where they form part of a group of similar assets purchased at approximately the same time and cost over £20,000 in total, or where they are part of the initial costs of equipping a new development and total over £20,000.

7.2 Measurement

Valuation:

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

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

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

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

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

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

Assets under construction are valued at current cost. This is calculated by the expenditure incurred to which an appropriate index is applied to arrive at current value. These are also subject to impairment review.

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

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

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

Subsequent expenditure:

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

Revaluations and Impairment:

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

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

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

7.3 Depreciation

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

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

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

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

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

4) Buildings, installations and fittings are depreciated on current value over the estimated remaining life of the asset, as advised by the appointed valuer. The depreciable amount is calculated by splitting the elements into two categories

based on the pattern of consumption, future maintenance and capital expenditure. The significant elements are depreciated over the useful life of the element. The less significant "shorter life" elements are more aligned with the overall life of the building due to the impact of regular maintenance and preservation expenditure as revenue costs and as such are depreciated over the life of the building.

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

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

Depreciation is charged on a straight line basis.

The following asset lives have been used:

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

8. Intangible Assets

8.1 Recognition

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

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

The main classes of intangible assets recognised are:

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

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

8.2 Measurement

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

Subsequently intangible assets that are not held for their service potential (i.e. assets held for sale), including operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market, are measured at fair value. Where an active (homogeneous) market exists, intangible assets are carried at fair value. Where no active market exists, the intangible asset is revalued, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the intangible asset is valued using depreciated replacement cost. These measures are a proxy for fair value.

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

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

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

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

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

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

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

1) Software. Amortised over their expected useful life.

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

Amortisation is charged on a straight line basis.

The following asset lives have been used:

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

9. Non-current assets held for sale
Non-current assets intended for disposal are reclassified as 'Held for Sale' once all of the following criteria are met:

- the asset is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales;

- the sale must be highly probable i.e.:

- management are committed to a plan to sell the asset;
- an active programme has begun to find a buyer and complete the sale;
- the asset is being actively marketed at a reasonable price;
- the sale is expected to be completed within 12 months of the date of classification as 'Held for Sale'; and
- the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made to it.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. Assets are de-recognised when all material sale contract conditions have been met.

Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as 'Held for Sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

10. Donated Assets

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

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

Disposal of non-current assets is accounted for as a reduction to the value of assets equal to the net book value of the assets disposed. When set against any sales proceeds, the resulting gain or loss on disposal will be recorded in the SOCNE. Non-current assets held for sale will include assets transferred from other categories and will reflect any resultant changes in valuation.

12. Leasing

Finance leases

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

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

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

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

13. Impairment of non-financial assets

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

14. 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.

15. 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.

16. 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.

17. Employee Benefits

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

Pension Costs
The Board participates in the NHS Superannuation Scheme (Scotland). This scheme is an unfunded statutory pension scheme with benefits underwritten by the UK Government. The scheme is financed by payments from employers and those current employees who are members of the scheme and paying contributions at progressively higher marginal rates based on pensionable pay as specified in the regulations. The Board is unable to identify its share of the underlying notional assets and liabilities of the scheme

on a consistent and reasonable basis and therefore accounts for the scheme as if it were defined contribution scheme, as required by IAS 19 'Employee Benefits'. As a result, the amount charged to the SOCNE represents the Board's employer contributions payable to the scheme in respect of the year. The contributions deducted from employees are reflected in the gross salaries charged and are similarly remitted to the Exchequer. The pension cost is assessed every four years by the Government Actuary and this valuation determines the rate of contributions required. The most recent actuarial valuation is published by the Scottish Public Pensions Agency and is available on their website.

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

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

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

18. Clinical and Medical Negligence Costs

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

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

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

19. Related Party Transactions

Material related party transactions are disclosed in the note 25 in line with the requirements of IAS 24. Transactions with other NHS bodies for the commissioning of health care are summarised in Note 3.

20. 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.

21. PFI/HUB/NPD Schemes

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

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

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

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

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

22. 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.

23. Contingencies

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

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

- 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
- 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.

24. 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.

25. Financial Instruments

Financial assets

Classification

The Board classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the SOFP date. These are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash at bank and in hand in the SOFP sheet.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the SOFP date. Available for sale financial assets comprise investments.

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) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Board will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the SOCNE. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the SOCNE.

(b) Available-for-sale financial assets

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 or impaired, the accumulated fair value adjustments recognised in equity are

included in the SOCNE. Dividends on available-for-sale equity instruments are recognised in the SOCNE when the Board's right to receive payments is established.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

The Board assesses at each SOFP date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the SOCNE. Impairment losses recognised in the SOCNE on equity instruments are not reversed through the income statement.

Financial Liabilities

Classification
The Board classifies its financial liabilities in the following categories: at fair value through profit or loss, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

Other financial liabilities

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the SOFP date. These are classified as non-current liabilities. The NHS Board's other financial liabilities comprise trade and other payables in the SOFP.

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

A financial liability is removed from the SOFP when it is extinguished, that is when the obligation is discharged, cancelled or expired.

Other financial liabilities

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

26. 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.

27. 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.

28. 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.

29. 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 26 to the accounts in accordance with the requirements of HM Treasury's Financial Reporting Manual.

30. Key sources of judgement and estimation uncertainty

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

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

Clinical and Medical Negligence Costs

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

Employee Benefits Accrual

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

Assessment of Leases

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

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

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

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

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

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

STATEMENT OF CONSOLIDATED CASH FLOWS for the year ended 31 March 2018

2 NOTES TO THE CASH FLOW STATEMENT

2a Consolidated adjustments for non-cash transactions

2017 £000		Note	2018 £000
	Expenditure not paid in cash		
12,829	Depreciation	7a	13,292
532	Amortisation	6	731
165	Depreciation of donated assets	7a	174
1,640	Impairments on PPE charged to SoCNE		27
0	Net revaluation on PPE charged to SoCNE		6
(81)	Funding of donated assets		(44)
35	Loss/(profit) on disposal of property, plant and equipment		(42)
(220)	Associates and joint ventures accounted for on an equity basis	SoCNE	220
(6,552)	THC ASC Pension movements		15,790
(220)	IJB		
8,128	**Total expenditure not paid in cash**	CFS	**30,154**

