Highland Health Board

ANNUAL REPORT and ACCOUNTS

for

THE YEAR ENDED 31 MARCH 2017

Highland Health Board

INDEX

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THE PERFORMANCE REPORT

1. Overview

Across the country - and beyond - the challenges to bring in better ways of working and different models of care that are sustainable from both a staffing and a financial viewpoint are significant. Here in Highland we also face some additional pressures due to the remoteness and ruraility of some of our communities, plus we have a higher proportion of older people than elsewhere in Scotland. Many of our communities are therefore fragile. It is within this context that we faced our most challenging savings target £28.8 million – that the board had ever encountered.

While NHS Highland achieved financial balance (2016/17) – delivering savings totalling £28 million - this was to the detriment of some patients waiting for new outpatient appointments and surgery in excess of the specified government-defined waiting time guarantees. However, NHS Highland sought to prioritise and maintain treatment times for emergency and urgent care which included compliance with four emergency waits A&E.

We continue to experience significant challenges with recruitment especially in remote and rural areas where some models of care are not sustainable. One of our key pressures was the expenditure on medical locums. In 2016/17 over £10million was spent on medical locum cover, with over £5million on consultant locums and £2million for GPs Out of Hours highlighting the need to develop new models of care.

Good progress was made during the year to support service re-design including in North Sutherland, Skye, Lochalsh and South West Ross, Badenoch and Strathspey and Lochgilphead.

A public health-led review of neonatal services, supported by external expertise was undertaken to inform the future configuration of maternity services in Caithness General Hospital. The key purpose of the review was to look at safety considerations following a significant adverse Review following the tragic death of a baby in Caithness General Hospital in Wick in September 2015. The review concluded that the service should change to from consultant obstetric-led to midwife-led Community Maternity Unit. The board considered the report at their meeting in November and endorsed the recommendations and mid-wife led unit was established in December.

During the year we continued 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 and monitoring. And it was this approach that made the single biggest significant contribution to delivering break-even on both our revenue and capital budgets while at the same time delivering high quality care. During 2016/17 our single biggest contribution to reducing costs was through continuous quality improvement with over £7million achieved. Our work continues to receive considerable interest from all over the world and we have hosted a number of study tours for international colleagues.

One of the objectives we set 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 quality care costs loss, is safer and clearly better for patients.

Going into 2017/18, it is anticipated that NHS Highland will need to deliver at least seven per cent of savings in order to breakeven. On the current budget and allocations this amounts to around £47 million from a budget of £800 million. Furthermore, over a three year period it is estimated we will need to save around £100 million. Therefore, it is clear that a *'more of the same approach'* will not deliver sustainable solutions, here in Highland, across the North of Scotland or nationally.

Over the past five years in particular, NHS Highland has put in place a number of arrangements which mean we should be well placed to respond to these challenges. The Highland Quality Approach encompasses both the aspiration and techniques to deliver the changes in a planned and timely way. However, it will only be an operational reality if there is a willingness to change.

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 320,000. The Health Board area includes two Local Authority areas, Highland and Argyll & Bute. Geographically, it is the largest Health Board in Scotland covering an area of 32,500 km^2 stretching from Kintyre in the south-west to Caithness in the north-east.

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. 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 there are considerable difficulties in recruiting to some roles.

Our revenue budget for 2016/17 financial year was £701.282 million. 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 for 2016/17 was £12.788 million. 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 providing via the Highland Council. Other key facts and figures are summarised (Box 1).

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, Health and Safety, Highland Health and Social Care Partnership and Argyll and Bute Health and Social Care Partnership.

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.

The findings of a major governance review were concluded. Among the review findings was that there should be a greater focus on the leadership and performance scrutiny role of the board and review of governance committees to minimise duplication. Proposals approved included strengthening the role of Highland Health and Social care Committee, giving it greater responsibility across all the business of health and care across the north of NHS Highland's area, which has the same boundary as the local authority (The Highland Council).

Box 1 - NHS Highland: at a glance

- 41% of the landmass of Scotland with 36 populated Islands
- 320,000 residents
- 10,000 staff (headcount) / 8,000 (WTE)
- 250 hospital based consultants
- 100 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)

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.

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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 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 2016/17 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.

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).

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 such as specialist paediatrics and transplant surgery. Other services are provided through contracts with third and independent sector and partner agencies.

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NHS Highland has welcomed the publication of two key documents: 'The *National Clinical Strategy for Scotland'*, issued by the Scottish Government in February and Scotland's Chief Medical Officer Annual Report (2014/15) *'Realistic Medicine'* published in January. Both documents pick up on the need for more realistic medicine and this is an approach which we as a board thoroughly endorse. The need for a wider debate in realistic medicine is positive and timely. Both reports are fully in line with NHS Highlands' Highland Quality Approach.

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 £29 million major refurbishment which will see all critical care facilities co-located by 2017. 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 2016/17 was signed off by the board at their meeting held in March. 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 March 2016 the board also published a Quality and Sustainability Plan which describes the national, regional and local health and social care strategic context. Increasing costs and demands, staffing pressures and 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.

NHS Highland is committed to providing as much care and support 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.

Capital Plans

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

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. It also set out the investment for major redesign projects in Badenoch & Strathspey and in Skye, Lochalsh and South West Ross, both projects 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 £28million 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 £3.4 million unit was delivered with some £2million raised via the Archie Foundation representing significant generosity from local people and businesses across Highland.

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. During the year NHS Highland's annual review took place in Inverness on 16th August with Maureen Watt, Minister for Mental Health in attendance. The reviews provided an opportunity to highlight the year's achievements and discuss any areas of concern. It took place against a backdrop of some challenges including ever tightening financial situation, rising healthcare costs and struggles to recruit staff and in particular in remote and rural areas.

The event was open to the public. 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 click here. During the visit we were pleased to get the backing from the Minister for our Reach Out Campaign.

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

The board has received a number of updates on Hospital Standardised Mortality Ratios (HSMR) for NHS Highland's District General and Rural General Hospitals. The HSMR is calculated as a ratio between the number of *observed* and *predicted* deaths for the hospital, taking into account case mix. While Hospital mortality ratios are not in themselves a measure of quality of care. They are however a valuable tool to flag up where some further investigation should be undertaken and therefore must be taken seriously.

During the year it was highlighted that the Belford Hospital in Fort William had a mortality ratio higher than the national average for the period January – March 2016. In advance of the findings being published by Information Service Division Scotland NHS Highland worked very closely with Healthcare Improvement Scotland to understand the data in more detail. This included carrying out a comprehensive case note review of all deaths occurring in the hospital or within 30 days of admission to the hospital during this period of time.

The review was conducted by experienced clinicians from outside the hospital using nationally established methodology. This external review has provided reassurance that there is no cause for clinical concern. It did not identify any systematic failures in clinical care which could have contributed to the death of these people during this period of time being looked at.

NHS Highland maintains continuous surveillance over HSMR and patient deaths in all of its acute hospitals.

- **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**

2016/17 has been a challenging year to meet Outpatient Waiting Times and Treatment Time Guarantee especially in high volume surgical specialities ENT, ophthalmology, urology and orthopaedics. There have also been challenges in radiology and Child and Adolescent Mental Health Services.

Work is ongoing to address both short and longer term improvements. 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) and is planned to open its door to patients in 2021.

- **National inpatient survey**

The findings from the National survey into hospital care carried out in 2015 reported that patients were more satisfied with the level of care they receive in an NHS Highland hospital than hospital patients throughout Scotland. Results from a major survey published found that 93 per cent of NHS Highland patients rated the care and treatment they received while in hospital as good or excellent, compared with 90 per cent across Scotland as a whole.

The survey also found that 95 per cent of NHS Highland's A&E patients rated their care and treatment positively and seven percentage points higher than the figure for Scotland as a whole.

Compared to this year's results for Scotland, NHS Highland patients also reported a positive experience in a number of other areas, including:

- Overall rating of the hospital/ward environment (94 per cent, compared to 89 per cent)
- Kept as physically comfortable as they could expect to be (94 per cent; 92 per cent

- Feeling safe in A&E (93 per cent; 88 per cent) Overall rating of the hospital admission process (91 per cent, compared to 82 per cent nationally

- **New models of care**

Embedding different models of care are ongoing and include transforming outpatients, out of hours, maternity services, Rural General Hospitals, Primary Care, Day Services and Cardiac Rehabilitation. Some of the models of care have been developed and evolved in Highland and are now backed up by National Programmes.

A public health-led review of neonatal services, supported by external expertise was undertaken to inform the future configuration of maternity services in Caithness General Hospital. The key purpose of the review was to look at safety considerations following a significant adverse Review following the tragic death of a baby in Caithness General Hospital in Wick in September 2015. The review concluded that the service should change to from consultant obstetric-led to midwife-led Community Maternity Unit. The board considered the report at their meeting in November and endorsed the recommendations and mid-wife led unit was established in December.

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 our much of the prepratory work to invest in community services.

A public consultation into health and adult social care services across the north coast (Sutherland) was completed and it was concluded that a single 'hub' facility be built in the Kyle of Tongue area and that existing six-bedded residential care premises in Talmine (Melness) and Melvich be closed. Meanwhile progress continues to be made across two other major re-designs of services: Badenoch and Strathspey and Skye, Lochalsh and South West Ross. Both have now had Initial Agreements approved by the Scottish Government and work is ongoing to bring the proposals together as part of one business case which will be delivered via the 'hubco' model as a bundle to maximize the value for money and minimize financing costs of the £30million combined project.

Work is also ongoing to remodel office space and clinical space in Rural General Hospitals, Mental Health Units, Care Homes, and Day Care Services . Many of these projects are well advanced and will come to conclusion over the next two financial years.

Current out of hours primary care provision is highly dependent upon medical staff and there is significant variation across Highland of costs and activity. Providing out of hours care is the responsibility of the health board and there is a current increasing cost incurred in order to cover all shifts.

There has been a programme of work to review current provision and propose new models which would allow continued out of hours primary care provision whilst supporting emergency care provision in more remote and rural areas. Several areas have now been fully transitioned to new models of care.

In the new models out of hours services will be provided by teams of GPs, advanced nurses and advanced paramedics. We will move towards a smaller number of better-resourced OOH bases to provide safe cover of the Highlands. The teams will be linked through a Highland Hub. This new model therefore will be less reliant on doctors.

In 2013, NHS Highland received funding totalling £1.5 million from the Scottish Government under its 'Being Here' programme to devise and test innovative ways of recruiting and retaining healthcare professionals – and particularly GPs – in some of its more isolated communities.

Since then, the board has been involved in a wide range of 'Being Here' projects, principally in four test areas: Kintyre and Islay in Argyll and Bute, West Lochaber and the Small Isles of Eigg, Rum, Muck and Canna.

Specifically on Eigg, Muck, Rum and Canna alternative models to having a GP resident on one of the islands has been implemented. This solution grew out of time spent working with the team from South Central Foundation in Alaska. Learning from colleagues in Alaska and working in partnership with the islanders, this has seen the development of rural support teams, visiting GP service and training of local community members as health support workers.

The model has been evaluated and on the whole residents are satisfied with the quality and range of the GP service. It was widely believed that continuity was being restored. Attitudes to the service were generally positive and many residents across all the islands thought it was now a better service. Very few interviewees still called for a professional to be based on the island. This model has the potential to serve other islands and rural communities well, and we are discussing options with several other communities.

Workforce

We announced in April that pre-registration nurse training in Highland will be 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.

