Highland Health Board

ANNUAL REPORT and ACCOUNTS

for

THE YEAR ENDED 31 MARCH 2016

Highland Health Board

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Highland Health Board

ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2016

THE PERFORMANCE REPORT

1. Overview

Statement by Elaine Mead, Chief Executive, NHS Highland

2015/16 was another exciting yet challenging year and overall I am pleased with the progress the board made. During the year we had 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. And it was this approach that made a significant contribution to delivering break-even on both our revenue and capital budgets while at the same time delivering high quality care. As an example in 2015/16 our procurement department delivered £1.9m of savings with no impact on quality or access to front line services.

Some of the significant achievements include transformation of care at home service in the Inner Moray Firth area where no patients are now waiting in hospital for care at home. We have also made significant progress in delivering 'my Home Life' a new approach to improving quality of experience for people living, working and visiting care homes.

Fewer patients than ever before are now experiencing colo-rectal surgical site infection (SSI) following surgery. The team achieved their ambitious aim of less than 10% SSI by end December 2015. NHS Highland is also leading the way in Scotland in the use of insulin pumps for young people with diabetics.

We made good progress in proposed redesign of services and securing investment for many of our areas. This included approval of the business case to secure £28m upgrade of the critical care provision at Raigmore Hospital representing the biggest single investment in the hospital since it was built. We were also pleased to announce in October £25m funding from the Scottish Government to build an elective care centre which will be on the University of the Highland's and Islands Inverness campus (adjacent to Raigmore Hospital) and will open its door to patients in 2021. A new £1.5million health centre opened in Drumnadrochit, and work on the new Children's Unit was also completed in Raigmore Hospital.
It was very disappointing that we struggled to meet some of our Outpatient Waiting Times and Treatment Time Guarantee especially in high volume surgical specialities. This will require some focussed improvement work in 2016/17.

We continue to experience significant challenges with recruitment especially in remote and rural areas which is not sustainable and work is ongoing to look at options for redesigning some services as well as making NHS Highland the employer of choice.

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. Our revenue budget for 2015/16 financial year is £764m. 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 2015/16 is £11.5m. Capital covers a small amount of staff costs (staff who work on capital projects) and a wide range of 'one-off' items - ranging from an expensive piece of medical equipment right up to new facilities such as health centres or hospitals.

Geographically, it is the largest Health Board in Scotland covering an area of 32,500 km² stretching from Kintyre in the south-west to Caithness in the north-east. The board serves a

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resident population of over 320,000 but due to annual influx of tourists in some areas this can double or even triple at times, both in summer and winter. The board also covers the largest remote and rural areas in Scotland including 24 populated islands. Other key facts and figures are summarised (Box 1).

Box 1 - NHS Highland: at a glance

- 41% of the landmass of Scotland
- 24 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)
  - 1 Psychiatric Hospital – New Craigs (Inverness)
  - 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
- 2,200 births per annum (Raigmore Hospital)

Board and Committees

NHS Highland is managed by a board of directors which is accountable to the Scottish Government through the Cabinet Secretary for Health and Wellbeing. The board is responsible for the strategic planning of health services and the development of measures to improve the health of the communities in the Highland region. It is accountable for the performance of all NHS Highland in the Highland and Argyll & Bute Council areas.

During the year the Cabinet Secretary for Health, Wellbeing and Sport, Shona Robison, announced the appointment of the new chair of Highland NHS Board - Dr David Alston who took up the post on 1 April 2016. On 31st March 2016, Garry Coutts stood down as chair, having served in the post for the statutory maximum of three consecutive four-year terms.

During 15/16 the board was underpinned by a number of governance committees, including: Audit, Staff Governance, Clinical Governance, Improvement Committee, Remuneration, Argyll & Bute CHP, Governance Committee, Control of Infection, Pharmacy Practices, Asset Management Group, Health and Safety and Highland Health and Social Care Committee.

Corporate Services

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.

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Our Mission

NHS Highland works with partners to improve the health of local people and the services they receive and to ensure that national clinical and service standards are delivered. Our overall mission is to provide quality of care to every person every day.

Our Strategic vision and goals

NHS Highland is committed to providing high quality, safe care to the population of the Highlands in a safe, efficient and person centred way. Our strategic approach is founded on the triple aim: **to 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.

Highland Care Strategy

The delivery of our organisational goals was set out in August 2014, when the board of NHS Highland endorsed "The Highland Care Strategy: NHS Highland's Improvement and Co-production Plan and has been underpinned by our 10 year Operational Implementation Plan.

The Care Strategy outlines NHS Highland's vision for the future delivery of health and social care services for the people of Highland for the next 10 years. It sets out principles which will underpin what services are required and where, and in doing so guides any service development and redesign of services.

It also describes the Highland Quality Approach which recognises how important it is to improve the health of the population and get the experience of care right for individuals. This is being delivered by focussing on providing person-centred care while at the same time eliminating waste, reducing harm and managing variation.

HQA places an explicit emphasis on how we will make best use all of our resources. It is founded on the evidence that by focusing on quality and being person centred better health, better care and better value will be achieved.

NHS Highland continued to benefit from advice and learning on quality improvement from Virginia Mason – a leading health care provider in the United States. During the year we also hosted a number of visits including from the King's Fund (London), colleagues from Wales and Norway as part of our commitment to share and learn. Staff were also invited to participate in a number of prestigious national and international events.

Planning of services

The areas we cover are benefiting from improved health and so people are now living longer. It is estimated that by 2031 the number of people aged 75 or over in Highland will double.

Planning for this population increase is important because older people tend to make more use of health and social services. As people age it becomes more likely that they may acquire one or more long-term condition(s) like dementia, diabetes and heart disease, as well as having a greater risk of getting cancer.

NHS Highland is committed to providing as much care and support locally as possible. For some things this has to be balanced with making sure that services can be safely staffed, equipped and are affordable. Access to services is also changing with technological advances.

Each NHS 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 2015/16 was signed off by the board at their meeting held in April. It set out our improvement priorities in areas such as health inequalities and prevention, and ante natal and early years provision; featured a detailed financial plan; summarised the main workforce issues facing the board and outlines NHS Highland's commitment to improving its approach to partnership working.

It also details each national target set by the Scottish Government. These targets are known as LDP standards.

Operational delivery of services

Delivery of services across NHS Highland is managed through two Partnerships:

Argyll and Bute Community Health and Social Care Partnership - Manage acute, primary, community health and mental health services across the region. Much of the acute and more specialist services are provided from neighbouring NHS Greater Glasgow & Clyde through a Service Level Agreement with NHS Greater Glasgow and Clyde.

During the year the Scottish Government gave formal statutory approval for the scheme to integrate health and social care in Argyll and Bute allowing NHS Highland and Argyll & Bute Council to progress to establish an Integrated Joint Board.

Highland Health and Social Care Partnership - responsible for providing a wide range of acute care, emergency care, and 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: North & West Highland and Inner Moray Firth which includes South Highland, Mid Highland and Raigmore Hospital (Box 2).

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.

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.

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 £28 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.
- Since 2015, Raigmore Hospital has been managed as part of NHS Highland's Inner Moray Firth operational unit. This arrangement brings together acute, primary, community and social care services.

Performance summary

During the year we continue to have a strong emphasis on quality improvement through our Highland Quality Approach (HQA), our management system designed to deliver better health, better care and better value. The HQA is focussed on improving all elements of our care and supporting processes by daily attention to detail and monitoring. During 2015/16 we had a particular focus on a number of high volume areas:

• Reduction in outpatient follow-ups	• Maximising use of staff contracts
• Theatre efficiencies	• Reduction in use of locums
• Reduction in falls	• Better prescribing
• Improved infection control	• Better procurement
• Reduction in pressure ulcers	• Smarter offices
• Reduction in length of stay	• Traditional 'house-keeping'

Finance and efficiency

We reported at our board meeting in April 2015 that our baseline allocation increased by 1.8% - just under £9.5million. In addition the Scottish Government confirmed their plans to accelerate the movement to bring all boards to within one percent parity under the NHS funding formula NRAC (NHS SCOTLAND Resource Allocation Committee). As a result NHSH received an additional recurrent baseline increase of £11.5 million.

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We reported to our board meeting in April 2016 a forecast of break-even on both our revenue and capital budget for the financial year 2015/16. Our final position is shown in section 2 Performance Analysis. One of our key pressures was the expenditure on medical locums which totalled £15 million during the year and relates to significant recruitment challenges in some areas for some consultant specialties and GPs.

During the year we put in place a number of measures to strengthen management arrangements, scrutiny of financial performance and transparency which built on some of the recommendations from the Auditor General for Scotland, who published her follow up report in October 2015.As an example in 2015/16 our procurement department delivered £1.9m of savings through improved processes and attention to detail. NHS Highland received an A+ rating in a major assessment initiative. The Procurement and Commercial Improvement Programme focuses on procurement performance, with assessments taking place every two years.

Waiting Times

2015/16 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. Work is ongoing to address both short and longer term improvements. For instance we successfully recruited two additional orthopaedic consultants and were also very pleased to announce in October 2015 that £25m was secured in principle to build an elective care centre for orthopaedic and ophthalmology subject to due process. 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.

There have also been challenges in meeting Cancer Waiting Times standards. This has been compromised by particular difficulties within the urology and endoscopy services. These specialties continue to be a challenge for the majority of Boards in Scotland where there has been both an increased number of referrals and an inability to recruit replacement and additional staff.

Patients waiting in hospital with no clinical (delayed discharges) were closely monitored during the year and we gained a high degree of understanding why there were any delays. The main cause of delays was due to lack of care home capacity linked to a number of homes having their admissions suspended linked to our commitment to driving up quality. However we are now embedding some innovative solutions to improve delivery of care at home and in particular strengthening of our collaboration and commissioning arrangements with the third sector. One example is the introduction of zoning in the Inner Moray Firth area. This is where all providers of home care have a weekly planning meeting and divide up the areas into zones where each provider will concentrate. This has freed up significant hours to provide hands on care through reducing travel times. Greater use has also been made of Self Directed Support to allow local communities to be supported to provide more care locally. The culmination of all of the work has meant the virtual elimination of anyone waiting in hospital for care at home in the Inner Moray Firth area. This work will be further expanded next year.

NHS Highland is leading the way in Scotland in the use of insulin pumps for young people with diabetics, and it's doing so from a standing start. In 2012, the Scottish Government decided that 25 per cent of all young people with Type 1 diabetes should have access to insulin pump therapy. At the time, NHS Highland's paediatric diabetes team didn't even have an insulin pump service. Now, though, the board has exceeded the government target – and currently Highland pump patients are ranked No. 1 in blood sugar control in Scotland.

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The Scottish Patient Safety Programme forms a key part of the Highland Quality Approach. Fewer patients are now experiencing colo-rectal surgical site infection (SSI) following surgery. The team achieved their ambitious aim of less than 10% SSI by end December 2015.

Previously patients would suffer from urinary catheter infections approx every 10 – 15 days. However in a number of pilot wards where improvements have been implemented it has been 155 days since the last infection.

Our critical care teams are holding the gains by achieving the best patient outcomes to date: 1475 days since last central line infection and 848 days since last Ventilator pneumonia.

Infection, Prevention and Control

All NHS boards carry out surveillance of *Staphylococcus aureus* blood stream infections (SABs), known as bacteraemias, and *Clostridium difficile* infections (CDI). These are serious forms of infection and there are national targets to reduce them.

Our provisional annual rate (data not yet validated by Health Protection Scotland (HPS)) identifies our position as 21.8, against the National annual target rate of 24.0. Our provisional annual rate for Clostridium difficile is 37.6 (not yet validated by HPS) against the National annual target rate of 32.0.