2b Interest Payable Recognised in Operating Expenditure

2017 £000			2018 £000
	Interest Payable		
2,415	PFI Finance lease charges allocated in the year	18b	2,296
590	Other Finance lease charges allocated in the year		577
931	Provisions – Unwinding of discount		6
3,936	**Net interest payable**	CFS	**2,879**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

2 NOTES TO THE CASH FLOW STATEMENT, Contd

2c Consolidated Movements in Working Capital

2017 Net Movement £000		Note	Opening Balances £000	Closing Balances £000	2018 Net Movement £000
	INVENTORIES				
(745)	SoFP	8	6,559	6,248	
(745)	**Net decrease/(increase)**				**311**
	TRADE AND OTHER RECEIVABLES				
1,534	Due within one year	9	57,767	53,527	
(2,571)	Due after more than one year	9	6,536	15,754	
			64,303	69,281	
(1,037)	**Net (increase)**				**(4,978)**
	TRADE AND OTHER PAYABLES				
(5,824)	Due within one year		66,592	85,111	
7,501	Due after more than one year		45,123	33,147	
(80)	Less: property, plant & equipment (capital) included in above		(286)	(1,613)	
2	Less: General Fund creditor included in above		(189)	(210)	
1,461	Less: lease and PFT creditors included in above		(36,632)	(34,958)	
			74,608	81,477	
3,060	**Net decrease**				**6,869**
	PROVISIONS				
17,296	Statement of Financial Position	13a	57,187	58,779	
			57,187	58,779	
17,296	**Net decrease**				**1,592**
18,574	**Net movement decrease**	CFS			**3,794**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

3 OPERATING EXPENSES

3a Staff Costs

2017 Total £000			2018 Board £000	2018 Consolidated £000
80,889	Medical and Dental		81,493	81,493
129,387	Nursing		134,650	134,650
158,621	Other Staff		162,465	162,465
368,897	**Total**	SoCNE	**378,608**	**378,608**

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

2017 Total £000		2018 Board £000	2018 Consolidated £000
	Independent Primary Care Services:		
52,848	General Medical Services	53,477	53,477
11,854	Pharmaceutical Services	11,862	11,862
14,272	General Dental Services	15,146	15,146
5,583	General Ophthalmic Services	5,655	5,655
84,557	**Total**	**86,140**	**86,140**
	Drugs and Medical Supplies:		
63,302	Prescribed drugs Primary Care	64,573	64,573
29,862	Prescribed drugs Secondary Care	33,105	33,105
23,417	Medical Supplies	24,742	24,742
116,581	**Total**	**122,420**	**122,420**
	Other Health Care Expenditure:		
204,112	Contribution to Integration Joint Boards	207,489	207,489
84,469	Goods & services from other NHSScotland bodies	87,164	87,164
599	Goods & services form other UK NHS bodies	671	671
6,117	Goods & services from private providers	7,790	7,790
7,253	Goods & services from voluntary organisations	6,314	6,314
4,897	Resource Transfer	4,897	4,897
35	Loss on disposal of assets	2	2
197,416	Other operating expenses	202,871	202,871
176	External Auditor's Statutory Audit Fee	173	173
1,036	Endowment Fund expenditure		1,216
506,450	**Total**	**517,371**	**518,587**
707,588	**Total Other Operating Expenditure**	**725,931**	**727,147**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

4 OPERATING INCOME

2017 Total £000		Note	2018 Board £000	2018 Consolidated £000
27,236	Income from other NHS Scotland bodies		28,618	28,618
2,009	Income from NHS non-Scottish bodies		2,534	2,534
490	Income from private patients		434	434
198,829	Income for services commissioned by Integration Joint Board		201,345	201,345
4,278	Patient charges for primary care		4,338	4,338
81	Donated asset additions			
0	Profit on disposal of assets		44	44
1,092	Contributions in respect of clinical and medical negligence claims		2,245	2,245
7	Interest received	CFS	19	19
	Non NHS:			
404	Overseas patients (non-reciprocal)		494	494
1,512	Endowment Fund Income			1,090
112,109	Other		114,689	114,689
348,047	**Total Income**	SoCNE	**354,760**	**355,850**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

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	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net Operating Costs	194,337	172,286	143,260	209,658	(3,369)	(91,802)	9,939	115,470	749,779

PRIOR YEAR

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

	A&B CHP	Raigmore Hospital	N&W Operational Unit	S&M Operational Unit	ASC Central	ASC Funding	Children's Services	Other	2018
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Net Operating Costs	197,058	161,344	139,355	196,954	5,590	(91,820)	9,557	110,876	728,914

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

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

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

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 2016		1,261	4,225	5,486
Additions		619	394	1,013
Disposals			(22)	(22)
At 31 March 2017		1,880	4,597	6,477
Amortisation				
At 1 April 2016		449	2,666	3,115
Provided during the year		169	363	532
Disposals			(22)	(22)
At 31 March 2017		618	3,007	3,625
Net book value at 1 April 2016		812	1,559	2,371
Net book value at 31 March 2017	SoFP	1,262	1,590	2,852

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

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

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

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		239						
Asset financing:										
Owned - Purchased		19,297	250,629	5,671	3	15,685	2,428	358	7,207	301,279
Owned - Donated		45	3,770	221	13	213	1			4,263
Held on finance lease			1,000			44				1,044
On-balance sheet PFI contracts			38,600							38,599
Net book value at 31 March 2018	SoFP	**19,357**	**293,999**	**5,892**	**16**	**15,943**	**2,429**	**358**	**7,207**	**345,185**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