Annual turnover at 31st December 2016 was 10.7% but showing significant variation, ranging from 24% (medical support) and 23% (medical) to less than 10% for Administrative Services, Dental, Nursing and Senior Management. Our overall turnover rate is higher than the national average of 6.2%.

In terms of vacancies, there were over 500 posts vacant at December 2016, which equates to 6.2% of our filled posts. Again with significant variation.

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.

In 2016/17 of the 45 consultant posts advertised we were only able to appoint to23, highlighting some of our recruitment challenges.

Meanwhile the results of a study into the national scheme which gives newly-qualified doctors a taste of life and work in remote and rural areas has evaluated very positively.

The scheme which is organised by NHS Education for Scotland (NES) is one that the board has always strongly supported as part of our approach to recruiting and retaining medical staff in some of our more remote areas. There are currently six GPs on the fellowship scheme, five of whom are in the NHS Highland area. As well as gaining experience of working in remote and rural practices, the rural fellows are given 13 weeks of protected time and a financial allowance to support a learning programme based on the person's needs. Educational time is spent attending courses, clinical attachments in both hospital and primary care, and studying.

- **Campaigns**

2016/17 saw the board 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. The campaign has attracted a lot of publicity during the year and was backed by a number of local newspaper and politicians. The campaign was launched in Inverness in May with the pupils from Drakies Primary School attending the board meeting to give a presentation to board members. Loneliness was also the subject of NHS Highland's director of public health report published in November further keeping up the profile.

A new service to improve the design and delivery of service and support for armed forces veterans was launched. NHS Highland Veteran's First Point will be trialled in the area over the 15 months. It us a one stop shop provision for services for veterans their families and carers facilitating quick access to welfare information and services.

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

- **Awards**

During the year staff from NHS Highland were put forward for various awards and successes included the gastroenterology team who won top proize in the Shire Awards, wihch regonises innovatove work and NHS Highland's technology enables care team was the winner in the National Holyrood Connect Awards for its innovative use of digital health services.

Raigmore based Inflammatory Bowel Disease (IBD) nurse Dave Armour was recognised nationally after he was named IBD nurse of the year at this year's final of the British Journal of Nursing (BJN) Awards in March.

Dave was nominated by Crohn's and Colitis UK for the quality and nature of the work he does and for epitomising the real meaning of person centred care.

NHS Highland's midwives were also honoured at this year's Royal College of Midwives Annual Midwifery Awards.

Raigmore-based midwife Claire MacPhee won *Emma's Diary Mums' Midwife of the Year*

2017 for the Scottish region after being nominated for the support she gave to an older mum during pregnancy. Claire was praised for making mum-to-be Debbie McDonnell feel respected, empowered and special with Debbie stating that Claire was "born to do this job and the profession is richer for having her".

Sutherland's midwifery team were shortlisted at the same awards for team of the year. The team were praised for always putting the women in their care first, looking for new ways to find out what local women want, and how they can support them in meeting their needs.

The Audiology Team at Lorn & Islands Hospital in Oban took home the coveted Top Team Award and the 2016 Scottish Health Awards. The team has been thoroughly praised throughout the UK for the unique practices and services they provide to children and adults. The implementation of new facilities and equipment unique to Scotland by the team has meant that all patients have been seen locally and looked after extremely well. The Audiology team has already secured its status as one of the very best in the UK.

- **Key issues**

Some of our key issues, challenges and case for change were set out in our draft Quality and Sustainability plan published in March 2017.

There continue to be a number of challenges which pose some ongoing risk to delivering our Quality and Financial Plan. Issues with delivering waiting times are ongoing until necessary redesign of service is in place and/or additional capacity can be secured.

Our difficulties in recruiting and retaining clinicians, including GPs and consultants, are well documented. This means we are incurring high costs for locums with often variable quality and poor continuity. There are no easy solutions and the combination of re-design of services and more innovative approaches to support recruitment need to be ongoing. This is particularly challenging for Rural General Hospitals where current clinical models are not sustainable.

There is a significant amount of redesign work ongoing across Highland and Argyll & Bute. This is resource intensive, time consuming and requires significant engagement including public consultation.

The current cost of the out of hour's service will be significantly reduced with no detriment to the quality of care out of hours. Reduced provision in areas of low population and demand will mean increased response time in some areas. The service will no longer be dependent upon high cost locum medical staff to provide limited activity out of hours. Given some of the history and recruitment challenges it may take some time to implement the model in full across all areas and will be taken forward in a phased and prioritised manner over the next two years.

Our evidence clearly demonstrates that there are a number of discrete sources of waste, harm and variation within all of our health and care systems which, if reduced, would see significant efficiency gains. Specifically, waste can be evidenced around delayed discharges, theatre cancellations, theatre utilisation, and required number of outpatient appointments, acquired pressure ulcers, inpatient falls and healthcare acquired infections. The benefits to addressing these defects is very significant in driving up quality and reducing costs.

However, embedding quality improvement methodology and required management and leadership focus does not happen overnight. The board is committed to taking a long term approach to support sustainability and focus on quality. This needs to be balanced with pressure to ensure financial break-even.

- **Management of Risks**

The Board approved a paper on ' Risk Appetitie' as its meeting in March 2017. 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

One risk to delivery is believed to be the pace with which we are able to intitiate the necessary change and capacity to deliver, whilst coping with the inevitable impact of meeting current needs and targets within resources. Despite significant engagement in all areas about the need to change over the years, some ongoing resistance is experienced and further can be anticipated.

However, if the current ways of working continue then, sooner or later, more services will 'fall over' in an unplanned way which is inherently more risky. Recent examples of staffing challenges in out of hours Minor Injuty Units (Dunbar, Ross Memorial, Invergordon, Nairn), 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 service models need to be redesigned to have safe and sustainable staffing models.

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 £'000	Actual Outturn £'000	Variance Under £'000
	Revenue Resource Limit			
1	Core	664,513	664,402	111
	Non-core	36,769	36,769	0
	Capital Resource Limit			
2	Core	12,264	12,264	0
	Non-core	524	524	0
3	Cash Requirement	715,968	715,968	0

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Memorandum For In Year Outturn	£'000
Brought forward surplus from previous financial year	99
Underspend against in year total Revenue Resource Limit	12

NHS Highland faced the most challenging financial year in its history in 2016/17. A cash releasing savings target of £28.8m was set as part of the revenue financial plan approved by the board in April 2016. This equated to around 5% of its baseline and compared to a requirement of £16.1m in 2015/16. In addition to this, a number of cost pressures were experienced during the year, which had to be managed. At the end of the year, £22m of savings had been achieved and whilst this was short of the target it compared very favourably with the achievements in previous years. A break-even was achieved with the balance of £6m savings requirements in effect being covered by non-recurring underspends. Cost pressures were broadly contained but only with the support of a one-off £2.5m transfer from capital to revenue which was approved by the Board and the Scottish Government. In addition, it should be noted that of the £22m savings achieved, £13m was achieved non-recurrently. Therefore, whilst the overall outturn of break-even on revenue was a very significant achievement in the context of the scale of the challenge, there was too much reliance on both non-recurring savings and one-off measures such as the capital to revenue transfer. In total, there was an underlying shortfall of savings met recurrently of around £13m that will have to be met in 2017/18 – and that is before taking into account new savings required in 2017/18. 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 point of view. A significant cost pressure felt during the year was a continuing requirement for medical locums – most of which was due to an inability to recruit to vacant posts. More generally, turnover has increased to over 11% per annum compared to 9% in recent years.

It is worth noting that in 2016/17 the Board made its final repayment of brokerage to the Scottish Government Health & Social Care Directorate (SGHSCD) (brokerage of £2.5m had been required in 2013/14).

The board's final outturn was an underspend of £111,000 on Revenue Resource Limit (equivalent to 0.01%) and a break even on Capital Resource Limit.

The outlook for 2017/18 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%, of which 1.1% is earmarked for social care and 0.4% for health. However, despite these factors, the board will face a savings target of £47m in 2017/18 (compared with £28.8m in 2016/17). The board is awaiting exact confirmation of its NRAC (NHS Scotland Resource Allocation Committee) position but it is estimated to be 1% from parity (compared with 1.1% in 2016/17).

At the time of writing, the board has identified £32.3m of the required £47m savings for 2017/18. We have submitted a Local Delivery Plan (LDP) with these figures to both the board and Scottish Government. It should be noted that these figures include a savings target of £5m for social care in relation to the Highland Health & Social Care Partnership and includes £7.4m of savings required for the health services delivered in Argyll & Bute under the direction of the Integration Joint Board. An opening budget offer of £197.9m for 2017/18 (which was approved by the Board in March) has been made to the IJB. Although it recognises this as an offer that complies with SGHSCD guidance, the IJB has yet to formally accept this offer because it still has unidentified savings in its Quality & Finance Plan.

The savings programme is set in the context of the Quality and Sustainability Plan, which was approved by the Board in March 2017 and was considered in more detail at its meeting in May 2017.

Bad debt provision of £673,000 this year (prior year £595,000) 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 2015, 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 2015 could potentially amount to £344,791.

Performance against Key Non Financial Targets

Local Delivery Plan 2016/17

The key performance indicators used by the SGHSCD to hold Boards to account are known as Local Delivery Plan standards. 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 balanced scorecard for Highland Health & Social Care Committee can be found on pages 141 onwards click here and for the Argyll & Bute Integrated Joint Board can be found on pages 277 onward click 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.

	2016/17	2015/16
Average period of credit taken	10 days	12 days
Percentage of invoices paid within 30 days:		
- by volume	93.38%	91.28%
- by value	94.01%	93.38%
Percentage of invoices paid within 10 days:		
- by volume	84.19%	80.05%
- by value	80.82%	84.18%

In 2016-17 the average number of days to pay an invoice was 10 days. This improvement on 2015-16 is a result of changes in working practices and a review of the financial services structure in 2015-16. These changes are now embedded in the Accounts Payable processes, and the section is better equipped to work more efficiently and deal more effectively with periods of vacancy and absence.

Pension Liabilities

The accounting policy note for pensions is provided in Note 1 and disclosure of the costs is shown within Note 24 and the remuneration report.

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

By order of the Board

27 JUNE .....2017 Dainemead .....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 2017.

Date of Issue
Financial statements were approved by the Board and authorised for issue on 27 June 2017.