In both cases the final position will be confirmed by approximately June, following validation by Health Protection Scotland. Root cause analysis is undertaken for all applicable CDI and SAB cases using a multidisciplinary approach and included the appointment in 2015 of a data analyst for Infection Control and Prevention.

Redesigning services and modernising buildings

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 document sets out the funding requirements and highlights all the proposed capital expenditure on projects that are planned or in progress. It included service redesign projects in Badenoch and Strathspey and Skye, Lochalsh and South West Ross and modernisation of Caithness General Hospital and improved facilities for Argyll and Bute mental health inpatient services.

Other highlights during 2015/16 saw a new £1.5million health centre open in Drumnadrochit, and work on the new Children's Unit was completed in Raigmore Hospital. The new unit was achieved thanks to £2million contribution raised via the Archie Foundation.

The full business case for the upgrade of the critical care provision at Raigmore Hospital was also approved during the year. The £28 million funding for the project from the Scottish Government represents the biggest single investment in the hospital since it was built.

The Blar Mor site in Fort William was a bought by the Highland Council for a number of purposes including possible provision for a new hospital. Working with NHS Highland, Highland and Islands Enterprise, West Highland College, University of the Highlands and Islands and the Scottish Government, the Highland Council acted in an enabling role in securing this strategic £2million site for a proposed new hospital and potentially a new science academy for the West Highland College, subject to due process.

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NHS Highland has developed a master plan for the board's Inner Moray Firth area. This showed that space is being poorly used in all buildings reviewed and also set out possible options for future upgrade of Raigmore Hospital.

An ongoing review of health and adult social care services across the north coast of Sutherland has resulted in a recommendation that a single care 'hub' be built in the Kyle of Tongue area. The redesign was prompted by Highland Council funding to replace Caladh Sona, a six bedded residential care facility in Talmine, Melness, though there was wider discussions about the range and location of services across the area. If the new facility goes ahead both existing six bed units in the area (Melness and Melvich) would close. The board will consider case for change and a move to public consultation early in 2016/17.

An ambitious £500,000 green space initiative was launched in a move that will transform the grounds of the New Craigs Psychiatric Hospital in Inverness for patients, staff and visitors alike. The developments include the creation of a path around the main hospital building, a specialist dementia garden and a multi-purpose 'village green'-style hub near the centre of the site. The funding for the scheme is being provided by NHS Highland's endowments funds and the Green Exercise Partnership, which is a joint initiative involving NHS Health Scotland, Scottish Natural Heritage and Forestry Commission Scotland.

Out of hours

Current out of hour's 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.

Nursing developments

During the year the University of the Highlands and Islands (UHI) and University of Stirling established a joint project board to explore the possibility of transferring pre registration nursing training from Stirling to UHI.

Work also got underway during the year to support the revalidation of nurses and midwives. Nurses and midwives now have to be periodically revalidated to demonstrate that they practice effectively and safely.

The Highland Family Nurse Partnership scheme has been praised for leading the way in delivering and implementing high-quality health and social care in Scotland. The project was described as "high performing and forward thinking" at the Partnership's third annual review, and hailed for its successful outcomes for clients and their children.

The Family Nurse Partnership offers first-time young mums aged 19 and under valuable help and support to enable them to provide the best start for their children. It operates as a joint

partnership between NHS Highland and The Highland Council and 82 mums across Highland have recently completed the full programme.

The use of a national patient safety initiative by nursing teams has helped to reduce the incidence of pressure ulcers (bed sores) for patients at NHS Highland hospitals.

Frontline staff on wards in three hospitals across NHS Highland – Caithness General Hospital in Wick, County Community Hospital in Invergordon and Lorn and Islands Hospital in Oban – have made a significant impact on bed sore cases by using methods advocated by the Scottish Patient Safety Programme (SPSP).

By applying simple, consistent steps when caring for their patients in these hospitals, the teams ensured that patients received prompt risk assessments and that care plans and treatment 'bundles' were performed, applied and followed.

Campaigns, events and publications

2015/16 was another busy year for raising awareness across a wider range of public health initiatives including dementia, stigma, Lyme disease, bowel cancer, antibiotic awareness, breast screening, and breast feeding awareness, work out at work and beware of the chair. These campaigns were supported by events, publicity and media awareness including extensive use of social media.

We also started the preparation for our major campaign for 2016/2017 Reach out. The campaign aims to target loneliness and social isolation, which is a needless but growing problem that can have devastating effects on both mental and physical health.

Through our small communications teams we published 395 media releases on our website during 2015/16. We issued two NHS Highland Newspapers. The fist issue focussed on the Highland Health and Social Care partnership area while the second covered health and social care issues in Argyll and Bute Health. Both editions were issued to every home and business in each council area. NHS Highland publish a four page media briefing in advance of each board meeting summarising the main agenda items reflecting our significant commitment to being pro-active and open in our communications.

We were pleased to host our 2014/15 Annual Review in Wick on 7th September 2015 and welcome the positive and constructive feed-back we received from the Cabinet Secretary for Health and Wellbeing.

This year saw our director of public health focus his annual report on alcohol. While recognising that alcohol consumption is a normal part of society on the other hand there is a significant burden of harm associated with excessive alcohol intakes. While there were still some positive trends, the problem of alcohol abuse in Highland remains worrying.

We published details of some of the progress made in a three-year initiative to find new ways of delivering sustainable health and care services in remote and rural areas.

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.

Other

Following a rigorous assessment process, Highland Health and Social Care Partnership area maintained its 'Baby Friendly' status. The assessment recognises that the best practice and high quality support is being provided to mothers and babies across the Highland Council area. High standards and overcoming geographical challenges were just two aspects which were highlighted by the UNICEF Baby Friendly accreditation team who carried out the assessment in October 2015.

A new service to improve the design and delivery of service and support for armed forces veterans got underway in February. NHS Highland Veteran's First Point will be trialled in the area over the 15 months.

Key issues and risks

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

Not all our capacity across all Rural General Hospitals is being used effectively which is unsatisfactory but to address this means changing some clinical pathways. This would mean more people having to travel to Fort William and Wick, for instance for bowel screening.

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. Some of this constitutes major service change and is resource intensive, time consuming and requirement for formal public consultation.

The 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 are 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.

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.

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	639,771	639,672	99
	Non-core	23,008	23,008	0
	Capital Resource Limit			
2	Core	10,438	10,438	0
	Non-core	487	487	0
3	Cash Requirement	677,166	677,166	0

Memorandum For In Year Outturn	**£'000**
Brought forward (surplus) from previous financial year	136
Overspend against in year total Revenue Resource Limit	37

NHS Highland faced another challenging financial year in 2015/16. An important part of this was its position relative to its target funding allocation. Each territorial board in NHS Scotland is set a target percentage share of total NHS Scotland baseline funding. This target is based on the NHS Scotland Resource Allocation (NRAC) formula. NHS Highland began 2015/16 with a baseline allocation that was £6m (1.1%) below its target allocation. The Scottish Government's stated policy at that time was to bring all under-target boards to within 1% of their target baseline share by 2016/17 financial year.

A savings target of £16.1m was set as part of the revenue financial plan approved by the board in April 2015. In addition, the board experienced a series of cost pressures during the year that had to be managed down. In response to the financial challenges, two contingency plans were drawn up in October and December 2015 and these were reported to the board at every subsequent board meeting. These contingency plans were ultimately successful, with all financial targets being achieved subject to audit.

The board successfully met its savings target and also reduced its carry forward of recurring savings not met (from £5.6m at the start of 2015/16 to £3.0m at the close of 2015/16). In 2015/16 the board made a payment of £1m as the second agreed instalment to repay the £2.5m brokerage from Scottish Government Health & Social Care Directorate (SGHSCD)

received in 2013/14. The board made an adjustment in year to account for the use of a Non-Discretionary fund allocation from Scottish government of £3.4m – this allowed a change to the method of accounting for Pharmaceutical Non Discretionary Payments by the board but had no effect on achieving the final outturn position of the board.

The board's final outturn was an underspend of £99,000 on Revenue Resource Limit (equivalent to 0.01%) and a break even on Capital Resource Limit.

The outlook for 2016/17 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 1.7% and its share of £250m funding identified for Adult Social Care. However, despite these factors, the board will face a savings target of £28.8m in 2016/17 (compared with £16.1m in 2015/16). The board is awaiting exact confirmation of its NRAC position but it is estimated to be 1.33% from parity (compared with 1.1% in 2015/16) and is therefore slightly further away than the 1% target for all boards in 2016/17. At the time of writing, the board has identified £26.5m of the required £28.8m savings for 2016/17. We have submitted a Local Delivery Plan (LDP) with these figures to both the board and Scottish Government.

The savings programme is set in the context of the Care Strategy (approved by the board in August 2014) and the Ten-Year Operational Implementation (approved by the board in February 2015). The details of the Savings Plan were set out in a paper to the board in April 2016.

In August 2015 the Argyll & Bute Integrated Joint Board (IJB) was formally established, but it did not begin to manage resources until 1 April 2016. The board has made a formal offer for a delegated budget of £200.5m to the IJB, which has been accepted. In North Highland, the Lead Agency model of integration continues to be pursued. There have been some governance changes to reflect the requirements of the Public Bodies (Joint Working) (Scotland) Act but these have not had any impact on the financial arrangements around the Lead Agency.

The Delivering Financial Balance Programme Board continued during 2015/16. The role and status of the DFBPB is being reviewed as part of a wider Governance Review commissioned by the board in 2015.

Bad debt provision of £595,000 this year (prior year £369,000) 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 2015/16

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 can be found on pages 60 – 62 of the attached link.

Adult Social Care Services

In addition to the monitoring of the Local Delivery Plan and with the responsibility for the delivery of Adult Social Care Services on behalf of Highland Council, a number of key performance indicators which were identified in the Partnership Agreement are measured. Throughout 2014/15 these performance indicators were reported through a Balanced Scorecard for Adult Social Care which is reviewed and report on in the same way as the Balanced Scorecard outlined above.

However, in addition to the Improvement Committee process, the Adult Social Care Balanced Scorecard is also presented to the Adult and Children's Services Scrutiny Committee, this Committee allows Highland Council to hold NHS Highland accountable for delivery of the key measures set out in the Partnership Agreement. Work is ongoing to refine the performance management processes with Highland Council over the coming year.

A number of Improvement Groups covering areas such as Older Adults, Mental Health, Learning Disabilities and Complex Needs/Acquired Brain Injury, have been established and they are currently reviewing the performance measures within the Adult Social Care

Balanced Scorecard and seeking to identify the most appropriate measures for their particular area.

Link to Adult Social Care Balanced Scorecard (item 5.1.4)

http://www.nhshighland.scot.nhs.uk/Meetings/HHSC/Documents/2015/Combined%20HHSCC%207%20May%202015.pdf

Children's Services

NHS Highland set up the Joint Monitoring Committee for Children's Services and had its first meeting in September 2015. The role of the Committee is to commission children's services from The Highland Council and monitor the service being provided by the Council. Regular monitoring meetings have identified some weaknesses in the service provision and work is ongoing to identify areas for improvement. This includes the strengthening of the commissioning role of NHS Highland, revised reporting to the Committee and improving leadership within the Council. The review of governance arrangements within NHS Highland, including a review of the role of this Joint Monitoring Committee, has been undertaken and the Board is expected to approve changes by August 2016.

Sustainability and Environmental Reporting

Some of the key national drivers for embedding sustainability and climate change activities across NHS Highland include:

Climate Change (Scotland) Act 2009. This places a duty on public bodies to contribute to carbon emissions reductions and climate change adaptation, and to act sustainably in the exercising of its functions. For Carbon Emission Reductions we have a target of 1% for Business as Usual and have a stretch target of 2% per annum.