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 2016		19,522	293,619	5,934	845	49,988	7,646	2,908	6,117	386,579
Additions - purchased									11,895	11,895
Additions - donated					14	67				81
Completions			9,424	15		3,885	891	10	(14,225)	0
Revaluations		(65)	(1,403)	253						(1,215)
Impairment charges			(1,879)							(1,879)
Disposals - purchased		(100)			(34)	(1,131)	(519)	(227)		(2,011)
Disposals - donated			(7)			(122)		(2)		(131)
As 31 March 2017		**19,357**	**299,754**	**6,202**	**825**	**52,687**	**8,018**	**2,689**	**3,787**	**393,319**
Depreciation										
At 1 April 2016			15,163	321	839	35,201	5,810	2,003		59,337
Provided during the year - purchased			8,007	270	3	3,694	553	302		12,829
Provided during the year - donated			64	5		91	5			165
Revaluations			(5,186)	(362)						(5,548)
Impairment charges			(239)							(239)
Disposals - purchased					(34)	(1,112)	(519)	(227)		(1,892)
Disposals - donated			(1)			(122)		(2)		(125)
At 31 March 2017			**17,808**	**234**	**808**	**37,752**	**5,849**	**2,076**		**64,527**
Net book value at 1 April 2016		**19,522**	**278,456**	**5,613**	**6**	**14,787**	**1,836**	**905**	**6,117**	**327,242**
Net book value at 31 March 2017		**19,357**	**281,946**	**5,968**	**17**	**14,935**	**2,169**	**613**	**3,787**	**328,792**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

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		317		252						
Asset financing:										
Owned - purchased		19,312	237,906	5,751	3	14,595	2,166	613	3,787	284,133
Owned - donated		45	3,706	217	14	252	3			4,237
Held on finance lease			1,112			88				1,200
On-balance sheet PFI contracts			39,222							39,222
Net book value at 31 March 2017	SoFP	**19,357**	**281,946**	**5,968**	**17**	**14,935**	**2,169**	**613**	**3,787**	**328,792**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

7b PROPERTY, PLANT AND EQUIPMENT DISCLOSURES

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
		Net book value of property, plant and equipment at 31 March			
324,555	324,555	Purchased		340,922	340,922
4,237	4,237	Donated		4,263	4,263
328,792	**328,792**	**Total**	SoFP	**345,185**	**345,185**
272	272	Net book value related to land valued at open market value at 31 March		272	272
252	252	New book value related to buildings valued at open market value at 31 March		239	239
		Total value of assets held under:			
1,112	1,112	Finance Leases		1,000	1,000
88	88	Hire Purchase Contracts		44	44
39,222	39,222	PFI and PPP Contracts		38,599	38,599
40,422	**40,422**			**39,643**	**39,643**
		Total depreciation charged in respect of assets held under:			
108	108	Finance Leases		112	112
		Hire Purchase Contracts		44	44
1,072	1,072	PFI and PPP Contracts		1,125	1,125
1,180	**1,180**			**1,281**	**1,281**

An annual valuation of 20% of all NHS Highland properties was carried by an independent valuer, Barr(Argyll&Bute) & Burnetts(North Highland) as at March 2018 on the basis of fair value (market value or depreciated replacement cost where appropriate). The values were computed in accordance with the Royal Institute of Chartered Surveyors Statement of Asset Valuation Practice and Guidance notes, subject to the special accounting practices of the NHS.

The net impact was a decrease of £8.465m (2016-17: a decrease of £5.974m) which was debited to the revaluation reserve. Impairment of £0.027m (2016-17: £1.640m) was charged to the SoCNE. All other properties are considered not to require impairment.

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

7c. ANALYSIS OF CAPITAL EXPENDITURE

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
		EXPENDITURE			
1,013	1,013	Acquisition of Intangible Assets	6	560	560
11,895	11,895	Acquisition of Property, Plant and Equipment	7a	21,414	21,414
81	81	Donated Asset Additions	7a	44	44
12,989	**12,989**	**Gross Capital Expenditure**		**22,018**	**22,018**
		INCOME			
119	119	Net book value of disposal of Property, Plant and Equipment	7a	36	36
6	6	Net book value of disposal of Donated Assets	7a		
1	1	HUB – Repayment of investment		4	4
75	75	Donated Asset Income		44	44
201	201	**Capital Income**		84	84
12,788	**12,788**	**Net Capital Expenditure**		**21,934**	**21,934**
		SUMMARY OF CAPITAL RESOURCE OUTTURN			
12,264	12,264	Core Capital Expenditure included above		21,939	21,939
12,264	12,264	Core Capital Resource Limit		21,939	21,939
0	0	**Saving/(excess) against Core Capital Resource Limit**		0	0
524	524	Non Core Capital Expenditure included above		0	0
524	524	Non Core Capital Resource Limit		0	0
0	**0**	**Saving/(excess) against Non Core Capital Resource Limit**		**0**	**0**
12,788	12,788	Total Capital Expenditure		21,939	21,939
12,788	12,788	Total Capital Resource Limit		21,939	21,939
0	**0**	**Saving/(excess) against Capital Resource Limit**		**0**	**0**

8 INVENTORIES

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
6,559	6,559	Raw Materials and Consumables		6,248	6,248
6,559	**6,559**	**Total Inventories**	SoFP	**6,248**	**6,248**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

9 TRADE AND OTHER RECEIVABLES

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
		Receivables due within one year – NHS Scotland			
168	168	Scottish Government Health & Social Care Directorate		112	112
1,639	1,639	Boards		4,658	4,658
1,807	**1,807**	**Total NHSScotland Receivables**		**4,770**	**4,770**
277	277	NHS Non-Scottish Bodies		633	633
568	568	VAT recoverable		1,035	1,035
6,308	6,308	Prepayments		7,030	7,030
3,954	3,954	Accrued income		4,745	4,745
1,810	1,910	Other Receivables		1,637	2,150
19,775	19,775	Reimbursement of provisions		10,180	10,180
23,268	23,268	Other Public Sector Bodies		23,497	23,497
57,767	**57,867**	**Total Receivables due within one year**	SoFP	**53,527**	**54,040**
		Other Public Sector Bodies			
1,525	1,525	Prepayments		1,452	1,452
4,018	4,018	Accrued income		3,953	3,953
14	14	Other Receivables		1,032	1,032
979	979	Reimbursement of Provisions		9,317	9,317
6,536	**6,536**	**Total Receivables due after more than one year**	SoFP	**15,754**	**15,754**
64,303	**64,403**	**TOTAL RECEIVABLES**		**69,281**	**69,794**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