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

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

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

Non-Executive Members

David Alston	Board Chair Highland Council Local Authority Member until 11 May 2016
Robin Creelman	Non Executive Director Vice-Chair – Argyll & Bute IJB
John Crerar	Non-Executive Member until 30 June 2016
Jaci Douglas	Highland Council Local Authority Member from 12 May 2016 to 30 April 2017
Myra Duncan	Chair Highland Health & Social Care Committee until 27 September 2016. Chair Clinical Governance Committee from 27 September 2016.
Mike Evans	Non-Executive Member – up to 19 April 2017
Andrew Evennett	Chair Area Clinical Forum
Michael Foxley	Non-Executive Member

Alasdair Lawton	Non-Executive Member
John McAlpine	A&B Council Local Authority Member until 30 April 2017
Melanie Newdick	Non-Executive Member Chair of Highland Health and Social Care Committee from 27 September 2016 Vice Chair from 5 October 2016.
Adam Palmer (from 01/10/13)	Employee Director Staff Side Chair – Highland Partnership Forum
Ann Pascoe	Non-Executive Member
Gaener Rodger	Non-Executive Member from 1 October 2016
Sarah Wedgwood	Non Executive Director Vice-Chair until 27 September 2016
Elaine Wilkinson	Non-Executive Member

Executive Members

Elaine Mead	Board Chief Executive
Rod Harvey	Medical Director
Anne Gent	Director of Human Resources
Nick Kenton	Director of Finance
Heidi May	Nurse Director
Hugo Van Woerden	Director of Public Health from 29 March 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 2017 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:

David Alston	Highland Council
Myra Duncan	md Consulting, Highland Hospice, Scottish Institution of Health Management, NHS Highland Endowments Fund
Dr Andrew Evennett	Nairn Healthcare Group
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, BP Shares and SSE Shares
Dr Roderick Harvey	British Medical Association
Nick Kenton	Chartered Institute of Public Finance & Accountancy, Healthcare Financial Managers Association
Alasdair Lawton	MacWilliams Consulting Ltd, Highland Events Ltd, Strathpuffer Ltd, Munepene Ltd, Torridon and Kinlochewe Mountain Rescue Team
Elaine Mead	Calman Trust, Scottish Institution of Health Management
Melanie Newdick	The Co-operative, Cantraybridge College, Scottish Dementia Working Group, Carers Forum, including Carers United, Food & Behaviour Research Scotland
Adam Palmer	UNISON

Anne Pascoe	Dementia Friendly Communities CIC, Prime Minister's Rural Dementia Steering Group, Living It Up Creatively
Elaine Wilkinson	Scottish Police Authority, Derviag Community Hall
Jaci Douglas	Highland Council, Highlife Highland, The Town House, The Square, Grantown-on-Spey, Inverness College UHI

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 balance sheet is at current value. We have not clarified whether there would be a difference using the market value. Surplus land has been valued at Open Market Value.
A full revaluation took place as at 31 March 2009, with an annual rolling programme of 20% revaluation thereafter.

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 –
http://www.nhshighland.scot.nhs.uk/Meetings/Pages/PublicServicesReform.aspx

Personal Data Related Incidents

NHS Highland identified one incident during 2016/2017 that highlighted a requirement to self report to the Information Commissioners Officer. This involved a detailed response to a complaint, which contained personal identifiable and sensitive data, being mistakenly sent to the wrong recipient. A full apology has been issued.

In December 2015 National Services Scotland (NSS) became aware of 29 patient records which had been lost whilst in transit between the GP practice and National Services Aberdeen. These records were from 6 different GP Practices. NSS instigated a full investigation informing NHS Highland in June 2016 where the investigation continued. These records have not been located. As a result this loss of patient records was reported to the Information Commissioner at beginning of April 2017. It has been recommended that an urgent review of the process involving GP records in transit through NHS Highland is undertaken.

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 IFRS 10 – Consolidated 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 the coming year are set out annually in the Local Delivery Plan, which outlines how we plan to deliver our key outcomes (LDP standards). It sets out the financial and capital plans for the coming five years and an outline of NHS Highland's workforce plan. The Local Delivery Plan is agreed with the Scottish Government Health and Social Care Directorate annually.

The component parts of the Local Delivery 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 and includes financial performance across Highland.

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 Scheme of Delegation. The Scheme of Delegation 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.

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. From one of these, a major governance review was commissioned; it is in the process of being implemented.

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 and their associated Single Outcome Agreements. Over the course of 2017, Local Outcome Improvement Plans will be developed to replace these agreements.

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 enacted 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 review the internal audit service and 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.

The Risk Management Policy will be reviewed during 2017/18.

Disclosures

Other than the ongoing work identified above, the only significant disclosure is:

Treatment Time Guarantee
During 2016/17, NHS Highland received funding to undertake additional activity to reduce the number of patients waiting more than 12 weeks for admission as part of the delivery of the national 12 week Treatment Time Guarantee (TTG) programme. Funding has also been received to reduce the number of patients waiting longer than 12 weeks for a first Outpatient appointment. NHS Highland improvement plan was formally approved by the National Access Support Team within the SGHSCD, and funding was made available to NHS Highland. The end of year position was ahead of trajectory for Outpatients with less than 6,000 breaching patients as result of a combination of additional funding combined with Transformation of Outpatients (TOPS). Inpatient/Daycase TTG was behind forecast due to additional outpatients being listed for surgery. There is ongoing work to establish a short stay ward which will be implemented in the new financial year which should improve patient flow. A new trajectory is being set for 2017/18 which requires to be agreed with Scottish Government.

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) 2016/01).

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 been processed at the year end for 2016/2017.

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 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 *	45 - 50		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

Highland Health Board

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 *	45 - 50		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

2016 (audited)		2017 (audited)	
Range of staff remuneration	1,000-234,000	Range of staff remuneration	1,000-229,000
Highest Earning Director's Total Remuneration (£000s)	184,253	Highest Earning Director's Total Remuneration (£000s)	185,797
Median Total Remuneration	26,126	Median Total Remuneration	26,347
Ratio	7.05	Ratio	7.05

The highest earning director in year changed to the Medical Director (not in post for full year in the prior year) and this has increased the ratio.

a) Number of senior staff by band

Employees whose remuneration fell within the following ranges:

	2017	2016
Clinicians	**Number of Staff**	**Number of Staff**
£50,001 - £60,000	163	143
£60,001 - £70,000	73	56
£70,001 - £80,000	55	44
£80,001 - £90,000	46	40
£90,001 - £100,000	34	28
£100,001 -£110,000	45	36
£110,001 - £120,000	27	24
£120,001 - £130,000	25	22
£130,001 - £140,000	20	21
£140,001 - £150,000	18	22
£150,001 - £160,000	18	18
£160,001 - £170,000	14	14
£170,001 - £180,000	3	4
£180,001 - £190,000	2	3
£190,001 - £200,000	1	2
£200,001 and above	4	5

	2017	2016
Other	**Number of Staff**	**Number of Staff**
£50,001 - £60,000	37	37
£60,001 - £70,000	18	12
£70,001 - £80,000	12	11
£80,001 - £90,000	4	5
£90,001 - £100,000	2	2
£100,001 -£110,000	1	1
£110,001 - £120,000	1	1
£120,001 - £130,000	0	0
£130,001 - £140,000	1	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

NOTES TO THE ACCOUNTS
For the year ended 31 March 2017

STAFF NUMBERS AND COSTS (audited)

	Executive Board Members £'000	Non Executive Members £'000	Permanent Staff £'000	Inward Secondees £'000	Other Staff £'000	Outward Secondees £'000	2017 Total £'000	2016 Total £'000
STAFF COSTS								
Salaries and wages	610	159	286016			(1,115)	**285,670**	**277,718**
Social security costs	78	3	27,565			(132)	**27,514**	**20,896**
NHS scheme employers' costs	70		35,750			(142)	**35,678**	**38,039**
Other employers' pension costs			6,198				**6,198**	**6,866**
Inward secondees				35			**35**	**64**
Agency staff					16,393		**16,393**	**15,509**
TOTAL	**758**	**162**	**355,529**	**35**	**16,393**	**(1,389)**	**371,488**	**359,092**
Included in the total Staff Costs above were costs of staff engaged directly on capital projects, charged to capital expenditure of:							266	221

STAFF NUMBERS

	Executive Board Members	Non Executive Members	Permanent Staff	Inward Secondees	Other Staff	Outward Secondees	2017 Total	2016 Total
Whole time equivalent (WTE)	5	14	8,606	1	128	(20)	**8,734**	**8,633**
Included in the total staff numbers above were staff engaged directly on capital projects, charged to capital expenditure of:							**5**	**5**
Included in the total staff numbers above were disabled staff of:							**106**	**107**

STAFF COMPOSITION

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

	2016			2017		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Executive Directors	2.0	3.0	5.0	2.0	3.0	5.0
Non Executive Directors and Employee Director	10.0	5.0	15.0	8.0	7.0	15.0
Senior Employees	2.0	5.0	7.0	2.0	6.0	8.0
Other	1,756.0	8,373.0	10,129.0	1,776.0	8,564.0	10,340.0
Total Headcount	1,770.0	8,386.0	10,156.0	1,786.0	8,582.0	10,368.0

SICKNESS ABSENCE

	2016	**2017**
Sickness Absence Rate	5.1%	5.1%

There were no exit packages agreed in year.

EXIT PACKAGES – PRIOR YEAR

	Number of other Departures - Agreed	**2016 Total Number of Exit Packages by cost band**
£50,000 - £100,000	1	1
Total Number of Exit Packages by Type	**1**	**1**
Total Resource Cost (£'000)		86

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

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 £250k 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	934	153

There were no claims individually greater than £250,000 settled under the CNORIS scheme in either 2016/17 or 2015/16. Further details on the scheme can be found in note 1 (accounting policies) of the annual accounts.

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

Signed: Elaine Mead Date: 27 JUNE 2017

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 2017 under the National Health Service (Scotland) Act 1978. The financial statements comprise the Statement of Consolidated Comprehensive Net Expenditure, the Consolidated Balance Sheet, the Summary of Consolidated Cash flows, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 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 affairs of the board and its group as at 31 March 2017 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 2016/17 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 in the UK and Ireland (ISAs (UK&I)). 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 Standards for Auditors, 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.

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.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the board and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation 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&I) 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.

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 and our auditor's report thereon. 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 in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 other prescribed matters

We are required by the Auditor General for Scotland to express an opinion on the following matters.

In our opinion, the auditable 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 auditable 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; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

GRANT THORNTON UK LLP

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

Grant Thornton UK LLP
110 Queen Street
Glasgow
G1 3BX

27 June 2017

STATEMENT OF CONSOLIDATED COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2017

2016 £'000		Note	Consolidated 2017 £'000	2017 £'000
	Clinical Services Costs			
648,696	Hospital and Community	4	874,605	
132,671	Less: Hospital and Community Income	8	329,185	
516,025				545,420
168,408	Family Health	5	168,197	
4,989	Less: Family Health Income	8	4,918	
163,419				163,279
679,444	**Total Clinical Services Costs**			**708,699**
4,853	Administration Costs	6	4,829	
9	Less: Administration Income	8	34	
4,844				4,795
22,368	Other Non Clinical Services	7	28,516	
17,785	Less: Other Operating Income	8	13,572	
4,583				14,944
0	Associated and Joint Ventures accounted for on an equity basis		(220)	
688,871	**Net Expenditure**	SOCTE		**728,218**
	OTHER COMPREHENSIVE NET EXPENDITURE			
(4,014)	Net (gain) on revaluation of Property Plant and Equipment			(4,333)
(4,010)	Actuarial change in Local Government Pension			9,143
(8,024)	Other Comprehensive Expenditure			4,810
680,847	**Total Comprehensive Net Expenditure**			**733,028**

The Notes to the Accounts, numbered 1 to 31, form an integral part of these Accounts.

Highland Health Board

SUMMARY OF CORE REVENUE RESOURCE OUTTURN for the year ended 31 March 2017	2017 £'000	2017 £'000
Net Operating Costs		**728,218**
Total Non Core Expenditure (see below)		(36,769)
FHS Non Discretionary Allocation		(27,818)
Donated Asset Income		75
Endowment Net Operating Costs		476
Associates and Join Ventures accounted for on an equity basis		220
Total Core Expenditure		**664,402**
Core Revenue Resource Limit		664,513
Saving against Core Revenue Resource Limit		**111**

SUMMARY OF NON CORE REVENUE RESOURCE OUTTURN		
Capital Grants to / (from) Other Bodies	152	
Depreciation/Amortisation	12,733	
Annually Managed Expenditure - Impairments	1,640	
Annually Managed Expenditure – Creation of Provisions	15,593	
Annually Managed Expenditure – Depreciation of Donated Assets	165	
Additional SGHSCD non-core funding	3,267	
AME – Pension Valuation	2,591	
IFRS PFI Expenditure	628	
Total Non Core Expenditure		**36,769**
Non Core Revenue Resource Limit		36,769
Saving against Non Core Revenue Resource Limit		**0**

SUMMARY RESOURCE OUTTURN	Resource £'000	Expenditure £'000	Saving £'000
Core	664,513	664,402	111
Non Core	36,769	36,769	0
Total	**701,282**	**701,171**	**111**

The Notes to the Accounts, numbered 1 to 31, form an integral part of these Accounts.