Climate Ready Scotland: Scottish Climate Change Adaptation Programme. This sets out Scottish Ministers' objectives in relation to adaptation to climate change. All NHSScotland Boards are required to develop individual Climate Change Adaptation Plans.

Scotland's Zero Waste Plan (2010): This sets an overall 7% reduction target for all waste by 2017, with tougher longer-term targets by 2025 of a 15% reduction in all waste, 70% recycling and no more than 5% landfill of waste. Requirements for separate collection of recyclables and food wastes, and landfill bans for specific waste streams are also set out.

The Waste (Scotland) Regulations 2012: These introduced mandatory source-segregation of recyclates (2014) and mandatory source-segregation of food waste for recovery (2016 for hospitals). The requirements were strengthened by a ban on food disposal to public drains or sewers (2016) and a ban on biodegradable municipal waste to landfill (2021). These requirements, with a focus on gaining value from recovered materials, are covered in CEL 14 (2013): NHSScotland Waste Management Action Plan (2013-2016).

The Procurement Reform (Scotland) Act 2014: This places a Sustainable Procurement Duty on contracting authorities to improve the economic, social and environmental wellbeing of the authority's area; to facilitate the involvement of small and medium size enterprises, third sector bodies and supported businesses; and to promote innovation. Public sector bodies and their suppliers will also be subject to new community benefit requirements.

The Nature Conservation (Scotland) Act 2004: This places a duty on public bodies to conserve biodiversity. For NHS Highland this means improving greenspace quality, linked to

ministerial priorities to reduce prominent healthcare conditions (heart disease, obesity, etc.) through active use of Scotland's outdoor environment including the healthcare estate.

The Wildlife and Natural Environment (Scotland) Act 2011. This requires NHS Boards to publish details of their biodiversity actions from 2015 and then every 3 years.

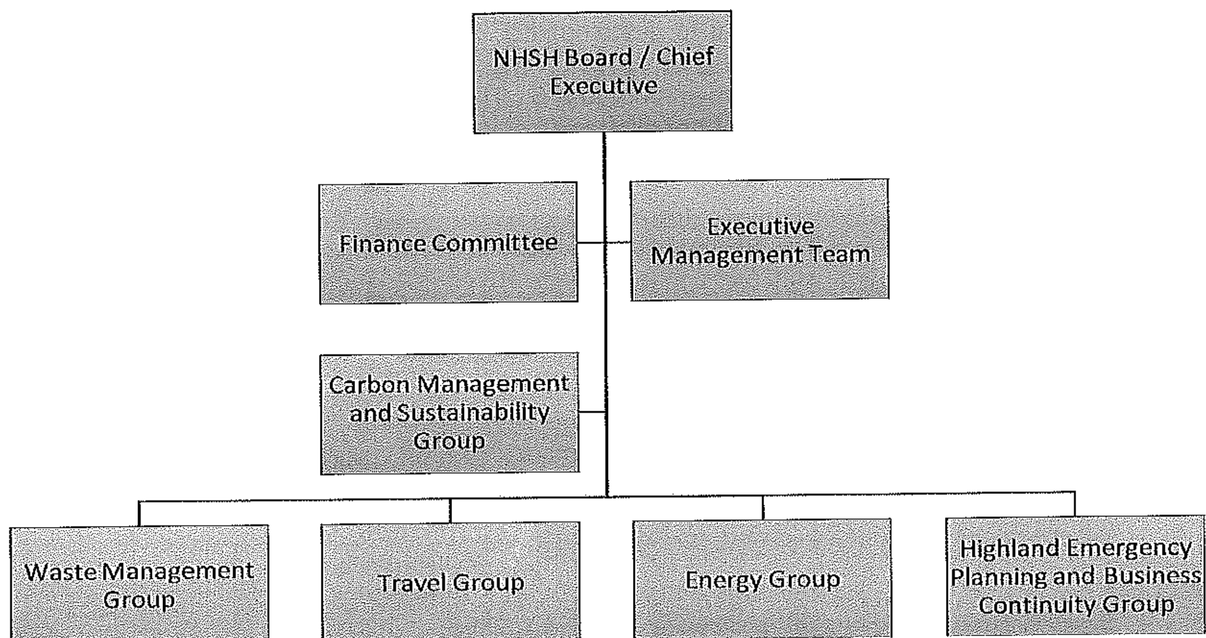
Public Bodies' Duties Climate Change Reporting. The Scottish Government has introduced mandatory climate change reporting for all 'major player' public bodies (which includes NHS Highland). A standardised template is provided and the required reporting section includes climate change governance, Greenhouse Gas (GHG) emissions, climate change adaptation and sustainable procurement. Reports are submitted to Scottish Government annually on or before 30 November.

EU Energy Performance of Buildings Directive (EPBD). This requires all public buildings in the EU over a particular size to display a valid Energy Performance Certificate (EPC). There are also requirements in relation to new-building specifications and energy inspections of building services equipment.

Scottish Building Standards and BREEAM. The Scottish Building Standards have recently been revised to improve the energy and carbon performance of new and refurbished buildings and further changes are expected at (roughly) 3-yearly intervals. Whilst the scale of new-build is small in comparison to the existing estate, this will still have a marked impact on sustainability and climate change performance.

Linked to the above, all new NHSScotland buildings over £2million must achieve a minimum BREEAM standard of 'Excellent' and refurbishments must achieve 'Very Good'.Governance of sustainability.

NHSH organisational governance proposed structure for sustainability.



NHSH recognises that effective delivery of the SDAP (Sustainability Development Action Plan) requires meaningful engagement and a robust system of governance and management

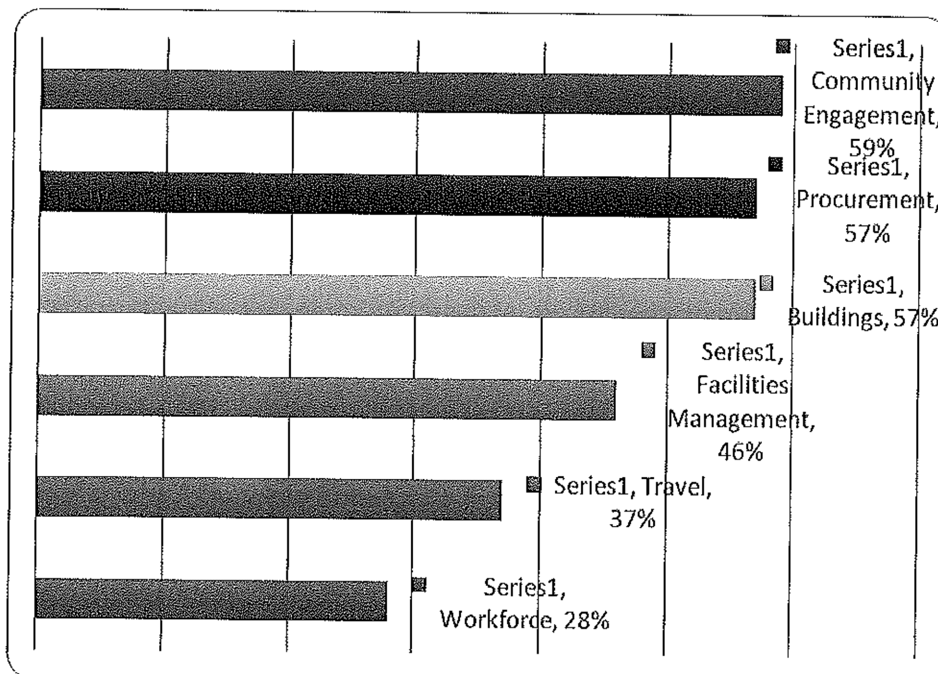
with accountability and responsibility for sustainability held at the appropriate level. The NHSH board comprises both executive and non-executive members who oversee direction and resourcing of sustainability. The Chief Executive of NHSH has overall responsibility for ensuring compliance with policy and legislation, which is an agenda item at quarterly meetings of the Executive Management Team.

The Carbon Management and Sustainability Group (CMSG) which has representation from Non Exec Director (Chair and Sustainability Champion), Head of Estates, Environmental and Sustainability Manager, Environmental and Sustainability Support Manager, Head of Procurement, Communications Officer, Employee Director, Travel and Transport Manager, Public Health and HR Manager, meets quarterly to drive and monitor progress on actions contained within the SDAP. The key areas of action include the six Good Corporate Citizen Assessment Model (GCCAM) topic areas, adaptation to climate change, climate change mitigation, sustainable procurement, biodiversity and the outdoor estate, environmental management systems (Corporate GREENCODE) and waste. A number of sub-groups will report to the CMSG including the Waste Management Group, the Travel Group, the Energy Group and Business Continuity. We are currently in the process of establishing an Energy Group and it is intended that this will be in place by the end of the 16/17 financial year.

Adapting to climate change and promoting environment sustainability requires coordinated action across the public, private, community and voluntary sectors. As a Community Planning Partner (CPP), we work with other public bodies to improve outcomes for local people. In recognition of the importance of the natural environment, the Single Outcome Agreement (SOA) between Highland CPP and the Scottish Government includes the environment as an additional seventh theme.

NHS Highland is also a Carbon CLEVER Declaration signatory. The Carbon CLEVER Declaration is made up of organisations from across the public, private and voluntary sectors that have made a commitment to take action to reduce the carbon emissions from their organisations and to work with other signatories and share information to promote good practice.

As part of our ongoing commitment to sustainability, NHSH completed its Good Corporate Citizen Assessment in April 2015 and achieved an average score of 47.3%. A breakdown by key area for each assessment is shown in Figure 3. This year's assessment indicates NHSH is making good progress in most but not all areas.



Projects
Major new projects include Badenoch and Strathspey Hospital, Skye and Lochalsh Hospital, Lochgilphead Mental Health Unit, and these will be BREEAM assessed. We are aiming for excellent and discussing any derogation with Health Facilities Scotland if this cannot be achieved. All future building designs will comply with carbon management criteria specifically the Building Research Establishment Environmental Assessment Method (BREEAM) for healthcare settings, targeting an excellent rating for new build and a very good rating for refurbishment.

Proposed projects 2016/17
Meter downsizing of 10 sites throughout estate with projected savings over 3 years £150,000 plus associated carbon saving.

Installation of IT software/monitoring/shutdown automated programme – board wide – projected savings £150,000 plus associated carbon saving.

Reusable sharps project, projected savings £40,000 plus associated carbon savings.

Review of reimbursement costs to GPs and dental practices under the primary medical services directions projected savings £50,000.

Reclassification of Raigmore accommodation for VAT savings £40,000 with a possible back dating for additional savings.