9 TRADE AND OTHER RECEIVABLES, Contd

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
673	673	The total receivables figure above includes a provision for impairments of :		631	631
		WGA Classification			
1,639	1,639	NHS Scotland		4,658	4,658
28	28	Central Government bodies		1,063	1,063
280	280	Whole of Government bodies		23,469	23,469
277	277	Balances with NHS Bodies in England & Wales		633	633
62,079	62,179	Balances with bodies external to Government		39,458	39,971
64,303	**64,403**	**Total**		**69,281**	**69,794**
		Movements on the provision for impairment of receivables are as follows:			
595	595	At 1 April		673	673
233	233	Provision for impairment		50	50
(57)	(57)	Receivables written off during the year as uncollectible		(51)	(51)
(98)	(98)	Unused amounts reversed		(41)	(41)
673	**673**	At 31 March		**631**	**631**

As at 31 March 2018, receivables with a carrying value of £631m (2017: £673m) were impaired and provided for. The ageing of these receivables is as follows:

2017 £000	2017 £000		2018 £000	2018 £000
		3 to 6 months past due		
673	673	Over 6 months past due	631	631
673	**673**		**631**	**631**

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 2018, receivables with a carrying value of £1.833 million (2017: £1.715 million) were past their due date but not impaired. The ageing of receivables which are past due but not impaired is as follows:

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

9 TRADE AND OTHER RECEIVABLES, Cont

2017 £000	2017 £000		2018 £000	2018 £000
440	440	Up to 3 months past due	600	600
411	411	3 to 6 months past due	326	326
864	864	Over 6 months past due	907	907
1,715	**1,715**		**1,833**	**1,833**

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

2017 £000	2017 £000		2018 £000	2018 £000
		Currencies:		
64,303	64,303	Pounds	69,291	69,794
64,303	**64,303**		**69,281**	**69,794**

All non-current receivables are due within 7 years (2016-17: 8 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 £69.799m (2016-17: £64.403m)
The effective interest rate on non-current other receivables is 0% (2016-17: 2.2%). Pension liabilities are discounted at 0.10% (2016-17: 0.20%)

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

10 AVAILABLE FOR SALE FINANCIAL ASSETS

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
245		Government securities		295	
8,699	120	Other		8,496	116
8,944	**120**	**TOTAL**	SoFP	**8,791**	**116**
7,934	121	**At 1 April**		**8,944**	**120**
202		Additions	CFS	2,168	
(321)	(1)	Disposals		(2,023)	(4)
1,129		Revaluation surplus / (deficit) transferred to equity	SoCTE	(298)	
8,944	**120**	**At 31 March**		**8,791**	**116**
		Current	SoFP		
8,944	120	Non Current	SoFP	8,791	116
8,944	**120**	At 31 March		**8,791**	**116**

We have a small shareholding in HUB North of Scotland Ltd, an unlisted investment denominated in UK pounds; £116k 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	2018 £000	2017 £000
Balance at 1 April		917	1,900
Net change in cash and cash equivalent balances	CFS	163	(983)
Balance at 31 March	SoFP	**1,080**	**917**
Total Cash – Cash Flow Statement		**1,080**	**917**
The following balances at 31 March were held at:			
Government Banking Services		113	104
Commercial banks and cash in hand		97	85
Board cash		**210**	**189**
Endowment cash		870	728
Balance at 31 March		**1,080**	**917**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

12 TRADE AND OTHER PAYABLES

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
		Payables due within one year NHS Scotland			
9,267	9,267	Boards		22,182	22,182
9,267	**9,267**	**Total NHSScotland Payables**		**22,182**	**22,182**
838	838	NHS Non-Scottish Bodies		712	712
189	189	Amounts payable to General Fund		210	210
13,584	13,584	FHS Practitioners		13,794	13,794
5,506	5,506	Trade Payables		6,585	6,585
15,331	15,314	Accruals		20,090	20,090
1,109	1,109	Deferred income		1,167	1,167
20	20	Payments received on account		74	74
165	165	Net obligations under Finance Leases	17	145	145
1,525	1,525	Net obligations under PPP/PFI Contracts	18b	1,666	1,666
6,836	6,836	Income tax and social security		7,609	7,609
4,807	4,807	Superannuation		5,005	5,005
582	582	Holiday Pay Accrual		540	540
4,682	4,682	Other Public Sector Bodies		3,650	3,650
1,780	1,780	Other payables		1,317	1,296
371	371	Other significant Payable - Pension contribution to Local Gvt Pension Scheme		365	365
66,592	**66,575**	**Total Payables due within one year**	SoFP	**85,111**	**85,090**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

12 TRADE AND OTHER PAYABLES, Contd

Consolidated 2017 £000	Board 2017 £000		Note	Consolidated 2018 £000	Board 2018 £000
		Payables due after more than one year			
		Other public sector bodies			
145	145	Net obligations under Finance Leases due within 2 years	17	149	149
576	576	Net obligations under Finance Leases due after 2 years but within 5 years	17	686	686
1,281	1,281	Net obligations under Finance Leases due after 5 years	17	1,038	1,038
1,665	1,665	Net obligations under PPP/PFI Contracts due within 2 years	18b	1,823	1,823
6,019	6,019	Net obligations under PPP/PFI Contracts after 2 years but within 5 years	18b	6,610	6,610
25,256	25,256	Net obligations under PPP/PFI Contracts due after 5 years	18b	22,841	22,841
10,181	10,181	Accruals		0	0
45,123	**45,123**	**Total Payables due after more than one year**	SoFP	**33,147**	**33,147**
111,715	**111,698**	**TOTAL PAYABLES**		**118,258**	**118,237**
		WGA Classification			
9,267	9,267	NHS Scotland		22,182	22,182
11,652	11,652	Central Government Bodies		12,679	12,679
5,053	5,053	Whole of Government Bodies		3,650	3,650
838	838	Balances with NHS Bodies in England and Wales		712	712
84,905	84,888	Balances with bodies external to Government		79,035	79,014
111,715	**111,698**	**Total**		**118,258**	**118,237**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

12 TRADE AND OTHER PAYABLES, Contd

Consolidated 2017 £000	Board 2017 £000		Consolidated 2018 £000	Board 2018 £000
		Borrowings included above comprise:		
		Bank overdrafts		
2,167	2,167	Finance Leases	2,018	2,018
34,465	34,465	PFI Contracts	32,940	32,940
36,632	**36,632**		**34,958**	**34,958**

The carrying amount and fair value of the non-current borrowings are as follows:

		Carrying amount		
2,002	2,002	Finance Leases	1,873	1,873
32,940	32,940	PFI Contracts	31,274	31,274
34,942	**34,942**		**33,147**	**33,147**

Fair Value £000	Fair Value £000	The carrying amount and fair value of the non-current borrowings are as follows	Fair Value £000	Fair Value £000
		Fair value		
2,002	2,002	Finance Leases	1,873	1,873
32,940	32,940	PFI Contracts	31,274	31,274
34,942	**34,942**		**33,147**	**33,147**

The carrying amount of short term payables approximates their fair value.