CONSOLIDATED BALANCE SHEET as at 31 March 2017

Consolidated 2016 £'000	Board 2016 £'000		Note	Consolidated 2017 £'000	Board 2017 £'000
		Non-current assets:			
327,242	327,242	Property, plant and equipment	11a	328,792	328,792
2,371	2,371	Intangible assets	10a	2,852	2,852
		Financial assets:			
7,934	121	Available for sale financial assets	14	8,944	120
		Investments in associated and joint ventures		220	0
6,206	6,206	Trade and other receivables	13	8,777	8,777
343,753	**335,940**	**Total non-current assets**		**349,585**	**340,541**
		Current Assets:			
5,814	5,814	Inventories	12	6,559	6,559
		Financial assets:			
55,498	57,160	Trade and other receivables	13	55,526	55,626
1,900	191	Cash and cash equivalents	15	917	189
63,212	**63,165**	**Total current assets**		**63,002**	**62,374**
406,965	**399,105**	**Total assets**		**412,587**	**402,915**
		Current liabilities:			
(19,783)	(19,783)	Provisions	17	(27,016)	(27,016)
		Financial liabilities:			
(72,430)	(72,399)	Trade and other payables	16	(66,592)	(66,575)
(92,213)	**(92,182)**	**Total current liabilities**		**(93,608)**	**(93,591)**
314,752	**306,923**	**Non-current assets plus/less net current assets/liabilities**		**318,979**	**309,324**
		Non-current liabilities			
(20,108)	(20,108)	Provisions	17	(30,171)	(30,171)
		Financial liabilities:			
(37,622)	(37,622)	Trade and other payables	16	(45,123)	(45,123)
(57,730)	**(57,730)**	**Total non-current liabilities**		**(75,294)**	**(75,294)**
257,022	**249,193**	**Total Assets less liabilities**		**243,685**	**234,030**

2016 £'000	2016 £'000		Note	2017 £'000	2017 £'000
138,904	138,904	General fund	SOCTE	128,546	128,546
101,080	101,080	Revaluation reserve	SOCTE	102,827	102,827
9,209	9,209	Other reserves	SOCTE	2,657	2,657
		Other reserves -- associated and joint ventures	SOCTE	220	0
7,829	0	Fund held on trust	SOCTE	9,435	0
257,022	**249,193**	**Total taxpayers' equity**		**243,685**	**234,030**

Adopted by the Board on ....27 JUNE....2017

.....Director of Finance

.....Chief Executive

The Notes to the Accounts, numbered 1 to 31, form an integral part of these Accounts

STATEMENT OF CONSOLIDATED CASH FLOWS
for the year ended 31 March 2017

2016 £'000		Note	2017 £'000	2017 £'000
	Cash flows from operating activities			
(688,871)	Net operating cost	SOCNE	(728,218)	
20,069	Adjustments for non-cash transactions	3	8,348	
3,036	Add back: interest payable recognised in net operating cost	3	3,936	
(14)	Deduct: interest receivable recognised in net operating cost	3	(7)	
(7,078)	(Increase) in trade and other receivables	18	(2,599)	
(405)	(Increase) in inventories	18	(745)	
4,271	Increase in trade and other payables	18	3,047	
7,726	Increase in provisions	18	17,296	
(661,266)	**Net cash outflow from operating activities**	31c		**(698,942)**
	Cash flows from investing activities			
(9,989)	Purchase of property, plant and equipment		(11,815)	
(1,126)	Purchase of intangible assets		(1,013)	
(1,376)	Investment Additions	14	(203)	
106	Proceeds of disposal of property, plant and equipment		91	
1,059	Receipts from sale of investments		321	
14	Interest received		7	
(11,312)	**Net cash outflow from investing activities**	31c		**(12,612)**
	Cash flows from financing activities			
677,133	Funding	SOCTE	715,970	
33	Movement in general fund working capital	SOCTE	(2)	
677,166	Cash drawn down		715,968	
(1,360)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		(1,461)	
84	Interest paid	3	(931)	
(3,120)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	3	(3,005)	
672,770	**Net Financing**	31c		**710,571**
193	**Net Increase in cash and cash equivalents in the period**			(983)
1,707	**Cash and cash equivalents at the beginning of the period**			1,900
1,900	**Cash and cash equivalents at the end of the period**			**917**
	Reconciliation of net cash flow to movement in net debt/cash			
193	Increase in cash in year			(983)
1,707	Net debt at 1 April	15		1,900
1,900	**Net cash at 31 March**	15		**917**

The Notes to the Accounts, numbered 1 to 31, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY
for the year ended 31 March 2017

	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**
Changes in taxpayers' equity for 2016/17							
Net gain on revaluation/indexation of property, plant and equipment	11		4,333				4,333
Net gain on revaluation of available for sale financial assets	14					1,130	1,130
Impairment of property, plant and equipment	11a		(1,640)				(1,640)
Revaluation & impairments taken to operating costs	3		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		(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		715,968					715,968
Movement in General Fund (Creditor)	cfs	2					2
Balance at 31 March 2017	BS	**128,546**	**102,827**	**2,657**	**220**	**9,435**	**243,685**

The Notes to the Accounts, numbered 1 to 31, form an integral part of these Accounts.

CONSOLIDATED STATEMENT OF CHANGES IN TAXPAYERS' EQUITY – PRIOR YEAR

		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 2015		**146,902**	**99,764**	**1,369**		**9,066**	**257,101**
Changes in taxpayers' equity for 2015/16							
Net gain on revaluation/indexation of property, plant and equipment	11		4,014				4,014
Net gain on revaluation of available for sale financial assets	14					(195)	(195)
Impairment of property, plant and equipment	11		(158)				(158)
Revaluation & impairments taken to operating costs	3		158				158
Transfers between reserves		2,698	(2,698)				0
Other non cash costs (movement in year ASC pension costs)				7,840			7,840
Net operating cost for the year		(687,829)				(1,042)	(688,871)
Total recognised income and expense for 2015/16		(685,131)	1,316	7,840		(1,237)	(677,212)
Funding:							
Drawn down		677,166					677,166
Movement in General Fund (Creditor)	cfs	(33)					(33)
Balance at 31 March 2016	BS	**138,904**	**101,080**	**9,209**		**7,829**	**257,022**

The Notes to the Accounts, numbered 1 to 31, form an integral part of these Accounts.

NHS HIGHLAND

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 2016-17.

There are no new standards, amendments or interpretations effective for the first time in 2016-17.

(b) Standards, amendments and interpretation early adopted in 2016-17.

There are no new standards, amendments or interpretations early adopted in 2016-17.

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 31 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.

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 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 Statement of Comprehensive Net Expenditure. 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 Statement of Comprehensive Net Expenditure, 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 Statement of Comprehensive Net Expenditure. 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 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 Statement of Comprehensive Net Expenditure, in which case they are recognised in income.

Permanent decreases in asset values and impairments are charged gross to the Statement of Comprehensive Net Expenditure. 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 Statement of Comprehensive Net Expenditure.

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 Statement of Comprehensive Net Expenditure 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 Balance Sheet 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 Statement of Comprehensive Net Expenditure. 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 Statement of Comprehensive Net Expenditure. 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 for Scotland providing defined benefits based on final pensionable pay, where contributions are credited to the Exchequer and are deemed to be invested in a portfolio of Government Securities. 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 a defined contribution scheme, as required by IAS 19 'Employee Benefits'. As a result, the amount charged to the Statement of Comprehensive Net Expenditure 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 Exchequer. The pension cost is assessed every five years by the Government Actuary and determines the rate of contributions required. The most recent actuarial valuation took place in the year to 31 March 2004, details of which are published by the Scottish Public Pensions Agency.

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 Statement of Comprehensive Net Expenditure at the time the Board commits itself to the retirement, regardless of the method of payment.

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 Board recognises the cost 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 at 01/04/2012 attributable to these NHS Highland staff in the Highland Council accounts. Any gain or shortfall in the value of the fund attributable to NHS Highland staff in year is charged to the Statement of Net Comprehensive Expenditure.

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 28 in line with the requirements of IAS 24. Transactions with other NHS bodies for the commissioning of health care are summarised in Note 4.

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 Statement of Comprehensive Net Expenditure. 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 balance sheet 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' 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 Statement of Comprehensive Net Expenditure.

22. Provisions

The Board provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated cash flows are discounted using the discount rate prescribed by HM Treasury.

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 19 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 19, 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 balance sheet 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 balance 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 balance sheet 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 Statement of Comprehensive Net Expenditure. 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 Statement of Comprehensive Net Expenditure.

(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 Statement of Comprehensive Net Expenditure. Dividends on available-for-sale equity instruments are recognised in the Statement of Comprehensive Net Expenditure 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 balance sheet 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 Statement of Comprehensive Net Expenditure. Impairment losses recognised in the Statement of

Comprehensive Net Expenditure 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 balance sheet date. These are classified as non-current liabilities. The NHS Board's other financial liabilities comprise trade and other payables in the balance sheet.

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 balance sheet 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 notes 4 to 7 for Hospital & Community, Family Health and Other Service and Administration Costs, the basis of which relates to Scottish Government funding streams and the classification of which varies depending on Scottish Government reporting requirements.

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 balance sheet

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 balance sheet 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 balance sheet 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 28 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 2017

2. STAFF COSTS

Total staff costs for the year to 31 March 2017 were £371,492k (2016: £359,092k). Further detail and analysis of staff costs can be found in the Remuneration and Staff Report, forming part of the Accountability Report.