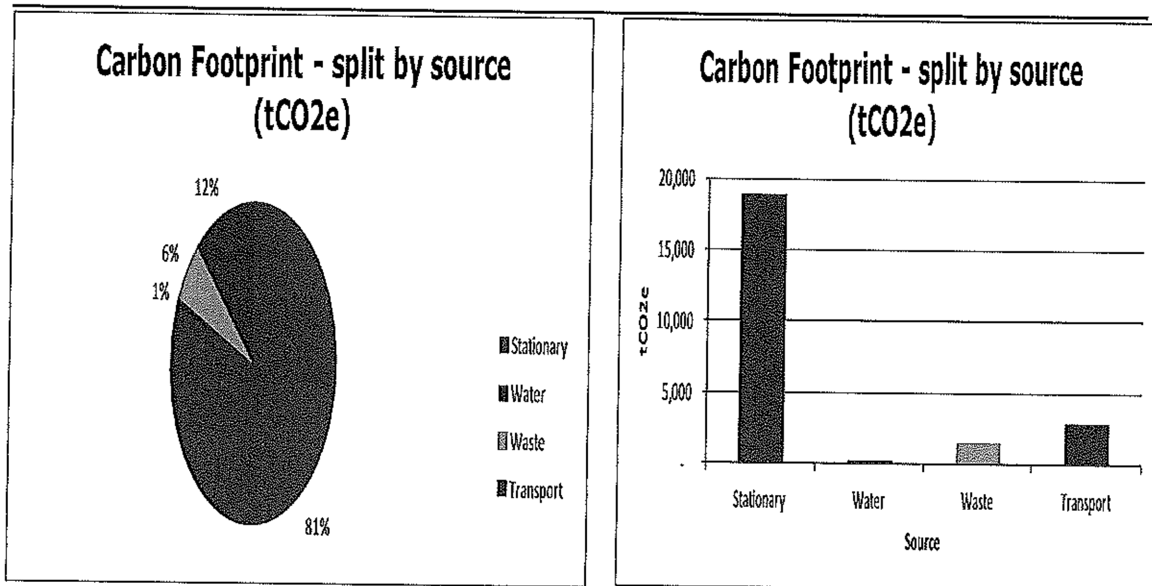
National energy efficiency campaign (centrally funded by HFS – projected savings per board - £50,000.

WARPIT – furniture/equipment/stationary/software – centrally funded for two years by HFS, current cost avoidance £15,000, projected savings over 2 years £60,000.

Climate change mitigation
The scope of the carbon footprint for NHSH for 2015/16 includes GHG emissions from stationary sources (grid electricity, natural gas, LPG, purchased heat and steam, fuel oil, gas oil and kerosene in all buildings), water consumption and treatment in all buildings, waste (total waste to landfill, paper, cardboard, plastics, metal and glass recycling, dry mixed recyclates and clinical waste), and transport (fuel from staff business mileage together with leased and owned operational vehicles). The overall carbon footprint for 2015/16 was 23,422 tonnes and a breakdown of emissions by source is shown in Figures below.

The NHSH Carbon Management Plan will be reviewed and updated and revised emissions reduction targets will be established for all components of the carbon footprint.

Highland Health Board



The total emissions from stationary sources in 2015/16 were 18,931 tonnes of carbon dioxide equivalent (CO_2e) or 81% of the overall footprint, emissions from water consumption and treatment was 192t CO_2e or 1%, waste was 1,435 CO_2e or 6% and transport was 2,865 tCO_2e or 12%.

Performance summary 2015/16
We have yet to set target data for carbon and energy consumption and spend.

Additional energy costs
Carbon Reduction Commitment – the purchase of 17,351 allowances @ £17.20 totalling £298.437 relating to electricity and gas for sites 250m2 and above.

By order of the Board

27th JUNE 2016 Elaine Mead Chief Executive

B THE ACCOUNTABILITY REPORT

CORPORATE GOVERNANCE REPORT

The Directors Report

The Directors present their report and the audited financial statements for the year ended 31 March 2016.

Date of Issue
Financial statements were approved by the Board and authorised for issue on 27 June 2016.

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 2013/14 to 2015/16 the Auditor General appointed Stephen Boyle, Assistant Director – Audit Services Audit Scotland 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.

Garry Coutts, Chair

Sarah Wedgwood, Vice Chair

Elaine Wilkinson, Non Executive Member

Robin Creelman, Non-Executive Member

David Alston, Non Executive Member

Michael Evans, Non-Executive Member

Dr Andrew Evennett, Non-Executive Member

Ann Pascoe, Non-Executive Member

Graham Crerar, Non-Executive Member

Melanie Newdick, Non-Executive Member

John McAlpine, Non-Executive Member

Alasdair Lawton, Non Executive Member

Adam Palmer, Non-Executive Member, Employee Director

Dr Michael Foxley, Non-Executive Member

Myra Duncan, Non-Executive Member

Highland Health Board

Elaine Mead, Chief Executive

Nick Kenton, Director of Finance

Dr Rod Harvey, Medical Director

Heidi May, Nurse Director

Anne Gent, Director of Human Resource

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

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:

Dr David Alston	University of Highlands and Islands
Garry Coutts	University of Highlands and Islands
Myra Duncan	Scottish Government Joint Improvement Team, Highland Hospice
Mike Evans	ILM Highland
Dr Andrew Evennett	Nairn Healthcare Group
Dr Michael E M Foxley	University of Highlands and Islands
Melanie Newdick	Cantraybridge College, Scottish Dementia Working Group, Carers Forum, Food & Behaviour Scotland
Adam Palmer	UNISON
Ann Pascoe	A Carer's Voice, Dementia Friendly Communities UK, Life Changes Trust, Living it Up.

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.

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.

Remuneration for non audit work

Our external auditors, Audit Scotland, 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 fair 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 during 2015/16 one data related incident that required to be reported to the Information Commissioner (this was reported in April 2016). The incident related to the information contained within a Significant Adverse Event Review (SAER) being leaked to the local press.

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.

	2015/16	2014/15
Average period of credit taken	12 days	10 days
Percentage of invoices paid within 30 days:		
- by volume	91.28%	93.65%
- by value	93.38%	95.25%
Percentage of invoices paid within 10 days:		
- by volume	80.05%	84.24%
- by value	84.18%	87.31%

In 2015-16 the average number of days to pay an invoice increased to 12 days. This occurred following a period of significant change in working practices and a review of the financial services staffing structure. This has had an impact on the performance of the Accounts Payable section but it is now better equipped to work more efficiently and deal more effectively with periods of vacancy and absence. It is anticipated that these changes will now result in a significant improvement in the key performance indicators of the section.

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.

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

Financial Instruments
Information in respect of the financial risk management objectives and policies of the Board and the exposure of the Board to price risk, credit risk, liquidity risk and cash flow risk is disclosed in note 26.

NHS HIGHLAND

ANNUAL ACCOUNTS 2015/16

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTABLE OFFICER OF THE HEALTH BOARD

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.

NHS HIGHLAND

ANNUAL ACCOUNTS 2015/16

STATEMENT OF HEALTH BOARD MEMBERS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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 2016 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.

Highland Health Board

GOVERNANCE STATEMENT 2015/16

Scope of Responsibility

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

Purpose of Internal Control

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

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

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

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

NHS Endowments

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

Governance Framework

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

The Board's key planned outcomes for 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 Improvement Committee which provides assurance to the Board that the operational units are on track to deliver the key objectives and includes financial breakeven across NHS 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 ongoing and plans to conclude by August 2016.

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. The Integrated Joint Board (IJB) for Argyll & Bute was formally established on 18 August 2015. Internal Audit undertook a review entitled 'Integration Assurance: Argyll & Bute Due Diligence & Governance arrangements', which was reported to the Audit Committee in December 2015 and gave assurance that all arrangements were in place for the financial requirements to set up the IJB.. The IJB assumed responsibility for managing resources on 1 April 2016, following the approval of its Strategic Plan.

During 15/16 we significantly improved our financial reporting to the board with expanded and simplified narrative, more detail of type of expenditure and key assumptions with clear reporting of financial risks excluded from the forecast. These changes drew positive comments from both internal and external audit. Although the overall outturn for the board for 2015/16 was a modest surplus, Raigmore Hospital ended the year with a deficit of £5.3m. Whilst this was an improvement on the £6.9m recorded in 2014/15, it fell short of the £3m target agreed as part of its three year recovery plan. Towards the end of 2015/16 Raigmore began working more closely with the South &Mid Highland Unit and this became a formal merger during September 2015. Formally integrating acute services with community services (including primary care and adult social care) presents significant opportunities to improve the quality of services for our population, which in turn will reduce costs. The Quality & Finance Plan for 2016/17 for the Inner Moray Firth Operational Unit includes significant savings targets relating to both Transforming Outpatients and reducing length of stay.

In June 2015 NHS Highland confirmed that recovery projects had delivered a TrakCare Patient Management System (PMS) that works across all NHS Highland sites and the Improvement Committee agreed that updates were no longer required. Work progresses on implementing new services onto the TrakCare PMS, with the recent addition of the Physiotherapy and Podiatry services as well as the introduction of some clinical functionality.

The TrakCare PMS system is overseen by a PMS Management Group and new developments are managed via the PMS Programme Board. One of these developments includes the production of reports to assist with compliance with the Public Records Act for records management. An action plan is being prepared and agreed at the Information Assurance Committee in June 2016 that will facilitate this.

As part of the continuing process of completing Consultant job plans, a further 20% of job plans have been agreed in 2015/16 and the overall plans completed is now over 60%. Further work is being undertaken in 2016/17 to complete all job plans in line with Service Delivery plans.

During the year, NHS Highland has been assessing the levels of training provided to staff. It was acknowledged that the recording and tracking, of the training provided, is an issue and this has been referred to the Staff Governance Committee to resolve. Further follow-up work is ongoing and during 2016/17 plans to improve this situation are in place.

NHS Highland receives many Freedom of Information requests and is required to reply to these within a 20 working day deadline. During periods, especially around the turn of the year, that target was breached due to limited availability of resource. However, all requestors received a response and if requestors are unhappy they are able to refer this to the Scottish Information Commissioner (SIC) – there were no referrals to the SIC in 2015/16. This issue has been recognised and resources are now in place to manage this situation more closely during 2016/17.

It was highlighted in an Internal Audit report during 2015/16 that controls over access to systems were not fully in place. Management actions to correct this situation have been agreed and will be actioned during 2016/17.

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 Board approved a revised Risk Management Policy in April 2015. The governance of risk management is the responsibility of the Audit Committee but the day to day management of risk is an operational responsibility of the Senior Management Team. Risks to the achievement of key objectives are reported to the Improvement Committee, which will require corrective action to be taken. The Highland Health & Social Care Partnership and the Argyll & Bute Community Health Partnership will also receive assurance in relation to the management of key risks.

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 Strategy is subject to on-going review currently.

Disclosures

Other than the ongoing work identified above, the only significant disclosure in 2015/16 is:

Treatment Time Guarantee
During 2015/16, NHS Highland received additional 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. The NHS Highland TTG recovery plan was formally approved by the National Access Support Team within the SGHSCD in early 2015 and was subject to a number of revisions to the trajectory during the year as it became clear that there were in year challenges which compromised the original planning assumptions. The reasons for this included unexpected ward closures as part of infection control measures, the inability to recruit to Consultant vacancies in key specialities and Consultant sickness. There was also a significant reduction in the ability to commission additional Orthopaedic activity gap whilst Consultant job plans were agreed with the department. By year end the number of TTG breaching 12 weeks had patients reduced by 120 in comparison with the previous year only one specialty (Orthopaedics) with a significantly large number of breaching patients. Discussion is ongoing with Scottish Government around 2016/17 the availability of funding to continue to reduce the number of patients breaching the national TTG targets by March 2017, reducing and maintaining waiting times in all specialties.

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) 2015/02).

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

Garry Coutts, Chair
Sarah Wedgwood, Non Executive Director
Myra Duncan, 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 2015/2016.