The carrying amount of payables are denominated in the following currencies:

111,715	111,698	Pounds	118,258	118,237
111,715	**111,698**		**118,258**	**118,237**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

13a PROVISIONS – CONSOLIDATED AND BOARD

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

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

Analysis of expected timing of discounted flows – to March 2018

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

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

13a PROVISIONS – CONSOLIDATED AND BOARD, Contd

PROVISIONS – CONSOLIDATED AND BOARD (PRIOR YEAR)

	Note	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2017 Total
		£000	£000	£000	£000	£000
At 1 April 2016		8,704	15,442	15,241	504	39,891
Arising during the year		435	15,819	14,297	124	30,675
Utilised during the year		(660)	(881)	(917)	(48)	(2,507)
Unwinding of discount		945		(14)		931
Reversed unutilised		(18)	(9,410)	(2,268)	(107)	(11,803)
At 31 March 2017		**9,406**	**20,970**	**26,338**	**473**	**57,187**

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 2017

	Note	Pensions & similar obligations	Clinical & Medical Claims against NHS Board	Participation in CNORIS	Other (non Endowment)	2017 Total
		£000	£000	£000	£000	£000
Payable in one year	SoFP	823	19,789	6,029	375	27,016
Payable between 2-5 years	SoFP	2,455	1,181	13,054	98	16,788
Payable between 6-10 years	SoFP	2,624		625		3,249
Thereafter	SoFP	3,504		6,630		10,134
Total as at 31 March 2017	SoFP	**9,406**	**20,970**	**26,338**	**473**	**57,187**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

13a PROVISIONS – CONSOLIDATED AND BOARD, Contd

Pensions and similar obligations

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

Clinical & Medical Legal Claims against NHS Boards

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

Other (non-endowment)

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

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

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

2017 £000		Note	2018 £000
21,443	Provision recognising individual claims against the NHS Board as at 31 March	13a	20,156
(20,754)	Associated CNORIS receivable at 31 March	9	(19,497)
26,338	Provision recognising the NHS Board's liability from participating in the scheme at 31 March	17	28,953
27,027	**Net Total Provision relating to CNORIS at 31 March**		**29,612**

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

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

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

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

Further information on the scheme can be found here

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

14 CONTINGENT LIABILITIES

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

2017 £000	Nature	2018 £000
2,421	Clinical and medical compensation payments	1,995
246	Employer's liability	151
18	Third party liability	13
2,685	**TOTAL CONTINGENT LIABILITIES**	**2,159**

2017 £000	CONTINGENT ASSETS	2018 £000
1,981	Clinical and medical compensation payments	1,622
130	Employer's liability	83
2,111		**1,705**

15 EVENTS AFTER THE END OF THE REPORTING YEAR

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

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

16 COMMITMENTS

Capital Commitments

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

2017 £000		Property, plant & equipment 2018 £000
	Contracted	
5,801	Mid Argyll PFI Lifecycle costs	5,565
4,098	Easter Ross PFI Lifecycle Costs	3,791
16,600	Raigmore Critical Care and Theatres	7,100
1,800	Skye, B&S Hospital HUB Projects	
840	Smarter Offices	
	Ophthalmology Theatres	150
	Replacement MRI	1,300
1,085	Others	
30,224	**Total**	**17,906**
	Authorised but not Contracted	
1,202	Other Equipment	
2,715	eHealth Replacement	
600	Badenoch & Strathspey Land Purchase	600
	Radiotherapy	3,263
	Skye, B&S Hospital Bundle	2,100
	Skye, B&S Hospital Bundle – sub debt	306
	Elective Care Centre	2,000
	Grantown Health Centre Refurbishment	50
	Portree Spoke Reconfiguration	850
	Hospital Electronic Prescribing and Medicines Administration (HEPMA)	550
	Belford Hospital Replacement	100
	CGH extension / modernisation	500
	Rolling Replacement Programmes	3,800
9,814	Others	
14,331	**Total**	**14,119**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

17 COMMITMENTS UNDER LEASES

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

Obligations under operating leases comprise:

2017 £000		2018 £000
	Buildings	
2,571	Not later than one year	2,134
2,087	Later than one year, not later than 2 years	1,672
4,683	Later than two years, not later than five years	4,442
14,534	Later than five years	13,103
	Other	
2,332	Not later than one year	2,712
1,266	Later than one year, not later than two years	1,225
1,566	Later than two years, not later than five years	1,182
122	Later than five year	0
	Amounts charged to Operating Costs in the year were:	
4,005	Hire of equipment (including vehicles)	4,304
3,838	Other operating leases	3,942
7,843	**Total**	**8,246**

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:

2017 £000			2018 £000
	Buildings		
332	Rentals due within one year		331
331	Rentals due between one and two years (inclusive)		331
1,072	Rentals due between two and five years (inclusive)		1,124
1,639	Rentals due after five years		1,273
3,374			3,059
(1,262)	Less interest element		(1,052)
2,112		12	**2,007**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

17 COMMITMENTS UNDER LEASES, Contd

2017 £000			2018 £000
	Other		
53	Rentals due within one year		13
13	Rentals due between one and two years (inclusive)		
66			13
(11)	Less interest element		(2)
55		12	11

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

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

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

18b 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:

2017 £000	Gross Minimum Lease Payments	Note	New Craig's £000	Easter Ross £000	Mid Argyll £000	Tain HC HUB £000	2018 Total £000
4,177	Rentals due within 1 year		1,922	621	1,229	407	4,179
4,179	Due within 1 to 2 years		1,922	622	1,228	409	4,181
12,554	Due within 2 to 5 years		5,767	1,866	3,685	1,243	12,561
36,360	Due after 5 years		4,623	4,266	16,265	7,017	32,171
57,270	**Total**		14,234	7,375	22,407	9,076	53,092
	***Less* Interest Element**						
(2,652)	Rentals due within 1 year		(1,179)	(270)	(712)	(352)	(2,513)
(2,514)	Due within 1 to 2 years		(1,071)	(253)	(686)	(348)	(2,358)
(6,535)	Due within 2 to 5 years		(2,402)	(647)	(1,895)	(1,007)	(5,951)
(11,104)	Due after 5 years		(766)	(718)	(4,467)	(3,379)	(9,330)
(22,805)	**Total**		(5,418	(1,888)	(7,760)	(5,086)	(20,152)
	Present value of minimum lease payments						
1,525	Rentals due within 1 year	12	743	351	517	55	1,666
1,665	Due within 1 to 2 years	12	851	369	542	61	1,823
6,019	Due within 2 to 5 years	12	3,365	1,219	1,790	236	6,610
25,256	Due after 5 years	12	3,857	3,548	11,798	3,638	22,841
34,465	**Total**		8,816	5,487	14,647	3,990	32,940
	Service elements due in further periods						
4,383	Rentals due within 1 year		2,689	531	1,004	94	4,318
4,318	Due within 1 to 2 years		2,689	716	975	91	4,471
13,612	Due within 2 to 5 years		8,067	2,355	3,160	258	13,840
44,381	Due after 5 years		6,050	7,750	24,828	1,055	39,683
66,694	**Total**		19,495	11,352	29,967	1,498	62,312
101,159	**Total Commitments**		28,311	16,839	44,614	5,488	95,252

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

2017 £000		Note	2018 £000
2,415	Interest charges	2	2,296
4,204	Service Charges		4,318
1,398	Principal repayment		1,525
6	Other Charges		9
8,023	**Total**		**8,148**
6	Contingent Rents – (including other charges)		9

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

19 PENSION COSTS

IAS 19 Multi-employer plans

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

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

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

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

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

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

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

(v) The total employer contributions received for the NHS Scotland scheme in the year to 31 March 2017 were £753.9 million (see note 3 in the scheme accounts). Contributions collected in the year to 31 March 2018 will be published in October 2018.

The NHS Board level of participation in the scheme is 4.74% based on the proportion of employer contributions paid in 2016-17.

Description of schemes

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

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

National Employment Savings Trust (NEST)

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

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

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

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

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

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

	2018 £000	**2017 £000**
Pension cost charge for the year	40,091	39,286
Pension cost in year of staff transferred from Highland Council	4,592	6,198
Provisions/Liabilities/Pre-payments included in the SoFP	1,766	1,736

PENSION COSTS FOR STAFF TRANSFERRED FROM HIGHLAND COUNCIL

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

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

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

Highland Council recognises the liability of the Pension Fund at 31/03/2012 attributable to these NHS Highland staff in the Highland Council accounts. NHS Highland recognises the loss in the Fund for the year from 1 April 2017 to 31 March 2018 of £6.606m, giving a total to 31st March 2018 of

£16.485m (total to 31st March 2017 of £23.019m). This is included in two parts in NHS Highland's accounts:-

a) £17.430m of realised deficit in SOCNE which has been covered by funding from Scottish Government and

b) £1.017m of unrealised gain 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:	**2018 £000**	**2017 £000**
Current Service cost	7,403	5,816
Interest Cost	1,548	1,323
Return in the Fund Assets	(899)	(891)
Financial Assumptions (Loss)/Gain	11,198	(9,143)
Charge to statement of comprehensive net expenditure	19,250	2,895

The current assets and liabilities are made up of :-

Present Value of the Scheme Liabilities		
Opening defined benefit obligation	55,792	34,522
Current Service Cost	7,403	5,816
Interest Cost	1,548	1,323
Change in financial assumptions	(3,184)	13,296
Estimated benefits paid	(821)	(304)
Changes in demographic assumptions	270	0
Other experience	(2,739)	0
Contributions by scheme participants	1,052	1,139
Closing Value	59,321	55,792

Fair Value of the Scheme Assets		
Opening Fair Value of scheme assets	32,773	23,237
Expected return on scheme assets	5,545	4,153
Interest Income	899	891
Contributions by employer	3,460	3,657
Contributions by Scheme participants	1,052	1,139
Estimated benefits paid (net of transfers in)	(821)	(304)
Closing value	42,908	32,773

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 2019 is £3.453m.

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 2018 are as follows:

	2018	2017
(a) Long term expected rate of return on assets in the scheme	2.7%	2.6%
(b) Life expectancy from age 65 (years)		
Retiring today:		
Males	21.9	22.5
Females	24.3	24.1
Retiring in 20 years:		
Males	23.3	24.7
Females	26.1	26.8
(c) Financial assumptions		
Rate of increase in salaries	3.4%	4.4%
Rate of increase in pensions (CPI)	2.4%	2.4%
Rate of discounting scheme liabilities	2.7%	2.6%
Take up of option to convert annual pension into retirement lump sum	50%	50%
(d) The Local Government Pension Scheme's assets consist of the following categories by proportion of the total assets held		
Securities	47%	47%
Debt Securities	5%	5%
Private Equity	5%	5%
Real Estate	11%	11%
Investment Funds & Unit Trusts	30%	30%
Cash	2%	2%
Total	100%	100%

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

20 PRESENTATION OF THE STATEMENT OF CONSOLIDATED NET EXPENDITURE

The presentation of the Statement of Comprehensive Net Expenditure has been changed following a review of our financial statements in order to provide information which better reflects the activities of NHS Highland. The comparative information in respect of 2016-17 has been presented in the new format in the SoCNE. No retrospective restatements were required.