3. OTHER OPERATING COSTS

2016 £'000		Note	2017 £'000
	Expenditure Not Paid In Cash		
12,710	Depreciation	11a	12,829
474	Amortisation	10	532
152	Depreciation Donated Assets	11b	165
158	Impairments on property, plant and equipment charged to SOCNE	11	1,640
(1,495)	Funding Of Donated Assets	11b	(81)
230	Loss / Profit on disposal of property, plant and equipment		35
7,840	Movement in year in LG pension costs		(6,552)
	IJB Consolidation		(220)
20,069	**Total Expenditure Not Paid In Cash**	CFS	**8,348**
	Interest Payable		
2,887	PFI Finance lease charges allocated in the year	23	2,415
233	Other Finance lease charges allocated in the year		590
(84)	Provisions - Unwinding of discount		931
3,036	**Total**		**3,936**
	Statutory Audit		
229	External auditor's remuneration and expenses		173

4. HOSPITAL AND COMMUNITY HEALTH SERVICES

2016 £'000	BY PROVIDER		2017 £'000
429,969	Treatment in Board area of NHSScotland Patients		441,817
76,473	Other NHSScotland Bodies		79,688
936	Health Bodies outside Scotland		599
5,895	Primary care bodies		6,313
3,536	Private sector		4,084
	Community Care		
5,370	Resource Transfer		4,897
52,601	Health and Social Care		57,974
	Contribution of Health Board to Integration Joint Board		204,112
72,001	Contributions to Voluntary Bodies and Charities		73,228
646,781	**Total NHSScotland Patients**		**872,712**
1,915	Treatment of UK residents based outside Scotland		1,893
648,696	**Total Hospital & Community Health Service**	SOCNE	**874,605**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

5. FAMILY HEALTH SERVICE EXPENDITURE

2016 £'000			Unified Budget £'000	Non Disc £'000	2017 TOTAL £'000
61,662	Primary Medical Services		60,429	0	60,429
74,450	Pharmaceutical Services		63,257	11,324	74,581
26,951	General Dental Services		13,351	14,253	27,604
5,345	General Ophthalmic Services		115	5,468	5,583
168,408	**Total**	SOCNE	**137,152**	**31,045**	**168,197**

6. ADMINISTRATION COSTS

2016 £'000			2017 £'000
914	Board Members' remuneration		920
340	Administration of Board Meetings and Committees		133
1,169	Corporate Governance and Statutory Reporting		1,098
1,300	Health Planning, Commissioning and Performance Reporting		1,626
653	Treasury Management and Financial Planning		555
463	Public Relations		482
14	Other		15
4,853	**Total administration costs**	SOCNE	**4,829**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

7. OTHER NON CLINICAL SERVICES

2016 £'000			2017 £'000
1,586	Compensation payments - Clinical		857
332	Compensation payments - Other		92
4,943	Pension enhancement & redundancy		3,971
131	Patients' Travel Attending Hospitals		169
2,921	Patients' Travel Highlands and Islands scheme		2,701
2,078	Health Promotion		2,022
3,609	Public Health		3,718
49	Public Health Medicine Trainees		84
54	Emergency Planning		58
491	Post Graduate Medical Education		470
275	Shared Services		277
5	Loss on disposal of non-current assets		52
2,629	Endowment Expenditure		1,036
3,265	Other (contributions to the CNORIS scheme)		13,009
22,368	**Total Other Non Clinical Services**	SOCNE	**28,516**

NOTES TO THE ACCOUNTS
For the year ended 31 March 2017

8. OPERATING INCOME

2016 £'000			2017 £'000
	HCH Income		
	NHSScotland Bodies		
24,827	Boards		25,128
1,989	NHS Non-Scottish Bodies		2,009
	Non NHS		
938	Private Patients		894
590	Compensation Income		656
4,262	Other Hospital & Community Health Services income		3,715
94,300	SLA Integrated Services		91,820
5,765	Social Care Income		6,134
0	Income for services commissioned by IJB		198,829
132,671	**Total HCH Income**	SOCNE	**329,185**
	FHS Income		
1,994	Unified		1,691
	Non Discretionary		
2,987	General Dental Services		3,220
8	General Ophthalmic Services		7
4,989	**Total FHS Income**	SOCNE	**4,918**
9	**Administration Income**	SOCNE	**34**
	Other Operating Income		
2,484	NHS Scotland Bodies		2,384
0	SGHSCD		0
2,079	Contributions in respect of clinical/medical negligence claims		1,092
235	Profit on disposal of non current assets		18
1,495	Donated Asset Additions		81
14	Interest Received		7
1,587	Endowment Income		1,512
9,891	Other		8,478
17,785	**Total Other Operating Income**	SOCNE	**13,572**
155,454	**Total Income**		**347,709**
27,311	**Of the above, the amount derived from NHS Scotland bodies is**		**27,512**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

9. ANALYSIS OF CAPITAL EXPENDITURE

2016 £'000		Note	2017 £'000
	EXPENDITURE		
1,126	Acquisition of Intangible Assets	10	1,013
10,135	Acquisition of Property, Plant and Equipment	11a	11,895
1,495	Donated Asset Additions	11b	81
12,756	**Gross Capital Expenditure**		**12,989**
	INCOME		
0	Net book value of disposal of Intangible Assets	10	0
336	Net book value of disposal of Property, Plant and Equipment	11a	119
0	Net book value of disposal of Donated Assets	11b	6
0	Value of disposal of Non-Current Assets held for sale	11c	0
	HUB – Repayment of investment		1
1,495	Donated Asset Income		75
1,831	**Capital Income**		**201**
10,925	**Net Capital Expenditure**		**12,788**

	SUMMARY OF CAPITAL RESOURCE OUTTURN	
10,438	Core Capital Expenditure included above	12,264
10,438	Core Capital Resource Limit	12,264
0	**Saving against Core Capital Resource Limit**	**0**
487	Non Core Capital Expenditure included above	524
487	Non Core Capital Resource Limit	524
0	**Saving against Non Core Capital Resource Limit**	**0**
10,925	Total Capital Expenditure	12,788
10,925	Total Capital Resource Limit	12,788
0	**Saving against Capital Resource Limit**	**0**

NOTES TO THE ACCOUNTS

for the year ended 31 March 2017

10. INTANGIBLE ASSETS (NON CURRENT) – CONSOLIDATED AND BOARD

		Software Licences	IT- software	Total
		£'000	£'000	£'000
Cost or Valuation:				
As 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				
As 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	BS	**1,262**	**1,590**	**2,852**

10. INTANGIBLE ASSETS – CONSOLIDATED AND BOARD PRIOR YEAR

		Software Licences	IT- software	Total
		£'000	£'000	£'000
Cost or Valuation:				
As at 1 April 2015		743	4,230	4,973
Additions		518	608	1,126
Disposals			(613)	(613)
At 31 March 2016		**1,261**	**4,225**	**5,486**
Amortisation				
As at 1 April 2015		346	2,908	3,254
Provided during the year		103	371	474
Disposals			(613)	(613)
At 31 March 2016		**449**	**2,666**	**3,115**
Net Book Value at 1 April 2015		397	1,322	1,719
Net Book Value at 31 March 2016	BS	**812**	**1,559**	**2,371**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

11. (a) Property, Plant & Equipment (Purchased Assets) – CONSOLIDATED AND BOARD

		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		19,477	290,996	5,716	845	48,805	7,616	2,906	4,667	381,028
Additions			7,974	15		3,885	891	10	11,895	11,895
Completions			(1,065)	255					(12,775)	0
Revaluation		(65)	(1,879)							(875)
Impairment Charge										(1,879)
Disposals		(100)			(34)	(1,131)	(519)	(227)		(2,011)
At 31 March 2017		**19,312**	**296,026**	**5,986**	**811**	**51,559**	**7,988**	**2,689**	**3,787**	**388,158**
Depreciation										
At 1 April 2016			15,109	317	839	34,294	5,788	2,001		58,348
Provided during the year			8,007	270	3	3,694	553	302		12,829
Revaluation			(5,091)	(352)						(5,443)
Impairment Charge			(239)							(239)
Disposals					(34)	(1,112)	(519)	(227)		(1,892)
At 31 March 2017			**17,786**	**235**	**808**	**36,876**	**5,822**	**2,076**		**63,603**
Net book value at 1 April 2016		**19,477**	**275,887**	**5,399**	**6**	**14,511**	**1,828**	**905**	**4,667**	**322,680**
Net book value at 31 March 2017	B S	**19,312**	**278,240**	**5,751**	**3**	**14,683**	**2,166**	**613**	**3,787**	**324,555**
OMV of Land inc above		**272**		**252**						
Asset financing:										
Owned		19,312	237,906	5,751	3	14,595	2,166	613	3,787	284,133
Finance leased			1,112			88				1,200
On-balance sheet PFI contracts			39,222							39,222
NBV at 31 March 2017		**19,312**	**278,240**	**5,751**	**3**	**14,683**	**2,166**	**613**	**3,787**	**324,555**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

11. (a) PROPERTY, PLANT AND EQUIPMENT (Purchased Assets) – PRIOR YEAR CONSOLIDATED AND BOARD

	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 2015	19,760	284,484	5,684	881	47,066	7,865	3,655	3,914	373,309
Additions		487						9,648	10,135
Completions		5,193			2,763	711	32	(8,699)	0
Revaluation	(149)	1,192	97					(196)	944
Impairment Charge	(15)	(163)							(178)
Disposals	(119)	(197)	(65)	(36)	(1,024)	(960)	(781)		(3,182)
At 31 March 2016	**19,477**	**290,996**	**5,716**	**845**	**48,805**	**7,616**	**2,906**	**4,667**	**381,028**
Depreciation									
At 1 April 2015		10,387	156	851	31,552	6,126	2,409		51,481
Provided during the year		7,673	259	24	3,759	622	373		12,710
Revaluation		(2,879)	(98)						(2,977)
Impairment Charge		(20)							(20)
Disposals		(52)	0	(36)	(1,017)	(960)	(781)		(2,846)
At 31 March 2016		**15,109**	**317**	**839**	**34,294**	**5,788**	**2,001**		**58,348**
Net book value at 1 April 2015	**19,760**	**274,097**	**5,528**	**30**	**15,514**	**1,739**	**1,246**	**3,914**	**321,828**
Net book value at 31 March 2016	**19,477**	**275,887**	**5,399**	**6**	**14,511**	**1,828**	**905**	**4,667**	**322,680**
OMV of Land inc above	**372**		**705**						
Asset financing:									
Owned	19,477	236,387	5,399	6	14,511	1,828	905	4,667	283,180
Finance leased		1,178							1,178
On-balance sheet PFI contracts		38,322							38,322
NBV at 31 March 2016	**19,477**	**275,887**	**5,399**	**6**	**14,511**	**1,828**	**905**	**4,667**	**322,680**

NOTES TO THE ACCOUNTS
For the year ended 31 March 2017

11(b) Property, Plant & Equipment (Donated Assets) – CONSOLIDATED AND BOARD

		Land (inc under buildings) £'000	Buildings (excluding dwellings) £'000	Dwellings £'000	Transport Equipment £'000	Plant & Machinery £'000	Information Technology £'000	Furniture & Fittings £'000	Assets Under Construction £000	Total £'000
Cost or valuation										
At 1 April 2016		45	2,623	218		1,183	30	2	1,450	5,551
Additions					14	67				81
Completions			1,450						(1,450)	0
Revaluation			(338)	(2)						(340)
Disposals			(7)			(122)		(2)		(131)
At 31 March 2017		**45**	**3,728**	**216**	**14**	**1,128**	**30**	**0**	**0**	**5,161**
Depreciation										
At 1 April 2016			54	4		907	22	2		989
Provided during the year			64	5		91	5			165
Revaluation			(95)	(10)						(105)
Disposals			(1)			(122)		(2)		(125)
At 31 March 2017		**0**	**22**	**(1)**	**0**	**876**	**27**	**0**		**924**
Net book value at 1 April 2016		45	2,569	214	0	276	8	0	1,450	4,562
Net book value at 31 March 2017	B S	**45**	**3,706**	**217**	**14**	**252**	**3**	**0**	**0**	**4,237**
OMV of Land Inc Above		**45**		**0**						
Asset financing:										
Owned		45	3,706	217	14	252	3			4,237
On-balance sheet PFI contracts										
NBV at 31 March 2017		**45**	**3,706**	**217**	**14**	**252**	**3**	**0**		**4,237**

NOTES TO THE ACCOUNTS
For the year ended 31 March 2017

11(b) Property, Plant & Equipment (Donated Assets) – PRIOR YEAR CONSOLIDATED AND BOARD