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

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

Remuneration Report for the year ended 31 March 2016

	Gross Salary (Bands of £5,000) 2015-16	Benefits in Kind (£'000) 2015-16	Total Earnings in Year (Bands of £5,000) 2015-16	Pension benefits (£'000) 2015-16	Total Remuneration (Bands of £5,000) 2015-16	Accrued pension at pensionable age as at 31 Mar 15 (bands of £5,000)	Real increase in pension at pensionable age (bands of £2,500)	Total accrued lump sum at pensionable age (bands of £5,000)	Real increase in lump sum at pensionable age (bands of £2,500)	Cash Equivalent Transfer Value (CETV) at 31 Mar 16 £000	Cash Equivalent Transfer Value (CETV) at 31 Mar 15 £000	Real increase in CETV in year £000
Executive Members												
Chief Executive: Elaine Mead	125 - 130	2.8	125 - 130	99	225 -230	40 - 45	5 - 7.5	130 - 135	15 - 17.5	914	784	111
Director of Finance: Nick Kenton	90 - 95		90 - 95	77	170 - 175	30 - 35	2.5 - 5	N/A	N/A	605	520	72
Medical Director: Roderick Harvey	180 - 185		180 - 185	82	265 - 270	70 - 75	2.5 - 5	215 - 220	12.5 - 15	1,636	1,488	124
Nursing Director: Heidi May	85 - 90		80 - 85	35	120 - 125	10 - 15	0 - 2.5	35 - 40	5 - 7.5	226	183	31
Director of Human Resources: Anne Gent	100 - 105		100 - 105	98	195 - 200	40 - 45	2.5 - 5	130 - 135	12.5 - 15	1,019	882	123
Non Executive Members												
The Chair: Garry Coutts	25 - 30	1.7	30 - 35		30 - 35							
Adam Palmer *	40 - 45		40 - 45	7	50 - 55	10 - 15	0 - 2.5	35 - 40	0 - 2.5	259	243	13
David Alston	5 - 10	0.8	5 - 10		5 - 10							
Robin Creelman	10 - 15	3.3	15 - 20		15 - 20							
John Crerar	5 - 10	2.8	10 - 15		10 - 15							
Myra Duncan	10 - 15	1.7	15 - 20		15 - 20							
Michael Evans	5 - 10		5 - 10		5 - 10							
Andrew Evennett	5 - 10		5 - 10		5 - 10							
Michael Foxley	5 - 10	1.3	5 - 10		5 - 10							
Alasdair Lawton	5 - 10		5 - 10		5 - 10							
John Mcalpine	5 - 10	1.3	5 - 10		5 - 10							
Melanie Newdick	5 - 10	1.0	5 - 10		5 - 10							
Ann Pascoe	5 - 10	2.8	10 - 15		10 - 15							
Sarah Wedgwood	10 - 15	3.6	15 - 20		15 - 20							
Elaine Wilkinson	5 - 10	1.9	10 - 15		10 - 15							
Senior Employees												
Director of Adult Care: Jan Baird	40 - 45		40 - 45		40 - 45							
Head of Service Planning:Margaret Brown	65 - 70		65 - 70	31	95 - 100	15 - 20	0 - 2.5	45 - 50	5 - 7.5	333	290	34
Director of Quality Improvement: Linda Kirkland	80 - 85		80 - 85	74	150 - 155	20 - 25	2.5 - 5	70 - 75	10 - 12.5	488	400	77
Board Secretary: Kenneth Oliver**	50 - 55		50 - 55	44	95 - 100	15 - 20	0 - 2.5	N/A	N/A	292	251	36
Head of Public Relations & Engagement: Maimie Thompson	45 - 50		45 - 50	24	70 - 75	5 - 10	0 - 2.5	20 - 25	2.5 - 5	153	126	22
Chief Operating Officer: Deborah Jones	110 - 115		110 - 115	68	180 - 185	35 - 40	2.5 - 5	105 -110	10 - 12.5	690	604	70
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

** Board Secretary role held until 08 September 2015

Remuneration Report for the year ended 31 March 2015

	Gross Salary (Bands of £5,000)	Benefits in Kind (£)	Total Earnings in Year (Bands of £5,000)	Pension benefits (£'000)	Total Remuneration (Bands of £5,000)	Accrued pension at pensionable age as at 31 Mar 15 (bands of £5,000)	Real increase in pension at pensionable age (bands of £2,500)	Total accrued lump sum at pensionable age (bands of £5,000)	Real increase in lump sum at pensionable age (bands of £2,500)	Cash Equivalent Transfer Value (CETV) at 31 Mar 15 £000	Cash Equivalent Transfer Value (CETV) at 31 Mar 14 £000	Real Increase in CETV in year £000
	2014-15	2014-15	2014-15	2014-15	2014-15							
Executive Members												
Chief Executive: Elaine Mead	120 - 125	2,400	120 - 125	8	130 - 135	35 - 40	0 - 2500	115 - 120	2500 - 5000	776	733	26
Director of Finance: Nick Kenton	90 - 95	0	90 - 95	5	95 - 100	30 - 35	0 - 2500	90 - 95	0 - 2500	515	488	15
Director of Public Health: Margaret Somerville (to 31/10/2014)	70 - 75	0	70 - 75									
Medical Director: Ian Bashford (to 20/06/2014)	30 - 35	0	30 - 35									
Interim Medical Director: Roderick Harvey (wef 01/09/2014)	90 - 95	0	90 - 95	8	100 - 105	65 - 70	0 - 2500	200 - 205	5000 - 7500	1473	1391	48
Nursing Director: Heidi May	85 - 90	200	85 - 90	10	95 - 100	10 - 15	0 - 2500	30 - 35	2500 - 5000	181	160	10
Director of Human Resources: Anne Gent	95 - 100	1,800	95 - 100	4	100 - 105	35 - 40	0 - 2500	115 - 120	0 - 2500	873	832	28
Non Executive Members												
The Chair: Garry Coutts	25 - 30	1,300	30 - 35		30 - 35							
Adam Palmer *	40 - 45	0	40 - 45	6	45 - 50	10 - 15	0 - 2500	35 - 40	0 - 2500	241	227	11
David Alston	Salary Waived	100	0 - 5		0 - 5							
Robin Creelman	10 - 15	1,800	15 - 20		15 - 20							
John Crerar	5 - 10	1,500	5 - 10		5 - 10							
Myra Duncan	10 - 15	2,200	15 - 20		15 - 20							
Michael Evans	5 - 10	0	5 - 10		5 - 10							
Andrew Evennett (wef 01/12/2014)	0 - 5	0	0 - 5		0 - 5							
Michael Foxley	5 - 10	700	5 - 10		5 - 10							
Iain Kennedy (to 30/09/2014)	0 - 5	0	0 - 5		0 - 5							
Alasdair Lawton	5 - 10	0	5 - 10		5 - 10							
Rhona Macdonald (to 30/06/2014)	0 - 5	100	0 - 5		0 - 5							
John Mcalpine	5 - 10	1,200	5 - 10		5 - 10							
Gillian Mccreath (to 31/01/2015)	5 - 10	0	5 - 10		5 - 10							
Melanie Newdick (wef 01/02/2015)	0 - 5	100	0 - 5		0 - 5							
Ann Pascoe (wef 01/02/2015)	0 - 5	0	0 - 5		0 - 5							
Sarah Wedgwood	10 - 15	2,900	15 - 20		15 - 20							
Elaine Wilkinson	5 - 10	1,400	5 - 10		5 - 10							
Senior Employees												
Director of Adult Care: Jan Baird	35 - 40	0	35 - 40		35 - 40							
Head of Service Planning: Margaret Brown	65 - 70	0	65 - 70	12	80 - 85	10 - 15	0 - 2500	40 - 45	2500 - 5000	287	263	16
Director of Quality Improvement: Linda Kirkland	70 - 75	0	70 - 75	34	105 - 110	15 - 20	0 - 2500	55 - 60	5000 - 7500	396	348	38
Board Secretary: Kenneth Oliver	50 - 55	0	50 - 55	3	50 - 55	15 - 20	0 - 2500	45 - 50	0 - 2500	249	236	7
Head of Public Relations & Engagement: Maimie Thompson	45 - 50	0	45 - 50	7	50 - 55	5 - 10	0 - 2500	20 - 25	0 - 2500	125	113	8
Chief Operating Officer: Deborah Jones	110 - 115	0	110 - 115	8	115 - 120	30 - 35	0 - 2500	95 - 100	2500 - 5000	598	564	19
Director of Public Health & Health Policy: Hugo Van Woerden (wef 01/02/2015)	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 30,000 - 35,000 in respect of other duties

Highland Health Board

2015-16		2014-15	
Highest Earning Director's Total Remuneration (£000s)	180 - 185	Highest Earning Director's Total Remuneration (£000s)	120-125
Median Total Remuneration	26,126	Median Total Remuneration	23,163
Ratio	7.05	Ratio	5.20

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

The definition of Senior Staff is that which is applied to Senior Employees in the Remuneration Report. This information is provided by headcount.

	2016	2015
Band (bands of £5,000)	**Number of Staff**	**Number of Staff**
0 - 5		5
5 - 10	10	7
10- 15	3	3
25 - 30	1	1
30 - 35		1
35 - 40		1
40 - 45	2	1
45 - 50	1	1
50 - 55	1	1
65 - 70	1	1
70 - 75		2
80 - 85	1	
85 - 90	1	1
90 - 95	1	2
95 - 100		1
100 - 105	1	
110- 115	1	1
120 – 125		1
125 - 130	1	
180 - 185	1	

b) Staff Numbers – Boards should provide analysis of staff numbers distinguishing between:

- Staff with a permanent employment contract;
- Other staff engaged on the objectives of the Board (for example, short term contract staff, agency / temporary staff and inward secondments where the Board is paying the whole or the majority of their costs). Where the number of staff under any one particular category of 'other staff' is significant that category should be separately disclosed;

  Special Advisers - Scottish Government Special Advisers are as defined at the following link: http://www.gov.scot/About/People/14944/Special-Advisers

Highland Health Board

STAFF NUMBERS	Wte	Wte		Headcount	Headcount
	2016	2015		2016	2015
	Annual Mean	Annual Mean		Annual Mean	Annual Mean
Administration Costs	62.7	63.1		74	74
Hospital & Community Services	8,474.7	8,432.3		9,970	9,912
Non Clinical Services	95.4	94.7		112	111
Board Total Average Staff	**8,632.8**	**8,590.1**		**10,156**	**10,097**
Permanent Staff	8,117.0	8,089.1		9,635	9,558
Staff with Short Term Contract	424.7	443.8		521	539
Inward Secondees	1.6	2.5			
Agency Staff	115.2	83.3			
Outward Secondees	(25.7)	(26.6)			
Board Total Average Staff	**8,632.8**	**8,590.1**		**10,156**	**10,097**
Disabled Staff	107.0	118.0		107.0	118.0
Special Advisers					
The total number of staff engaged directly on capital projects, included in Staff Numbers above and charged to capital expenditure was:	5.0	2.7		24	19

The headcount data is held at staff type and the figures presented above have been calculated in relation to wte values. Headcount does not include Agency Staff and Inward Secondees as this level of data cannot be separately identified by the finance and HR information systems.

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

	2016			2015		
	Male	Female	Total	Male	Female	Total
Executive Directors	2	3	5	2	3	5
Non-Executive Directors and Employee Director	10	5	15	10	5	15
Senior Employees	2	5	7	2	5	7
Other	1,756	8,373	10,129	1,756	8,314	10,070
Total Headcount	1,770	8,386	10,156	1,770	8,327	10,097

d) Sickness absence data

	2016	2015
Sickness Absence Rate	5.09%	4.91%

e) 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 continues to have been awarded the 'two tick' disability symbol by Job Centre Plus;

- 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 the 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
All staff experiencing long term conditions including mental ill-health are supported in the work place through the application of reasonable adjustments where practicable;	Disability
NHS Highland's recruitment and selection processes will be fair, inclusive and transparent;	All
All staff will be treated with dignity and respect by colleagues, patients and others;	All
Consider what actions NHS Highland will need to put in place to support the extension of the working life of staff;	Age

f) Expenditure on consultancy

click here for the link to where the details required by the Public Services (Scotland) Reform Act 2010 are published.