Changes to the presentation of the SoCNE affect expenditure and income categories. Staff costs and expenditure on drugs and medical supplies have been removed from previous expenditure categories and are now shown on the face of the SoCNE. This provides greater transparency over the nature of NHS Highland's expenditure. Further information on the composition of expenditure categories is disclosed in Note 3.

Income is now shown as a single figure. Further details are disclosed in Note 4.

	2017 £000
2016-17 expenditure as published	
Hospital and Community	874,605
Family Health	168,197
Administration Costs	4,829
Other Non-Clinical Services	28,516
Gross Expenditure for the year	**1,076,147**
2016-17 expenditure conforming to the new presentation	
Staff costs	368,897
Other expenditure:	
Independent Primary Care Services	84,557
Drugs and medical supplies	116,581
Other healthcare expenditure	506,450
Gross expenditure for the year	**1,076,485**
Movement in gross expenditure for the year	**338**
2016-17 income as published	
Hospital and Community Income	329,185
Family Health Income	4,918
Administration Income	34
Other Operating Income	13,572
Gross Income for the year	**347,709**
2016-17 income conforming to the new presentation	
Operating Income	348,047
Gross income for the year	**348,047**
Movement in gross income for the year	338

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

21 RESTROSPECTIVE RESTATEMENTS

Retrospective restatements which have been recognised in these Accounts are:

		Dr £000	Cr £000
Adjustment 1	Receivables greater than 1 year (correctly classify Adult Social Care Charging Order Income)	**2,241**	
Adjustment 2	Receivables within 1 year (correctly classify Adult Social Care Charging Order Income)		**2,241**

22 RESTATED STATEMENT OF FINANCIAL POSITION

	Previous Accounts £000	Adjustment 1 & 2 £000	These Accounts £000
Non-current Assets:			
Property, plant and equipment	328,792		328,792
Intangible assets	2,852		2,852
Financial assets:			
Available for sale financial assets	8,944		8,944
Investments in associated & joint ventures	220		220
Trade and other receivables	8,777	(2,241)	6,536
	349,585	**(2,241)**	**347,344**
Current Assets			
Inventories	6,559		6,559
Financial assets:			
Trade and other receivables	55,526	2,241	57,767
Cash and cash equivalents	917		917
	63,002	**2,241**	**65,243**
Total Assets	**412,587**		**412,587**
Current Liabilities			
Provisions	(27,016)		(27,016)
Financial Liabilities:			
Trade and other Payables	(66,592)		(66,592)
Total Current Liabilities	**(93,608)**		**(93,608)**
NON CURRENT ASSETS PLUS/LESS NET CURRENT ASSETS	**318,979**		**318,979**
Non-Current Liabilities			
Provisions	(30,171)		(30,171)
Financial Liabilities:			
Trade and other Payables	(45,123)		(45,123)
Total Non-Current Liabilities	**(75,294)**		**(75,294)**
Assets Less Liabilities	**243,685**		**243,685**
Taxpayers' Equity			
General Fund	128,546		128,546
Revaluation Reserve	102,827		102,827
Other Reserves	2,657		2,657
Other Reserves – associate & joint ventures	220		220
Funds held on Trust	9,435		9,435
Total Taxpayers' Equity	**243,685**		**243,685**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

23 FINANCIAL INSTRUMENTS

23a Financial Assets

Consolidated At 31 March 2018 Assets per SoFP	Notes	Loans & Receivables £000	Available for Sale £000	Total £000
Investments	10		8,791	8,791
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	9	35,497		35,497
Cash and cash equivalents	11	1,080		1,080
		36,577	**8,791**	**45,368**

BOARD At 31 March 2018 Assets per SoFP	Notes	Loans & Receivables £000	Available for Sale £000	Total £000
Investments	10		116	116
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	9	36,010		36,010
Cash and cash equivalents	11	210		210
		36,220	**116**	**36,336**

CONSOLIDATED (Prior Year) At 31 March 2017 Assets per SoFP	Notes	Loans & Receivables	Available for Sale	Total
Investments	10		8,944	8,944
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	9	33,341		33,341
Cash and cash equivalents	11	917		917
		34,258	**8,944**	**43,202**

BOARD (Prior Year) At 31 March 2017 Assets per SoFP	Notes	Loans & Receivables	Available for Sale	Total
Investments	10		120	120
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	9	33,441		33,441
Cash and cash equivalents	11	189		189
		33,630	**120**	**33,750**

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

23 Financial Instruments (cont'd)

Financial Liabilities

CONSOLIDATED at 31 March 2018	Note	Liabilities at Fair Value through profit and loss £000	Other financial liabilities £000	Total £000
Liabilities per SoFP				
Finance lease liabilities	12		2,018	2,018
PFI Liabilities	12		32,940	32,940
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation recoverable.	12		47,337	47,337
			82,295	**82,295**

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

CONSOLIDATED (Prior Year) at 31 March 2017	Note	£000	£000	£000
Finance lease liabilities			2,167	2,167
PFI Liabilities			34,465	34,465
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation			53,064	53,064
			89,696	**89,696**

BOARD (Prior Year) at 31 March 2017	Note	£000	£000	£000
Finance lease liabilities			2,167	2,167
PFI Liabilities			34,465	34,465
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation			53,047	53,047
			89,679	**89,679**

23b 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 2018	**£000**	**£000**	**£000**	**£000**
PFI Liabilities	4,179	4,182	12,561	32,170
Finance lease liabilities	344	331	1,124	1,639
Derivative financial liabilities				
Trade and other payables exc statutory liabilities	70,321			
Total	**74,844**	**4,513**	**13,685**	**33,809**

at 31 March 2017	**£000**	**£000**	**£000**	**£000**
PFI Liabilities	4,177	4,179	12,554	36,360
Finance lease liabilities	385	344	1,072	1,639
Trade and other payables exc statutory liabilities	52,888	10,181	0	0
Total	**57,450**	**14,704**	**13,626**	**37,999**

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.

24 DERIVATIVE FINANCIAL INSTRUMENTS

The Board has no transactions of this type.

25 RELATED PARTY TRANSACTIONS

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

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

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

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

The value of the partnership agreement for 17/18 for Adult Social Care was circa £91.8 million, and is shown in note 4 for income. The value of the agreement for Childrens Services was circa £9.9 million and is included in Note 3 expenditure.