		Land (inc under buildings) £'000	Buildings (excluding dwellings) £'000	Dwellings £'000	Transport Equipment £'000	Plant & Machinery £'000	Information Technology £'000	Furniture & Fittings £'000	Assets Under Construction £'000	Total £'000
Cost or valuation										
At 1 April 2015		45	2,545	210		1,386	45	2		4,233
Additions						45			1,450	1,495
Revaluation			78	8						86
Disposals						(248)	(15)			(263)
At 31 March 2016		**45**	**2,623**	**218**		**1,183**	**30**	**2**	**1,450**	**5,551**
Depreciation										
At 1 April 2015			7	(1)		1,067	32	2		1,107
Provided during the year			54	5		88	5			152
Revaluation			(7)							(7)
Disposals						(248)	(15)			(263)
At 31 March 2016			**54**	**4**		**907**	**22**	**2**		**989**
Net book value at 1 April 2015		45	2,538	211		319	13	0		3,126
Net book value at 31 March 2016	B S	**45**	**2,569**	**214**		**278**	**8**		**1,450**	**4,562**
OMV of Land Inc Above		**45**								
Asset financing:										
Owned		45	2,569	214			276	8	1,450	4,562
Net Book Value at 31 March 2016		**45**	**2,569**	**214**			**276**	**8**	**1,450**	**4,562**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

11. (c) PROPERTY, PLANT AND EQUIPMENT DISCLOSURES

Consolidated 2016 £'000	Board 2016 £'000			Consolidated 2017 £'000	Board 2017 £'000
		Net book value of property, plant and equipment at 31 March			
322,680	322,680	Purchased	11a	324,555	324,555
4,562	4,562	Donated	11b	4,237	4,237
327,242	**327,242**	**Total**	BS	**328,792**	**328,792**
372	372	Net book value related to land valued at open market value at 31 March		272	272
255	255	Net book value related to buildings valued at open market value at 31 March		252	252
		Total value of assets held under:			
1,178	1,178	Finance Leases		1,112	1,112
0	0	Hire Purchase Contracts		88	88
38,322	38,322	PFI and PPP Contracts		39,222	39,222
39,500	39,500			40,422	40,422
		Total depreciation charged in respect of assets held under:			
104	104	Finance leases		108	108
1,024	1,024	PFI and PPP contracts		1,072	1,072
1,128	1,128			1,180	1,180

An annual valuation of 20% of all NHS Highland properties was carried out by an independent valuer, Barr (Argyll & Bute) & Burnetts (North Highland) in March 2017 on the basis of current 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 decrease in value of £5.974m, which was debited to the revaluation reserve. Impairment of £1.640m was charged to the Statement of Comprehensive Net Expenditure and Summary of Resource Outturn.

12. INVENTORIES

Consolidated 2016 £'000	Board 2016 £'000			Consolidated 2017 £'000	Board 2017 £'000
5,814	5, 814	Raw Materials and Consumables		6,559	6,559
5,814	**5,814**	**Total Inventories**	BS	**6,559**	**6,559**

13. TRADE AND OTHER RECEIVABLES

Consolidated 2016 £'000	Board 2016 £'000		Note	Consolidated 2017 £'000	Board 2017 £'000
		Receivables due within one year NHSScotland			
93	93	SGHSCD		168	168
4,994	4,994	Boards		1,639	1,639
5,087	**5,087**	**Total NHSScotland Receivables**		**1,807**	**1,807**
498	498	NHS Non-Scottish Bodies		277	277
899	899	VAT recoverable		568	568
5,834	5,834	Prepayments		6,308	6,308
2,744	2,744	Accrued income		1,713	1,713
1,423	3,085	Other Receivables		1,810	1,910
14,376	14,376	Reimbursement of provisions		19,775	19,775
24,637	24,637	Other Public Sector Bodies		23,268	23,268
55,498	**57,160**	**Total Receivables due within one year**	B S	**55,526**	**55,626791**
		Receivables due after more than one year NHSScotland			
1,597	1,597	Prepayments		1,525	1,525
3,545	3,545	Accrued income		6,259	6,259
14	14	Other Receivables		14	14
1,050	1,050	Reimbursement of Provisions		979	979
6,206	**6,206**	**Total Receivables due after more than one year**	B S	**8,777**	**8,777**
61,704	**63,366**	**TOTAL RECEIVABLES**		**64,303**	**64,403**
595	595	The total receivables figure above includes a provision for impairments of :		673	673
		WGA Classification			
4,994	4,994	NHS Scotland		1,639	1,639
47	47	Central Government bodies		28	28
24,591	24,591	Whole of Government bodies		280	280
498	498	Balances with NHS Bodies in England & Wales		277	277
31,574	33,236	Balances with bodies external to Government		62,079	62,179
61,704	**63,366**	**Total**		**64,303**	**64,403**

13. TRADE AND OTHER RECEIVABLES

Consolidated 2016 £'000	Board 2016 £'000	Movements on the provision for impairment of receivables are as follows:	Consolidated 2017 £'000	Board 2017 £'000
369	369	At 1 April	595	595
323	323	Provision for impairment	233	233
(92)	(92)	Receivables written off during the year as uncollectible	(57)	(57)
(5)	(5)	Unused amounts reversed	(98)	(98)
595	**595**	At 31 March	**673**	**673**

As of 31 March 2017, receivables with a carrying value of £673,000 (2016: £595,000) were impaired and provided for. The amount of the provision was £673,000 (2016: £595,000).

2016 £'000	2016 £'000	The aging of these receivables is as follows:	2017 £'000	2017 £'000
		3 to 6 months past due		
595	595	Over 6 months past due	673	673
595	**595**		673	673

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 2017, receivables with a carrying value of £1,715,000 (2016: £1,910,000) were past their due date but not impaired. The aging of receivables which are past due but not impaired is as follows:

2016 £'000	2016 £'000		2017 £'000	2017 £'000
576	576	Up to 3 months past due	440	440
412	412	3 to 6 months past due	411	411
922	922	Over 6 months past due	864	864
1,910	**1,910**		**1,715**	**1,715**

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.

The maximum exposure to credit risk is the fair value of each class of receivable. The NHS Board does not hold any collateral as security.

2016 £'000	2016 £'000	The carrying amount of receivables are denominated in the following currencies:	2017 £'000	2017 £'000
61,704	63,366	Pounds	64,303	64,403
61,704	**63,366**		**64,303**	**64,403**

All non-current receivables are due within eight years (2015 -16: nine years) from the balance sheet date.

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

The fair value of long term other receivables is £64.403m (2015-16:£63.366m)

The effective interest rate on non-current other receivables is 0% (2015-2016:2.2%).

14. AVAILABLE FOR SALE FINANCIAL ASSETS

Consolidated 2016 £'000	Board 2016 £'000			Consolidated 2017 £'000	Board 2017 £'000
238		Government securities		245	
7,696	121	Other		8,699	120
7,934	**121**	**TOTAL**	BS	**8,944**	**120**
7,812	123	At 1 April		7,934	121
1,376		Additions		202	
(1,059)	(2)	Disposals		(321)	(1)
(195)		Revaluation surplus / (deficit) transferred to equity		1,129	
7,934	**121**	**At 31 March**		**8,944**	**120**
7,934	121	Non Current	BS	8,944	120

We have a small shareholding in HUB North of Scotland Ltd, an unlisted investment denominated in UK pounds; £120k 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.

15. CASH AND CASH EQUIVALENTS

	Note	01/04/16 £'000	31/03/17 £'000
Balance at 1 April		1,707	1,900
Net change in cash and cash equivalent balances		193	(983)
Balance at 31 March		**1,900**	**917**
Total Cash Flow Statement		**1,900**	**917**

The following balances at 31 March were held at:

Government Banking Service account balance		233	104
Cash at bank and in hand		(42)	85
Endowment Cash		1,709	728
Balance at 31 March 2017	BS	**1,900**	**917**

15. CASH AND CASH EQUIVALENTS, Contd Prior Year 2015-16		At 01/04/15 £'000	Cash Flow £'000	At 31/03/16
Government Banking Service account balance		151	82	233
Cash at bank and in hand		7	(49)	(42)
Endowment Cash		1,549	160	1,709
Total cash and cash equivalents - balance sheet	BS	**1,707**	**193**	**1,900**
Total cash - cash flow statement		**1,707**	**193**	**1,900**
		CFS		CFS

Cash at bank is with major UK banks.
The credit risk associated with cash at bank is considered to be low.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

16. TRADE AND OTHER PAYABLES

Consolidated 2016 £'000	Board 2016 £'000		Note	Consolidated 2017 £'000	Board 2017 £'000
		Payables due within one year NHSScotland			
12,289	12,289	Boards		9,267	9,267
12,289	**12,289**	**Total NHSScotland Payables**		**9,267**	**9,267**
1,077	1,077	NHS Non-Scottish Bodies		838	838
191	191	Amounts payable to General Fund		189	189
15,079	15,079	FHS Practitioners		13,584	13,584
3,314	3,314	Trade Payables		5,506	5,506
19,013	19,013	Accruals		15,331	15,314
346	346	Deferred income		1,109	1,109
0	0	Payments received on account		20	20
111	111	Net obligations under Finance Leases	22	165	165
1,398	1,398	Net obligations under PPP/PFI Contracts	23	1,525	1,525
6,050	6,050	Income tax and social security		6,836	6,836
4,703	4,703	Superannuation		4,807	4,807
1,172	1,172	Holiday Pay Accrual		582	582
1	1	VAT		0	0
4,649	4,649	Other Public Sector Bodies		4,682	4,682
2,574	2,543	Other payables		1,780	1,780
395	395	Pension contribution to Local Gvt Pension Scheme		371	371
68	68	Equal Pay Accrual		0	0
72,430	**72,399**	**Total Payables due within one year**	BS	**66,592**	**66,575**

Consolidated 2016 £'000	Board 2016 £'000		Note	Consolidated 2017 £'000	Board 2017 £'000
		Payables due after more than one year - NHSScotland			
121	121	Net obligations under Finance Leases due within 2 years	22	145	145
473	473	Net obligations under Finance Leases due after 2 years but within 5 years	22	576	576
1,525	1,525	Net obligations under Finance Leases due after 5 years	22	1,281	1,281
1,525	1,525	Net obligations under PPP/PFI Contracts due within 2 years	23	1,665	1,665
5,489	5,489	Net obligations under PPP/PFI Contracts after 2 years but within 5 years	23	6,019	6,019
27,451	27,451	Net obligations under PPP/PFI Contracts due after 5 years	23	25,256	25,256
1,038	1,038	Local Government Pension		10,181	10,181
37,622	**37,622**	**Total Payables due after more than one year**	BS	**45,123**	**45,123**
110,052	**110,021**	**TOTAL PAYABLES**		**111,715**	**111,698**
		WGA Classification			
12,289	12,289	NHS Scotland		9,267	9,267
6,062	6,062	Central Government Bodies		11,652	11,652
4,649	4,649	Whole of Government Bodies		5,053	5,053
1,077	1,077	Balances with NHS Bodies in England and Wales		838	838
85,975	85,944	Balances with bodies external to Government		84,905	84,888
110,052	**110,021**	**Total**		**111,715**	**111,698**
		Borrowings included above comprise:			
2,230	2,230	Finance Leases		2,167	2,167
35,863	35,863	PFI Contracts		34,465	34,465
38,093	**38,093**			**36,632**	**36,632**
		The carrying amount and fair value of the non-current borrowings are as follows:			
		Carrying amount			
2,119	2,119	Finance Leases		2,002	2,002
34,465	34,465	PFI Contracts		32,940	32,940
36,584	**36,584**			**34,942**	**34,942**

2016 Fair Value £'000	2016 Fair Value £'000	The carrying amount and fair value of the non-current borrowings are as follows	2017 Fair Value £'000	2017 Fair Value £'000
		Fair value		
2,119	2,119	Finance Leases	2,002	2,002
34,465	34,465	PFI Contracts	32,940	32,940
36,584	**36,584**		**34,942**	**34,942**

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

£'000	£'000	The carrying amount of payables are denominated in the following currencies:	£'000	£'000
110,052	110,021	Pounds	111,715	111,698
110,052	**110,021**		**111,715**	**111,698**

17. PROVISIONS – CONSOLIDATED AND BOARD

	Pensions & similar obligations	Clinical & Medical	Participation in CNORIS	Other	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)	(918)	(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**

Analysis of expected timing of discounted flows – to March 2017

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

PROVISIONS – CONSOLIDATED (PRIOR YEAR)

	Pensions & similar obligations	Clinical & Medical	Participation in CNORIS	Other	2016 Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2015	8,382	8,984	14,051	748	32,165
Arising during the year	1,070	8,671	4,513	178	14,432
Utilised during the year	(660)	(1,646)	(1,418)	(304)	(4,028)
Unwinding of discount	(57)		(27)		(84)
Reversed unutilised	(31)	(567)	(1,878)	(118)	(2,594)
At 31 March 2016	**8,704**	**15,442**	**15,241**	**504**	**39,891**

Analysis of expected timing of discounted flows – to March 2016

		Pensions & similar obligations £'000	Clinical & Medical £'000	Participation in CNORIS £'000	Other £'000	2016 Total £'000
Payable in one year	BS	814	14,189	4,415	365	19,783
Payable between 2-5 years		2,216	1,253	6,004	139	9,612
Payable between 6-10 years		2,409		563		2,972
Thereafter	BS	3,265		4,259		7,524
At 31 March 2016		**8,704**	**15,442**	**15,241**	**504**	**39,891**

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 1.37% in real terms. The Board expects expenditure to be charged to this provision for a period of up to 20 years.