	2016	2015
	£	£
External Consultancy	1,514,040	1,139,121

g) Following the Review of Tax Arrangements of Public Sector Appointees published by the Chief Secretary to the Treasury on 23 May 2012, NHS Boards are required to publish information on their highly paid and/or senior off-payroll engagements. In line with the background and the purpose of this disclosure, such engagements are defined in these accounts as individuals who would, if employed directly, come within the scope of Senior Employees in the Remuneration Report. This note excludes individuals engaged on a secondment basis or employed by agencies. The costs associated with these individuals are disclosed in these accounts within staff costs (note 2).

EXIT PACKAGES – CURRENT 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

EXIT PACKAGES – PRIOR YEAR – none to disclose

Signed: Elaine Mead

Date: 27th June 2016

Chief Executive

Highland Health Board

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

I have audited the financial statements of Highland Health Board and its group for the year ended 31 March 2016 under the National Health Service (Scotland) Act 1978. The financial statements comprise the Statement of Consolidated Comprehensive Net Expenditure, the Consolidated Balance Sheet, the Statement of Consolidated Cash Flows, the Consolidated Statement of Changes in Taxpayers' Equity and the related notes. 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 2015/16 Government Financial Reporting Manual (the 2015/16 FReM).

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 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Chief Executive's Responsibilities as the Accountable Officer of the Health Board, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

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. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I 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 me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the 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 2016 and of their net operating cost 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 2015/16 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.

Highland Health Board

Opinion on regularity

In my 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.

Opinion on other prescribed matters

In my opinion:

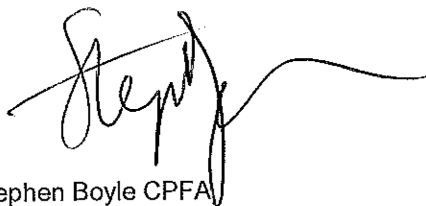
- the part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.



Stephen Boyle CPFA
Assistant Director (Audit Services)
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
GlasgowG2 1BT

27June 2016

Highland Health Board

STATEMENT OF CONSOLIDATED COMPREHENSIVE NET EXPENDITURE
for the year ended 31 March 2016

2015 £'000		Note	Consolidated 2016 £'000	2016 £'000
	Clinical Services Costs			
616,773	Hospital and Community	4	648,696	
129,999	Less: Hospital and Community Income	8	132,671	
486,774				516,025
163,583	Family Health	5	168,408	
4,271	Less: Family Health Income	8	4,989	
159,312				163,419
646,086	**Total Clinical Services Costs**			**679,444**
4,777	Administration Costs	6	4,853	
74	Less: Administration Income	8	9	
4,703				4,844
14,526	Other Non Clinical Services	7	22,368	
15,226	Less: Other Operating Income	8	17,785	
(700)				4,583
650,089	**Net Operating Costs**	SOCTE		**688,871**
	OTHER COMPREHENSIVE NET EXPENDITURE			
(7,710)	Net (gain) on revaluation of Property Plant and Equipment			(4,014)
3,315	Actuarial change in Local Government Pension			4,010
(4,395)	Other Comprehensive Expenditure			(4)
645,694	**Total Comprehensive Expenditure**			**688,867**

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 2016		**2016 £'000**
Net Operating Costs		**688,871**
Total Non Core Expenditure (see below)		(23,008)
FHS Non Discretionary Allocation		(26,644)
Donated Asset Income		1,495
Endowment Net Operating Costs		(1,042)
Total Core Expenditure		**639,672**
Core Revenue Resource Limit		639,771
Saving against Core Revenue Resource Limit		**99**
SUMMARY OF NON CORE REVENUE RESOURCE OUTTURN		
Depreciation/Amortisation	12,587	
Annually Managed Expenditure - Impairments	158	
Annually Managed Expenditure – Creation of Provisions	2,196	
Annually Managed Expenditure – Depreciation of Donated Assets	152	
Additional SGHSCD non-core funding	3,489	
AME – Pension Valuation	3,830	
IFRS PFI Expenditure	596	
Total Non Core Expenditure		**23,008**
Non Core Revenue Resource Limit		23,008
Saving against Non Core Revenue Resource Limit		**0**

SUMMARY RESOURCE OUTTURN	**Resource**	**Expenditure**	**Saving**
	£'000	**£'000**	**£'000**
Core	639,771	639,672	99
Non Core	23,008	23,008	0
Total	**662,779**	**662,680**	**99**

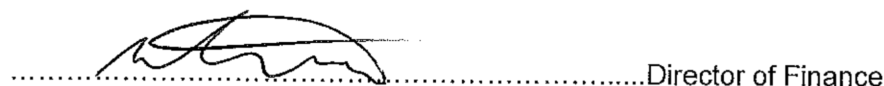
The Notes to the Accounts, numbered 1 to 31, form an integral part of these Accounts.

Highland Health Board

CONSOLIDATED BALANCE SHEET as at 31 March 2016

Consolidated 2015 £'000	Board 2015 £'000		Note	Consolidated 2016 £'000	Board 2016 £'000
		Non-current assets:			
324,954	324,954	Property, plant and equipment	11	327,242	327,242
1,719	1,719	Intangible assets	10	2,371	2,371
		Financial assets:			
7,812	123	Available for sale financial assets	14	7,934	121
6,352	6,352	Trade and other receivables	13	6,206	6,206
340,837	**333,148**	**Total non-current assets**		**343,753**	**335,940**
		Current Assets:			
5,409	5,409	Inventories	12	5,814	5,814
		Financial assets:			
48,275	48,429	Trade and other receivables	13	55,498	57,160
1,707	158	Cash and cash equivalents	15	1,900	191
55,391	**53,996**	**Total current assets**		**63,212**	**63,165**
396,228	**387,144**	**Total assets**		**406,965**	**399,105**
		Current liabilities:			
(22,521)	(22,521)	Provisions	17	(19,783)	(19,783)
		Financial liabilities:			
(63,824)	(63,806)	Trade and other payables	16	(72,430)	(72,399)
(86,345)	**(86,327)**	**Total current liabilities**		**(92,213)**	**(92,182)**
309,883	**300,817**	**Non-current assets plus/less net current assets/liabilities**		**314,752**	**306,923**
		Non-current liabilities			
(9,644)	(9,644)	Provisions	17	(20,108)	(20,108)
		Financial liabilities:			
(43,138)	(43,138)	Trade and other payables	16	(37,622)	(37,622)
(52,782)	**(52,782)**	**Total non-current liabilities**		**(57,730)**	**(57,730)**
257,101	**248,035**	**Total Assets less liabilities**		**257,022**	**249,193**
2015 £'000	**2015 £'000**		**Note**	**2016 £'000**	**2016 £'000**
146,902	146,902	General fund	SOCTE	138,904	138,904
99,764	99,764	Revaluation reserve	SOCTE	101,080	101,080
1,369	1,369	Other reserves	SOCTE	9,209	9,209
9,066	0	Fund held on trust	SOCTE	7,829	0
257,101	**248,035**	**Total taxpayers' equity**		**257,022**	**249,193**

Adopted by the Board on ......27th JUNE......2016



..........................Director of Finance

Elaine Mead..........................Chief Executive

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

Highland Health Board

STATEMENT OF CONSOLIDATED CASH FLOWS
for the year ended 31 March 2016

2015 £'000		Note	2016 £'000	2016 £'000
	Cash flows from operating activities			
(650,089)	Net operating cost	SOCNE	(688,871)	
13,597	Adjustments for non-cash transactions	3	20,069	
3,448	Add back: interest payable recognised in net operating cost	3	3,036	
(6)	Deduct: interest receivable recognised in net operating cost	3	(14)	
4,036	(Increase)/Decrease in trade and other receivables	18	(7,078)	
4	Decrease/(Increase) in inventories	18	(405)	
6,349	Increase in trade and other payables	18	4,271	
(10,448)	Increase/(Decrease) in provisions	18	7,726	
(633,109)	**Net cash outflow from operating activities**	31c		**(661,266)**
	Cash flows from investing activities			
(15,017)	Purchase of property, plant and equipment		(9,989)	
(1,520)	Purchase of intangible assets		(1,126)	
(504)	Investment Additions	14	(1,376)	
109	Proceeds of disposal of property, plant and equipment		106	
1	Proceeds of disposal of intangible assets			
1,194	Receipts from sale of investments		1,059	
6	Interest received		14	
(15,731)	**Net cash outflow from investing activities**	31c		**(11,312)**
	Cash flows from financing activities			
649,961	Funding	SOCTE	677,133	
3	Movement in general fund working capital	SOCTE	33	
649,964	Cash drawn down		677,166	
2,908	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts		(1,360)	
(278)	Interest paid	3	84	
(3,170)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	3	(3,120)	
649,424	**Net Financing**	31c		**672,770**
584	**Net Increase in cash and cash equivalents in the period**			193
1,123	**Cash and cash equivalents at the beginning of the period**			1,707
1,707	**Cash and cash equivalents at the end of the period**			**1,900**
	Reconciliation of net cash flow to movement in net debt/cash			
584	Increase in cash in year			193
1,123	Net debt at 1 April	15		1,707
1,707	**Net cash at 31 March**	15		**1,900**

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 2016

	Note	General Fund	Revaluation Reserve	Other Reserve	Funds Held on Trust	Total Reserves
		£'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	11a		(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	**139,904**	**101,080**	**9,209**	**7,829**	**257,022**

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

STATEMENT OF CHANGES IN TAXPAYERS' EQUITY – PRIOR YEAR

	Note	General Fund £'000	Revaluation Reserve £'000	Other Reserve £'000	Funds Held on Trust	Total Reserves £'000
Balance at 31 March 2014		**144,594**	**94,437**	**1,427**	**8,740**	**249,198**
Changes in taxpayers' equity for 2014/15						
Net gain on revaluation/indexation of property, plant and equipment	11		7,710			7,710
Net gain on revaluation of available for sale financial assets	14				379	379
Impairment of property, plant and equipment	11		(453)			(453)
Revaluation & impairments taken to operating costs	3		453			453
Transfers between reserves		2,383	(2,383)			0
Other non cash costs (movement in year ASC pension costs)				(58)		(58)
Net operating cost for the year		(650,036)			(53)	(650,089)
Total recognised income and expense for 2014/15		(647,653)	5,327	(58)	326	(642,058)
Funding:						
Drawn down		649,964				649,964
Movement in General Fund (Creditor)	cfs	(3)				(3)
Balance at 31 March 2015	BS	**146,902**	**99,764**	**1,369**	**9,066**	**257,101**

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 2015-16.

There are no new standards, amendments or interpretations effective for the first time in 2015-16.

(b) Standards, amendments and interpretation early adopted in 2015-16.

There are no new standards, amendments or interpretations early adopted in 2015-16.

2. Basis of Consolidation

In accordance with IAS 27 – Consolidated and Separate 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.