26 THIRD PARTY ASSETS

Third Party Assets managed by the Board consist of balances on Patients' 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.

	2017 £000	Gross Inflows £000	Gross Outflows £000	2018 £000
Monetary amounts such as bank balances and monies on deposit	1,034	2,333	(2,119)	1,249
Total Monetary Assets	**1,034**	**2,333**	**(2,119)**	**1,249**

27a CONSOLIDATED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

Group 2017 £000		Note	Board 2018 £000	Endowment 2018 £000	Intra Group adjustment 2018 £000	A&B IJB 2018 £000	Consolidated 2018 £000
	Total Income and Expenditure						
368,897	Staff Costs	3	378,608				378,608
	Other operating expenditure	3					
84,557	Independence Primary Care Services		86,140				86,140
116,581	Drugs and medical supplies		122,420				122,420
506,450	Other health care expenditure		517,471	1,216	(100)		518,587
1,076,485	Gross expenditure for the year		1,104,639	1,216	(100)		1,105,755
(348,047)	Less: Operating Income	4	(354,860)	(1,090)	(100)		(355,850)
(220)	Associates & joint ventures accounted for on an equity basis					220	220
728,218	**Net Expenditure**		**749,779**	**126**		**220**	**750,125**

Other health care expenditure and income relates to the consolidation of the Endowment Accounts, realised gains from endowment investments of £20k 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.

27b CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Consolidated 2017 £000		Note	Board 2018 £000	Endowment 2018 £000	Intra Group adjustment 2017 £000	A&B IJB 2018 £000	Group 2018 £000
	Non-current Assets:						
328,792	Property, plant and equipment	SoFP	345,185				345,185
2,852	Intangible assets	SoFP	2,681				2,681
	Financial assets:						
8,944	Available for sale financial assets	SoFP	116	8,675			8,791
220	Investments in associated & joint ventures	27a					
6,536	Trade and other receivables	SoFP	15,754				15,754
347,344	**Total non-current assets**		363,736	8,675			372,411
	Current Assets:						
6,559	Inventories	SoFP	6,248				6,248
	Financial assets:						
57,767	Trade and other receivables	SoFP	54,040	37	(550)		53,527
917	Cash and cash equivalents	SoFP	210	870			1,080
65,243	**Total current assets**		60,498	907	(550)		60,855
412,587	**Total Assets**		424,234	9,582	(550)		433,266

27b CONSOLIDATED STATEMENT OF FINANCIAL POSITION, Contd

Consolidated 2017 £000		Note	Board 2018 £000	Endowment 2018 £000	Intra Group adjustment 2017 £000	A&B IJB 2018 £000	Group 2018 £000
	Current liabilities						
(27,016)	Provisions	SoFP	(23,923)				(23,923)
	Financial liabilities:						
(66,592)	Trade and other payables	SoFP	(85,090)	(571)	550		(85,111)
(93,608)	**Total current liabilities**		(109,013)	(571)	550		(109,034)
318,979	**Non-current assets plus / less net current assets / liabilities**		315,221	9,011	550		324,232
	Non-current liabilities						
(30,171)	Provisions	SoFP	(34,856)				(34,856)
	Financial liabilities:						
(43,123)	Trade and other payables	SoFP	(33,147)				(33,147)
(75,294)	**Total non-current liabilities**		(68,003)				(68,003)
243,685	**Assets less liabilities**		247,218	9,011	550		256,229
	Taxpayers Equity						
128,546	General Fund	SoFP	119,947				119,947
102,827	Revaluation reserve	SoFP	108,824				108,824
2,657	Other reserves	SoFP	18,447				18,447
220	Other reserves – joint venture	SoFP					
9,435	Funds Held on Trust	SoFP		9,011			9,011
243,685	**Total taxpayers' equity**		247,218	9,011			256,229

NOTES TO THE ACCOUNTS for the Year Ended 31 March 2018

27c CONSOLIDATED STATEMENT OF CASHFLOWS

Consolidated 2017 £000		Board 2018 £000	Intra Group adjustment 2018 £000	Endowment 2018 £000	A&B IJB Adjustment 2018 £000	Consolidated 2018 £000
	Cash flows from operating activities					
(728,218)	Net operating expenditure	(749,779)		(126)		(749,905)
8,348	Adjustments for non-cash transactions	29,934				29,934
3,936	Add back: interest payable recognised in net operating expenditure	2,879				2,879
(7)	Deduct: Interest receivable recognised in net operating expenditure	(19)				(19)
16,999	Movements in working capital	3,377		417		3,794
(698,942)	**Net cash outflow from operating activities**	**(713,608)**		**291**		**(713,317)**
	Cash flows from investing activities					
(11,815)	Purchase of property, plant and equipment	(20,087)				(20,087)
(1,013)	Purchase of intangible assets	(560)				(560)
(203)	Investment additions			(2,168)		(2,168)
	Transfer of assets to/(form) other NHS bodies	(22)				(22)
91	Proceeds of disposal of property, plant and equipment	82				82
321	Receipts from sale of investments			2,019		2,019
7	Interest and dividends received	19				19
(12,612)	**Net cash outflow from investing activities**	**(20,568)**		**(149)**		**(20,717)**
	Cash flows from financing activities					
715,970	Funding	738,729				738,729
(2)	Movement in general fund working capital	21				21
715,968	Cash drawn down	738,750				738,750
(1,461)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(1,674)				(1,674)
(931)	Interest paid	(6)				(6)
(3,005)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	(2,873)				(2,873)
710,571	**Net Financing**	**734,197**				**734,197**
(983)	**Net increase / (decrease) in cash and cash equivalents in the period**	21		142		163
1,900	**Cash and cash equivalents at the beginning of the period**	189		728		917
917	**Cash and cash equivalents at the end of the period**	**210**		**870**		**1,080**
	Reconciliation of net cash flow to movement in net debt/cash					
(983)	Increase / (decrease) in cash in year	21		142		163
1,900	Net cash at 1 April	189		728		917
917	**Net cash at 31 March**	**210**		**870**		**1,080**

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