Clinical & Medical

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 for a period of up to 10 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

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 19. The provision is based on an estimate of the possible cost together with adverse legal costs and is estimated settlement may take up to 3 years.

17b Clinical Negligence and Other Risks Indemnity Scheme (CNORIS)

2016 £'000		Note	2017 £'000
15,442	Provision recognising individual claims against the NHS Board as at 31 March	17	15,257
(15,426)	Associated CNORIS receivable at 31 March	13	(20,754)
15,241	Provision recognising the NHS Board's liability from participating in the scheme at 31 March	17	26,338
15,257	**Net Total Provision relating to CNORIS at 31 March**		**20,841**

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 at:
http://www.clo.scot.nhs.uk/our-services/cnoris.aspx

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

18. MOVEMENT ON WORKING CAPITAL BALANCES

2016 Net Movement £'000		Note	Opening Balances £'000	Closing Balances £'000	2017 Net Movement £'000
	INVENTORIES				
(405)	Balance Sheet	12	5,814	6,559	
(405)	**Net Decrease/(Increase)**				**(745)**
	TRADE AND OTHER RECEIVABLES				
(8,731)	Due within one year	13	57,160	55,626	
146	Due after more than one year	13	6,206	8,777	
			63,366	64,403	
(8,585)	**Net (Increase)**				**(1,037)**
	TRADE AND OTHER PAYABLES				
8,593	Due within one year	16	72,399	66,575	
(5,516)	Due after more than one year	16	37,622	45,123	
(146)	Less: Property, Plant & Equipment (Capital) included in above		(206)	(286)	
(33)	Less: General Fund Creditor included in above		(191)	(189)	
1,360	Less: Lease and PFI Creditors included in above	16	(38,093)	(36,632)	
			71,531	74,591	
4,258	**Net Increase**				**3,060**
	PROVISIONS				
7,726	Balance Sheet	17	39,891	57,187	
7,726	**Net Increase**				**17,296**
2,994	**NET MOVEMENT Increase**	CFS			**18,574**

19. CONTINGENT LIABILITIES

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

2016	Nature	2017
£'000		**£'000**
2,058	Clinical and medical compensation payments	2,421
131	Employer's liability	246
6	Third party liability	18
2,195	**TOTAL CONTINGENT LIABILITIES**	**2,685**

The Board has also entered into the following unquantifiable contingent liabilities by offering guarantees, indemnities or by giving letters of comfort. None of these is a contingent liability within the meaning of IAS 37, since the possibility of a transfer of economic benefits in settlement is too remote

2016 £'000	CONTINGENT ASSETS	2017 £'000
1,663	Clinical and medical compensation payments	1,981
48	Employer's liability	130
1,711		**2,111**

20. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

21. COMMITMENTS

2016	Capital Commitments	2017 Property, plant and equipment
	The Board has the following Capital Commitments which have not been included in the accounts	
£'000		**£'000**
	Contracted	
6,209	Mid Argyll PFI Lifecycle costs	5,801
	Smarter Offices	840
	Skye, B&S Hospital HUB Projects	1,800
	Raigmore & Community Fire Compartmentation	340
	Water Safety Improvements	110
	Raigmore HV Reinforcement	150
4,433	Easter Ross PFI Lifecycle costs	4,098
	Cowal Hospital Electrical Replacement	250
	Standy Generator Replacements	235
22,800	Raigmore Critical Care and Theatres	16,600
370	eHealth Labs System	
53	Mobile X-Ray Systems	
53	UVA Cabinets	
33,918	**Total**	**30,224**

	Authorised but not Contracted	
	Radiotherapy	1,202
	Elective Care Centre	500
	Servers & Networks	2,015
	Recording of Obs	700
	ED/MDU	1,000
	Community Solutions	2,000
	Rolling Replacement Programmes	5,549
960	Others	765
2,555	Seven Community Projects	
2,090	Estates Backlog Projects	
1,639	Medical Equipment	
3,490	eHealth Replacement	
1,000	Badenoch & Strathspey Land Purchase	600
11,734	**Total**	**14,331**

22. COMMITMENTS UNDER LEASES

2016	**Operating Leases**	**2017**
£'000	Total future minimum lease payments under operating leases are given in the table below for the each of the following periods.	**£'000**
	Buildings	
2,740	Not later than one year	2,571
2,396	Later than one year, not later than 2 years	2,087
5,285	Later than two years, not later than five years	4,683
16,018	Later than five years	14,534
	Other	
3,037	Not later than one year	2,332
1,536	Later than one year, not later than two years	1,266
1,015	Later than two years, not later than five years	1,566
3	Later than five year	122
	Amounts charged to Operating Costs in the year were:	
3,900	Hire of equipment (including vehicles)	4,005
3,985	Other operating leases	3,838
7,885	**Total**	**7,843**

2016	**Finance Leases**		**2017**
£'000	Total future minimum lease payments under finance leases are given in the table below for the each of the following periods.		**£'000**
	Obligations under Finance leases comprise:		
	Buildings		
331	Rentals due within one year	16	332
332	Rentals due between one and two years (inclusive)	16	331
1,020	Rentals due between two and five years (inclusive)	16	1,072
2,030	Rentals due after five years	16	1,639
3,713			3,374
(1,483)	Less interest element		(1,262)
2,230			**2,112**

	Other		
	Rentals due within one year	16	53
	Rentals due between one and two years (inclusive)	16	13
	Rentals due between two and five years (inclusive)	16	0
	Rentals due after five years	16	0
			66
	Less interest element		(11)
			55

This total net obligation under finance leases is analysed in Note 16 (Trade and Other Payables)

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

23. COMMITMENTS UNDER PFI CONTRACTS ON BALANCE SHEET

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

2016 £'000	Gross Minimum Lease Payments	New Craig's £'000	Easter Ross £'000	Mid Argyll £'000	Tain HC HUB £'000	2017 Total £'000
4,173	Rentals due within 1 year	1,922	622	1,229	404	4,177
4,178	Due within 1 to 2 years	1,922	621	1,229	407	4,179
12,546	Due within 2 to 5 years	5,767	1,866	3,685	1,236	12,554
40,547	Due after 5 years	6,545	4,888	17,493	7,434	36,360
61,444	**Total**	16,156	7,997	23,636	9,481	57,270
	***Less* Interest Element**					
(2,775)	Rentals due within 1 year	(1,273)	(287)	(736)	(356)	(2,652)
(2,653)	Due within 1 to 2 years	(1,179)	(270)	(712)	(353)	(2,514)
(7,057)	Due within 2 to 5 years	(2,827)	(704)	(1,978)	(1,026)	(6,535)
(13,096)	Due after 5 years	(1,412)	(914)	(5,070)	(3,708)	(11,104)
(25,581)	**Total**	(6,691)	(2.175)	(8,496)	(5,443)	(22,805)
	Present value of minimum lease payments					
1,398	Rentals due within 1 year	649	335	493	48	1,525
1,525	Due within 1 to 2 years	743	351	517	54	1,665
5,489	Due within 2 to 5 years	2,940	1,162	1,707	210	6,019
27,451	Due after 5 years	5,133	3,974	12,423	3,726	25,256
35,863	**Total**	9,465	5,822	15,140	4,038	34,465

	Service elements due in further periods					
4,204	Rentals due within 1 year	2,689	578	1,019	97	4,383
4,383	Due within 1 to 2 years	2,689	531	1,004	94	4,318
13,294	Due within 2 to 5 years	8,067	2,291	2,989	265	13,612
49,018	Due after 5 years	8,739	8,530	25,974	1,138	44,381
70,899	**Total**	22,184	11,930	30,986	1,594	66,694
106,762	**Total Commitments**	31,649	17,752	46,126	5,632	101,159

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

2016 £'000		**2017 £'000**
2,887	Interest charges	2,415
6	Contingent Rent	6
2,893	**Total**	**2,421**

24. PENSION COSTS

IAS 19 Multi-employer plans 148

(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 2016 were £739.2 million (see note 3 in the scheme accounts). Contributions

collected in the year to 31 March 2017 will be published in November 2017.

The NHS Board level of participation in the scheme is 5.32% based on the proportion of employer contributions paid in 2015-16.

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 £5,824 up to £42,385, 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 2017	3%	2%	5%
1st October 2018	5%	3%	8%

Annual contribution to a NEST retirement fund is limited to £4,700 for the 2015-16 tax year. This will be reviewed each year and is likely to increase. Pension members can make additional contributions to their pension fund at any time up to the annual limit.

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.

	2017 £'000	2016 £'000
Pension cost charge for the year	39,286	38,206
Pension cost in year of staff transferred from Highland Council	6,198	6,866
Provisions/Liabilities/Pre-payments included in the Balance Sheet	1,736	1,877

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, Glenurquhart 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 2016 to 31 March 2017 of £11.734m, giving a total to 31st March 2017 of £23.019m (total to 31st March 2016 of £11.285m). This is included in two parts in NHS Highland's accounts:-

a) £12.838m of realised deficit in SOCNE which has been covered by funding from Scottish Government and

b) £10.181m of unrealised deficit due to actuarial assumptions which is recorded as other Comprehensive Net Expenditure and offset against Reserves in the Balance Sheet.

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:	2017 £000	2016 £000
Current Service cost	5,816	7,221
Interest Cost	1,323	1,078
Return in the Fund Assets	(891)	(657)
Financial Assumptions (Loss)/Gain	(9,143)	4,010
Charge to statement of comprehensive net expenditure	2,895	11,652

The current assets and liabilities are made up of :-

Present Value of the Scheme Liabilities

Opening defined benefit obligation	34,522	29,678
Current Service Cost	5,816	7,221
Interest Cost	1,323	1,078
Change in financial assumptions	13,296	(4,204)
Estimated benefits paid	(304)	(377)
Changes in demographic assumptions	0	0
Other experience	0	(88)
Contributions by scheme participants	1,139	1,214
Closing Value	55,792	34,522

Fair Value of the Scheme Assets

Opening Fair Value of scheme assets	23,237	18,213
Expected return on scheme assets	4,153	(282)
Interest Income	891	657
Contributions by employer	3,657	3812
Contributions by Scheme participants	1,139	1214
Estimated benefits paid (net of transfers in)	(304)	(377)
Closing value	32,773	23,237

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 Balance Sheet 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 2018 is £3.731m.