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 2016

2. (a) STAFF NUMBERS AND COSTS

	Executive Board Members	Non Executive Members	Permanent Staff	Inward Secondees	Other Staff	Outward Secondees	2016 Total	2015 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
STAFF COSTS								
Salaries and wages	589	159	278,169			(1,199)	277,718	269,503
Social security costs	72	8	20,933			(117)	20,896	20,708
NHS scheme employers' costs	86		38,126			(173)	38,039	34,313
Other employers' pension costs			6,866				6,866	6,997
Inward secondees				64			64	108
Agency staff					15,509		15,509	9,859
TOTAL	**747**	**167**	**344,094**	**64**	**15,509**	**(1,489)**	**359,092**	**341,488**
Included in the total Staff Costs above were costs of staff engaged directly on capital projects, charged to capital expenditure of:							221	128

Highland Health Board

NOTES TO THE ACCOUNTS
for the year ended 31 March 2015

2. (b) HIGHER PAID EMPLOYEES REMUNERATION

	2016 Number	**2015 Number**
Other employees whose remuneration fell within the following ranges:		
Clinicians		
£ 50,001 to £60,000	143	131
£ 60,001 to £70,000	56	66
£ 70,001 to £80,000	44	48
£ 80,001 to £90,000	40	48
£ 90,001 to £100,000	28	28
£100,001 to £110,000	36	34
£110,001 to £120,000	24	27
£120,001 to £130,000	22	20
£130,001 to £140,000	21	19
£140,001 to £150,000	22	19
£150,001 to £160,000	18	19
£160,001 to £170,000	14	7
£170,001 to £180,000	4	9
£180,001 to £190,000	3	4
£190,001 to £200,000	2	2
£200,001 and above	5	1
Other		
£ 50,001 to £60,000	37	40
£ 60,001 to £70,000	12	18
£ 70,001 to £80,000	11	8
£ 80,001 to £90,000	5	3
£ 90,001 to £100,000	2	1
£100,001 to £110,000	1	1
£110,001 to £120,000	1	0
£120,001 to £130,000	0	1
£130,001 to £140,000	1	0

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

3. OTHER OPERATING COSTS

2015 £'000		Note	2016 £'000
	Expenditure Not Paid In Cash		
12,654	Depreciation	11a	12,710
499	Amortisation	10	474
147	Depreciation Donated Assets	11b	152
453	Impairments on property, plant and equipment charged to SOCNE	11	158
(104)	Funding Of Donated Assets	11b	(1,495)
6	Loss on disposal of property, plant and equipment		230
(58)	Other non cash costs (movement in year in ASC pension costs)		7,840
13,597	**Total Expenditure Not Paid In Cash**	CFS	**20,069**
	Interest Payable		
2,935	PFI Finance lease charges allocated in the year	23	2,887
235	Other Finance lease charges allocated in the year		233
278	Provisions - Unwinding of discount		(84)
3,448	**Total**		**3,036**
	Statutory Audit		
236	External auditor's remuneration and expenses		229

4. HOSPITAL AND COMMUNITY HEALTH SERVICES

2015 £'000			2016 £'000
	BY PROVIDER		
408,664	Treatment in Board area of NHSScotland Patients		430,149
71,128	Other NHSScotland Bodies		76,473
933	Health Bodies outside Scotland		936
5,329	Primary care bodies		5,715
4,882	Private sector		3,536
	Community Care		
4,600	Resource Transfer		5,370
50,171	Health and Social Care		52,601
69,072	Contributions to Voluntary Bodies and Charities		72,001
614,779	**Total NHSScotland Patients**		**646,781**
1,994	Treatment of UK residents based outside Scotland		1,915
616,773	**Total Hospital & Community Health Service**	SOCNE	**648,696**

Highland Health Board

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

5. FAMILY HEALTH SERVICE EXPENDITURE

2015 £'000		Note	Unified Budget £'000	Non Disc £'000	2016 TOTAL £'000
60,674	Primary Medical Services		61,662		61,662
70,169	Pharmaceutical Services		63,325	11,125	74,450
27,482	General Dental Services		13,676	13,275	26,951
5,258	General Ophthalmic Services		106	5,239	5,345
163,583	**Total**	SOCNE	**138,769**	**29,639**	**168,408**

6. ADMINISTRATION COSTS

2015 £'000			2016 £'000
893	Board Members' remuneration	Note 2 (a)	914
294	Administration of Board Meetings and Committees		340
1,115	Corporate Governance and Statutory Reporting		1,169
1,404	Health Planning, Commissioning and Performance Reporting		1,300
698	Treasury Management and Financial Planning		653
360	Public Relations		463
13	Other		14
4,777	**Total administration costs**	SOCNE	**4,853**

Highland Health Board

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

7. OTHER NON CLINICAL SERVICES

2015 £'000			2016 £'000
(4,102)	Compensation payments - Clinical		1,586
7	Compensation payments - Other		332
6,085	Pension enhancement & redundancy		4,943
136	Patients' Travel Attending Hospitals		131
3,034	Patients' Travel Highlands and Islands scheme		2,921
1,992	Health Promotion		2,078
3,384	Public Health		3,609
42	Public Health Medicine Trainees		49
86	Emergency Planning		54
448	Post Graduate Medical Education		491
215	Shared Services		275
20	Loss on disposal of non-current assets		5
1,048	Endowment Expenditure		2,629
2,131	Other		3,265
14,526	**Total Other Non Clinical Services**	SOCNE	**22,368**

NOTES TO THE ACCOUNTS
For the year ended 31 March 2016

8. OPERATING INCOME

2015 £'000			2016 £'000
	HCH Income		
	NHSScotland Bodies		
23,850	Boards		24,827
2,110	NHS Non-Scottish Bodies		1,989
	Non NHS		
566	Private Patients		938
612	Compensation Income		590
4,240	Other Hospital & Community Health Services income		4,262
93,072	SLA Integrated Services		94,300
5,549	Social Care Income		5,765
129,999	**Total HCH Income**	SOCNE	**132,671**
	FHS Income		
1,370	Unified		1,994
	Non Discretionary		
2,890	General Dental Services		2,987
11	General Ophthalmic Services		8
4,271	**Total FHS Income**	SOCNE	**4,989**
74	**Administration Income**	SOCNE	**9**
	Other Operating Income		
3,041	NHS Scotland Bodies		2,484
46	SGHSCD		0
1,420	Contributions in respect of clinical/medical negligence claims		2,079
14	Profit on disposal of non current assets		235
104	Donated Asset Additions		1,495
6	Interest Received		14
995	Endowment Income		1,587
9,600	Other		9,891
15,226	**Total Other Operating Income**	SOCNE	**17,785**
149,570	**Total Income**		**155,454**
29,001	**Of the above, the amount derived from NHS bodies is**		**29,300**

Highland Health Board

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

9. ANALYSIS OF CAPITAL EXPENDITURE

2015 £'000		Note	2016 £'000
	EXPENDITURE		
1,520	Acquisition of Intangible Assets	10	1,126
14,839	Acquisition of Property, Plant and Equipment	11a	10,135
104	Donated Asset Additions	11b	1,495
16,463	**Gross Capital Expenditure**		**12,756**
	INCOME		
1	Net book value of disposal of Intangible Assets	10	0
63	Net book value of disposal of Property, Plant and Equipment	11a	336
52	Value of disposal of Non-Current Assets held for sale	11c	0
104	Donated Asset Income		1,495
220	**Capital Income**		**1,831**
16,243	**Net Capital Expenditure**		**10,925**

SUMMARY OF CAPITAL RESOURCE OUTTURN

2015 £'000		2016 £'000
11,749	Core Capital Expenditure included above	10,438
11,749	Core Capital Resource Limit	10,438
0	**Saving against Core Capital Resource Limit**	**0**
4,494	Non Core Capital Expenditure included above	487
4,494	Non Core Capital Resource Limit	487
0	**Saving against Non Core Capital Resource Limit**	**0**
16,243	Total Capital Expenditure	10,925
16,243	Total Capital Resource Limit	10,925
0	**Saving against Capital Resource Limit**	**0**

NOTES TO THE ACCOUNTS

for the year ended 31 March 2016

10. INTANGIBLE ASSETS – CONSOLIDATED AND BOARD

		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**

10. INTANGIBLE ASSETS – CONSOLIDATED AND BOARD PRIOR YEAR

		Software Licences	IT- software	Total
		£'000	£'000	£'000
Cost or Valuation:				
As at 1 April 2014		351	3,618	3,969
Additions		392	1,128	1,520
Disposals			(516)	(516)
At 31 March 2015		**743**	**4,230**	**4,973**
Amortisation				
As at 1 April 2014		244	3,026	3,270
Provided during the year		102	397	499
Disposals			(515)	(515)
At 31 March 2015		**346**	**2,908**	**3,254**
Net Book Value at 1 April 2014		**107**	**592**	**699**
Net Book Value at 31 March 2015	BS	397	1,322	1,719

NOTES TO THE ACCOUNTS

for the year ended 31 March 2016

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 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	B S	**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 2016
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 2014	19,764	260,366	5,752	1,052	47,220	8,976	3,380	15,837	362,347
Additions		4,494						10,345	14,839
Completions	55	18,163	345		2,648	912	336	(22,459)	0
Revaluation	42	1,900	(413)					191	1,720
Impairment Charge	(101)	(439)							(540)
Disposals				(171)	(2,802)	(2,023)	(61)		(5,057)
At 31 March 2015	**19,760**	**284,484**	**5,684**	**881**	**47,066**	**7,865**	**3,655**	**3,914**	**373,309**
Depreciation									
At 1 April 2014		8,505	315	986	30,446	7,356	2,061		49,669
Provided during the year		7,305	266	36	3,848	793	406		12,654
Revaluation		(5,336)	(425)						(5,761)
Impairment Charge		(87)							(87)
Disposals				(171)	(2,742)	(2,023)	(58)		(4,994)
At 31 March 2015	**0**	**10,387**	**156**	**851**	**31,552**	**6,126**	**2,409**	**0**	**51,481**
Net book value at 1 April 2014	19,764	251,861	5,437	66	16,774	1,620	1,319	15,837	312,678
Net book value at 1 April 2015	**19,760**	**274,097**	**5,528**	**30**	**15,514**	**1,739**	**1,246**	**3,914**	**321,828**
OMV of Land inc above	**272**		**258**						
Asset financing:									
Owned	19,760	235,368	5,528	30	15,514	1,739	1,246	3,914	283,099
Finance leased		1,239							1,239
On-balance sheet PFI contracts		37,490							37,490
NBV at 31 March 2015	**19,760**	**274,097**	**5,528**	**30**	**15,514**	**1,739**	**1,246**	**3,914**	**321,828**

NOTES TO THE ACCOUNTS

For the year ended 31 March 2016

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

		Land (inc under buildings)	Buildings (excluding dwellings)	Dwellings	Plant & Machinery	Information Technology	Furniture & Fittings	Assets Under Construction	Total
		£'000	£'000	£'000	£'000	£'000	£'000	£000	£'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
NBV at 31 March 2016		**45**	**2,569**	**214**	**276**	**8**		**1,450**	**4,562**

NOTES TO THE ACCOUNTS
For the year ended 31 March 2016
11(b) Property, Plant & Equipment (Donated Assets) –PRIOR YEAR CONSOLIDATED AND BOARD

	Land (inc under buildings) £'000	Buildings (excluding dwellings) £'000	Dwellings £'000	Plant & Machinery £'000	Information Technology £'000	Furniture & Fittings £'000	Total £'000
Cost or valuation							
At 1 April 2014	45	2,424	208	1,295	45	2	4,019
Additions				104			104
Revaluation		121	2				123
Disposals				(13)			(13)
At 31 March 2015	**45**	**2,545**	**210**	**1,386**	**45**	**2**	**4,233**
Depreciation							
At 1 April 2014		51	4	995	27	2	1,079
Provided during the year		53	4	85	5		147
Revaluation		(97)	(9)				(106)
Disposals				(13)			(13)
At 31 March 2015	**0**	**7**	**(1)**	**1,067**	**32**	**2**	**1,107**
Net book value at 1 April 2014	45	2,373	204	300	18	0	2,940
Net book value at 31 March 2015 B S	**45**	**2,538**	**211**	**319**	**13**	**0**	**3,126**
OMV of Land Inc Above	**45**		**0**				
Asset financing:							
Owned	45	2,538	211	319	13	0	3,126
Net Book Value at 31 March 2015	**45**	**2,538**	**211**	**319**	**13**	**0**	**3,126**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

11. (c) ASSETS HELD FOR SALE

ASSETS HELD FOR SALE - CONSOLIDATED AND BOARD

		Property, Plant & Equipment	Total
		£'000	£'000
At 1 April 2015		0	**0**
Disposals for non-current assets held for sale			
As at 31 March 2016	BS		

ASSETS HELD FOR SALE (PRIOR YEAR) - CONSOLIDATED AND BOARD

		Property, Plant & Equipment	Total
		£'000	£'000
At 1 April 2014		52	**52**
Disposals for non-current assets held for sale		(52)	**(52)**
As at 31 March 2015	BS	**0**	**0**

11. (d) PROPERTY, PLANT AND EQUIPMENT DISCLOSURES

Consolidated 2015 £'000	Board 2015 £'000			Consolidated 2016 £'000	Board 2016 £'000
		Net book value of property, plant and equipment at 31 March			
321,828	321,828	Purchased	11a	322,680	322,680
3,126	3,126	Donated	11b	4,562	4,562
324,954	**324,954**	**Total**	B S	**327,242**	**327,242**
272	272	Net book value related to land valued at open market value at 31 March		372	372
258	258	Net book value related to buildings valued at open market value at 31 March		255	255
		Total value of assets held under:			
1,239	1,239	Finance Leases		1,178	1,178
37,490	37,490	PFI and PPP Contracts		38,322	38,322
38,729	38,729			39,500	39,500
		Total depreciation charged in respect of assets held under:			
99	99	Finance leases		104	104
962	962	PFI and PPP contracts		1,024	1,024
1,061	1,061			1,128	1,128

An annual valuation of 20% of all NHS Highland properties was carried out by Barr & Burnetts in March 2016. The net impact was a decrease in value of £4,618K for Purchased assets - a debit to Revaluation reserve of £4,460K and an approved impairment figure of £158K. Donated assets increased in value by £1K. Indices set between 3.5 - 4% for buildings, zero for land.