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 1 April 2014.

The principal actuarial assumptions adopted as at 31 March 2017 are as follows:

	2017	2016
(a) Long term expected rate of return on assets in the scheme	2.6%	3.5%
(b) Life expectancy from age 65 (years)		
Retiring today:		
Males	22.5	22.5
Females	24.1	24.1
Retiring in 20 years:		
Males	24.7	24.7
Females	26.8	26.8
(c) Financial assumptions		
Rate of increase in salaries	4.4%	4.2%
Rate of increase in pensions (CPI)	2.4%	2.2%
Rate of discounting scheme liabilities	2.6%	3.5%
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%	44%
Debt Securities	5%	18%
Private Equity	5%	4%
Real Estate	11%	11%
Investment Funds & Unit Trusts	30%	19%
Cash	2%	4%
Total	100%	100%

25. PRIOR YEAR ADJUSTMENTS

There are no disclosures to be made.

26 FINANCIAL ASSETS CONSOLIDATED

At 31 March 2017	Notes	Loans & Receivables £'000	Available for Sale £'000	Total £'000
Assets per balance sheet				
Investments	14		8,944	8,944
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	13	33,341		33,341
Cash and cash equivalents	15	917		917
		34,258	**8,944**	**42,202**

BOARD

At 31 March 2017	Notes	Loans & Receivables £'000	Available for Sale £'000	Total £'000
Assets per balance sheet				
Investments	14		120	120
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	13	33,441		33,441
Cash and cash equivalents	15	189		189
		33,630	**120**	**33,750**

CONSOLIDATED (Prior Year)

At 31 March 2016	Notes	Loans & Receivables	Available for Sale	Total
Assets per balance sheet				
Investments	14		7,934	7,934
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	13	32,861		32,861
Cash and cash equivalents	15	1,900		1,900
		34,761	**7,934**	**42,695**

BOARD (Prior Year)

At 31 March 2016	Notes	Loans & Receivables	Available for Sale	Total
Assets per balance sheet				
Investments	14		121	121
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	13	34,523		34,523
Cash and cash equivalents	15	191		191
		34,714	**121**	**34,835**

26. FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities
CONSOLIDATED

AT 31 MARCH 2017	Note	Other financial liabilities £'000	Total £'000
Liabilities per balance sheet			
Finance lease liabilities	16	2,167	2,167
PFI Liabilities	16	34,465	34,465
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation recoverable.	16	53,064	53,064
		89,696	**89,696**

BOARD

	Note	£'000	£'000
Liabilities per balance sheet			
Finance lease liabilities	16	2,167	2,167
PFI Liabilities	16	34,465	34,465
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation recoverable.	16	53,047	53,047
		89,679	**89,679**

CONSOLIDATED (Prior Year)

	Note	Other financial liabilities £'000	Total £'000
Finance lease liabilities	16	2,230	2,230
PFI Liabilities	16	35,863	35,863
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation	16	48,570	48,570
		86,663	**86,663**

BOARD (Prior Year)

	Note	Other financial liabilities £'000	Total £'000
Finance lease liabilities	16	2,230	2,230
PFI Liabilities	16	35,863	35,863
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation	16	48,539	48,539
		86,632	**86,632**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

26. FINANCIAL INSTRUMENTS, cont.

b 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 balance sheet 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 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**

At 31 March 2016	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
PFI Liabilities	4,173	4,178	12,546	40,547
Finance lease liabilities	331	332	1,020	2,030
Trade and other payables exc statutory liabilities	59,741	1,038		
Total	**64,245**	**5,548**	**13,566**	**42,577**

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.

27. DERIVATIVE FINANCIAL INSTRUMENTS

The Board has no transactions of this type.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

28. 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 33.

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 16/17 for Adult Social Care was circa £91.8 million, and is shown in note 8 for income. The value of the agreement for Childrens Services was circa £9.5 million and is included in Note 4.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017

29. SEGMENT INFORMATION

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

	A&B CHP	Raigmore Hospital	North & West Operational Unit	South & Mid Operational Unit	Adult Social Care Central	Adult Social Care Funding	Child Services	Other	2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net operating cost	**197,058**	**161,344**	**139,355**	**196,954**	**5,590**	**(91,820)**	**9,557**	**110,876**	**728,914**

29. SEGMENT INFORMATION – PRIOR YEAR

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

	A&B CHP	Raigmore Hospital	North & West Operational Unit	South & Mid Operational Unit	Adult Social Care Central	Adult Social Care Funding	Child Services	Other	2016
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net operating cost	**192,604**	**155,864**	**133,675**	**189,878**	**5,438**	**(94,300)**	**8,852**	**95,818**	**687,829**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017
30. 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.

	2016	Gross Inflows	Gross Outflows	2017
	£'000	£'000	£'000	£'000
Monetary amounts such as bank balances and monies on deposit	739	2,162	(1,866)	1,034
Total Monetary Assets	**739**	**2,162**	**(1,866)**	**1,034**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2017
31a. CONSOLIDATED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

Group 2016		Board 2017	Endowment 2017	Intra Group adjustment 2017	A&B IJB 2017	Consolidated 2017
£'000		£'000	£'000	£'000	£'000	£'000
	Clinical Services Costs					
648,696	Hospital and Community	874,605				874,605
132,671	Less: Hospital and Community Income	329,185				329,185
516,025		545,420				545,420
168,408	Family Health	168,197				168,197
4,989	Less: Family Health Income	4,918				4,918
163,419		163,279				163,279
679,444	**Total Clinical Services Costs**	**708,699**				**708,699**
4,853	Administration Costs	4,829				4,829
9	Less: Administration Income	34				34
4,844		4,795				4,795
22,368	Other Non Clinical Services	27,480	1,138	(102)		28,516
17,785	Less: Other Operating Income	12,060	1,614	(102)		13,572
4,583		15,420	(476)			14,944
	Associates & joint ventures accounted for on an equity basis				(220)	(220)
688,871	**Net Operating Costs**	**728,914**	**(476)**	**0**	**(220)**	**728,218**

Other Non Clinical Services Costs and Income relates to the consolidation of the Endowment Accounts, realised gains from endowment investments of £82k have been recognised in the Endowment Other Operating Income line 4. 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.

31b. CONSOLIDATED GROUP BALANCE SHEET

Group 2016 £'000		Note	Board 2017 £'000	Endowment 2017 £'000	Intra Group adjustment 2017 £'000	A&B IJB 2017 £'000	Group 2017 £'000
	Non-current Assets:						
327,242	Property, plant and equipment	11	328,792				328,792
2,371	Intangible assets	10	2,852				2,852
	Financial assets:						
7,934	Available for sale financial assets	14	120	8,824			8,944
	Investments in associated & joint ventures					220	220
6,206	Trade and other receivables	13	8,777				8,777
343,753	**Total non-current assets**		**340,541**	**8,824**		**220**	**349,585**
	Current Assets:						
5,814	Inventories	12	6,559				6,559
	Financial assets:						
55,498	Trade and other receivables	13	55,626	12	(112)		55,526
1,900	Cash and cash equivalents	15	189	728			917
63,212	**Total current assets**		**62,374**	**740**	**(112)**		**63,002**
406,965	**Total Assets**		**402,915**	**9,564**	**(112)**	**220**	**412,587**
	Current liabilities						
(19,783)	Provisions	17	(27,016)				(27,016)
	Financial liabilities:						
(72,430)	Trade and other payables	16	(66,575)	(129)	112		(66,592)
(92,213)	**Total current liabilities**		**(93,591)**	**(129)**	**112**		**(93,608)**
314,752	**Non-current assets plus/less net current assets/liabilities**		**309,324**	**9,435**	**0**	**220**	**318,979**
	Non-current liabilities						
(20,108)	Provisions	17	(30,171)				(30,171)
	Financial liabilities:						
(37,622)	Trade and other payables	16	(45,123)				(45,123)
(57,730)	**Total non-current liabilities**		**(75,294)**				**(75,294)**
257,022	**Assets less liabilities**		**234,030**	**9,435**		**220**	**243,685**
	Taxpayers' Equity						
138,904	General Fund	SOCTE	128,546				128,546
101,080	Revaluation reserve	SOCTE	102,827				102,827
9,209	Other reserves	SOCTE	2,657				2,657
	Other reserves – joint venture					220	220
7,829	Funds Held on Trust	SOCTE		9,435			9,435
257,022	**Total taxpayers' equity**		**234,030**	**9,435**		**220**	**243,685**

Intragroup adjustments relates to negating the balance due by Endowments payable to the Board

31c. CONSOLIDATED STATEMENT OF CASHFLOWS

Board 2016 £'000	Endowment 2016 £'000	Group 2016 £'000		Board 2017 £'000	Endowment 2017 £'000	Group 2017 £'000
			Cash flows from operating activities			
(687,829)	(1,042)	(688,871)	Net operating cost	(728,694)	476	(728,218)
20,069		20,069	Adjustments for non-cash transactions	8,348		8,348
3,036		3,036	Add back: interest payable recognised in net operating cost	3,936		3,936
(14)		(14)	Deduct: Interest receivable recognised in net operating costs	(7)		(7)
(8,585)	1,507	(7,078)	(Increase)/decrease in trade and other receivables	(1,037)	(1,562)	(2,599)
(405)		(405)	Decrease/(Increase) in inventories	(745)		(745)
4,258	13	4,271	Increase/(decrease) in trade and other payables	3,060	(13)	3,047
7,726		7,726	Increase/(decrease) in provisions	17,296		17,296
(661,744)	**478**	**(661,266)**	**Net cash outflow from operating activities**	**(697,843)**	**(1,099)**	**(698,942)**
			Cash flows from investing activities			
(9,989)		(9,989)	Purchase of property, plant and equipment	(11,815)		(11,815)
(1,126)		(1,126)	Purchase of intangible assets	(1,013)		(1,013)
	(1,376)	(1,376)	Investment Additions		(203)	(203)
106		106	Proceeds of disposal of property, plant and equipment	91		91
2	1,057	1,059	Receipts from sale of investments		321	321
14		14	Interest and dividends received	7		7
(10,993)	**(319)**	**(11,312)**	**Net cash outflow from investing activities**	**(12,730)**	**118**	**(12,612)**
			Cash flows from financing activities			
667,133		677,133	Funding	715,970		715,970
33		33	Movement in general fund working capital	(2)		(2)
677,166		677,166	Cash drawn down	715,968		715,968
(1,360)		(1,360)	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(1,461)		(1,461)
84		84	Interest paid	(931)		(931)
(3,120)		(3,120)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	(3,005)		(3,005)
672,770		**672,770**	**Net Financing**	**710,571**		**710,571**
33	160	193	**Net increase in cash and cash equivalents in the period**	(2)	(981)	(983)
158	1,549	1,707	**Cash and cash equivalents at the beginning of the period**	191	1,709	1,900
191	**1,709**	**1,900**	**Cash and cash equivalents at the end of the period**	**189**	**728**	**917**
			Reconciliation of net cash flow to movement in net debt/cash			
33	160	193	Increase in cash in year	(2)	(981)	(983)
158	1,549	1,707	Net cash at 1 April	191	1,709	1,900
191	**1,709**	**1,900**	**Net cash at 31 March**	**189**	**728**	**917**

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