12. INVENTORIES

Consolidated 2015 £'000	Board 2015 £'000			Consolidated 2016 £'000	Board 2016 £'000
5,409	5,409	Raw Materials and Consumables		5,814	5, 814
5,409	**5,409**	**Total Inventories**	B S	**5,814**	**5,814**

13. TRADE AND OTHER RECEIVABLES

Consolidated 2015 £'000	Board 2015 £'000		Note	Consolidated 2016 £'000	Board 2016 £'000
		Receivables due within one year NHSScotland			
106	106	SGHSCD		93	93
4,852	4,852	Boards		4,994	4,994
4,958	**4,958**	**Total NHSScotland Receivables**		**5,087**	**5,087**
763	763	NHS Non-Scottish Bodies		498	498
1,010	1,010	VAT recoverable		899	899
5,306	5,306	Prepayments		5,834	5,834
2,239	2,239	Accrued income		2,744	2,744
1,604	1,758	Other Receivables		1,423	3,085
7,981	7,981	Reimbursement of provisions		14,376	14,376
24,414	24,414	Other Public Sector Bodies		24,637	24,637
48,275	**48,429**	**Total Receivables due within one year**	B S	**55,498**	**57,160**
		Receivables due after more than one year NHSScotland			
1,670	1,670	Prepayments		1,597	1,597
3,014	3,014	Accrued income		3,545	3,545
13	13	Other Receivables		14	14
1,655	1,655	Reimbursement of Provisions		1,050	1,050
6,352	**6,352**	**Total Receivables due after more than one year**	B S	**6,206**	**6,206**
54,627	**54,781**	**TOTAL RECEIVABLES**		**61,704**	**63,366**
369	369	The total receivables figure above includes a provision for impairments of :		595	595
		WGA Classification			
4,852	4,852	NHS Scotland		4,994	4,994
1,106	1,106	Central Government bodies		47	47
24,318	24,318	Whole of Government bodies		24,591	24,591
763	763	Balances with NHS Bodies in England & Wales		498	498
23,588	23,742	Balances with bodies external to Government		31,574	33,236
54,627	**54,781**	**Total**		**61,704**	**63,366**

13. TRADE AND OTHER RECEIVABLES

2015	2015		2016	2016
£'000	£'000	Movements on the provision for impairment of receivables are as follows:	£'000	£'000
346	346	At 1 April	369	369
216	216	Provision for impairment	323	323
(69)	(69)	Receivables written off during the year as uncollectible	(92)	(92)
(124)	(124)	Unused amounts reversed	(5)	(5)
369	**369**	At 31 March	**595**	**595**

As of 31 March 2015, receivables with a carrying value of £369,000 (2014: £346,000) were impaired and provided for. The amount of the provision was £369,000 (2014: £346,000).

2015	2015		2016	2016
£'000	£'000	The aging of these receivables is as follows:	£'000	£'000
369	369	3 to 6 months past due		
0	0	Over 6 months past due	595	595
369	**369**		**595**	**595**

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 2016, receivables with a carrying value of £1,910,000 (2015: £1,868,000) were past their due date but not impaired. The aging of receivables which are past due but not impaired is as follows:

2015	2015		2016	2016
£'000	£'000		£'000	£'000
592	592	Up to 3 months past due	576	576
685	685	3 to 6 months past due	412	412
591	591	Over 6 months past due	922	922
1,868	**1,868**		**1,910**	**1,910**

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.

2015	2015		2016	2016
£'000	£'000	The carrying amount of receivables are denominated in the following currencies:	£'000	£'000
54,627	54,781	Pounds	61,704	63,366
54,627	**54,781**		**61,704**	**63,366**

All non-current receivables are due within nine years (2014 -15: ten 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 £63.251m (2014-15:£54.781m)

The effective interest rate on non-current other receivables is 2.2% (2014-2015:2.2%). Pension liabilities are discounted at 1.37% (2014-15:1.3%)

14. AVAILABLE FOR SALE FINANCIAL ASSETS

Consolidated 2015 £'000	Board 2015 £'000			Consolidated 2016 £'000	Board 2016 £'000
463		Government securities		238	
7,349	123	Other		7,696	121
7,812	**123**	**TOTAL**	BS	**7,934**	**121**
8,123	127	At 1 April		7,812	123
504		Additions		1,376	
(1,194)	(4)	Disposals		(1,059)	(2)
379		Revaluation surplus transferred to equity		(195)	
7,812	**123**	**At 31 March**		**7,934**	**121**
7,812	123	Non Current	BS	7,934	121

We have a small shareholding in HUB North of Scotland Ltd, an unlisted investment denominated in UK pounds; £121k 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	At 01/04/15 £'000	Cash Flow £'000	At 31/03/16 £'000
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

Prior Year 2013-14		At 01/04/14 £'000	Cash Flow £'000	At 31/03/15
Government Banking Service account balance		63	88	151
Cash at bank and in hand		92	(85)	7
Endowment Cash		968	581	1,549
Total cash and cash equivalents - balance sheet	BS	**1,123**	**584**	**1,707**
Total cash - cash flow statement		**1,123**	**584**	**1,707**
		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 2016

16. TRADE AND OTHER PAYABLES

Consolidated 2015 £'000	Board 2015 £'000		Note	Consolidated 2016 £'000	Board 2016 £'000
		Payables due within one year NHSScotland			
15,773	15,773	Boards		12,289	12,289
15,773	**15,773**	**Total NHSScotland Payables**		**12,289**	**12,289**
798	798	NHS Non-Scottish Bodies		1,077	1,077
158	158	Amounts payable to General Fund		191	191
11,148	11,148	FHS Practitioners		15,079	15,079
2,172	2,172	Trade Payables		3,314	3,314
16,214	16,214	Accruals		19,013	19,013
52	52	Deferred income		346	346
148	148	Payments received on account		0	0
79	79	Net obligations under Finance Leases	22	111	111
1,284	1,284	Net obligations under PPP/PFI Contracts	23	1,398	1,398
5,923	5,923	Income tax and social security		6,050	6,050
4,318	4,318	Superannuation		4,703	4,703
1,043	1,043	Holiday Pay Accrual		1,172	1,172
3	3	Construction Industry Tax		1	1
3,138	3,138	Other Public Sector Bodies		4,649	4,649
1,187	1,169	Other payables		2,574	2,543
93	93	Pension contribution to Local Gvt Pension Scheme		395	395
293	293	Equal Pay Accrual		68	68
63,824	**63,806**	**Total Payables due within one year**	BS	**72,430**	**72,399**

Consolidated 2015 £'000	Board 2015 £'000		Note	Consolidated 2016 £'000	Board 2016 £'000
		Payables due after more than one year - NHSScotland			
111	111	Net obligations under Finance Leases due within 2 years	22	121	121
404	404	Net obligations under Finance Leases due after 2 years but within 5 years	22	473	473
1,713	1,713	Net obligations under Finance Leases due after 5 years	22	1,525	1,525
1,397	1,397	Net obligations under PPP/PFI Contracts due within 2 years	23	1,525	1,525
5,014	5,014	Net obligations under PPP/PFI Contracts after 2 years but within 5 years	23	5,489	5,489
29,451	29,451	Net obligations under PPP/PFI Contracts due after 5 years	23	27,451	27,451
5,048	5,048	Local Government Pension Fund Liability		1,038	1,038
43,138	**43,138**	**Total Payables due after more than one year**	BS	**37,622**	**37,622**
106,962	**106,944**	**TOTAL PAYABLES**		**110,052**	**110,021**
		WGA Classification			
15,773	15,773	NHS Scotland		12,289	12,289
5,927	5,927	Central Government Bodies		6,062	6,062
3,139	3,139	Whole of Government Bodies		4,649	4,649
798	798	Balances with NHS Bodies in England and Wales		1,077	1,077
81,325	81,307	Balances with bodies external to Government		85,975	85,944
106,962	**106,944**	**Total**		**110,052**	**110,021**
		Borrowings included above comprise:			
2,307	2,307	Finance Leases		2,230	2,230
37,146	37,146	PFI Contracts		35,863	35,863
39,453	**39,453**			**38,093**	**38,093**
		The carrying amount and fair value of the non-current borrowings are as follows:			
		Carrying amount			
2,228	2,228	Finance Leases		2,119	2,119
35,862	35,862	PFI Contracts		34,465	34,465
38,090	**38,090**			**36,584**	**36,584**

2015 Fair Value £'000	2015 Fair Value £'000	The carrying amount and fair value of the non-current borrowings are as follows	2016 Fair Value £'000	2016 Fair Value £'000
		Fair value		
2,228	2,228	Finance Leases	2,119	2,119
35,862	35,862	PFI Contracts	34,465	34,465
38,090	**38,090**		**36,584**	**36,584**

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
106,962	106,944	Pounds	110,052	110,021
106,962	**106,944**		**110,052**	**110,021**

Other payables include an amount of £68k in respect of the board's estimated liability arising from equal pay claims. There is a further set of claims which on the basis of materiality is not recognised in these accounts.

17. PROVISIONS – CONSOLIDATED AND BOARD

		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	Clinical & Medical	Participation in CNORIS	Other	2016 Total
		£'000	£'000	£'000	£'000	£'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
Total as at 31 March 2016		**8,704**	**15,442**	**15,241**	**504**	**39,891**

PROVISIONS – CONSOLIDATED (PRIOR YEAR)

	Pensions & similar obligations	Clinical & Medical	Participation in CNORIS	Other	2015 Total
	£'000	£'000	£'000	£'000	£'000
At 1 April 2014	6,940	15,699	19,522	452	42,613
Arising during the year	1,825	2,118		444	4,387
Utilised during the year	(626)	(1,181)		(118)	(1,925)
Unwinding of discount	278				278
Reversed unutilised	(35)	(7,652)	(5,471)	(30)	(13,188)
At 31 March 2015	**8,382**	**8,984**	**14,051**	**748**	**32,165**

Analysis of expected timing of discounted flows – to March 2015

		Pensions & similar obligations £'000	Clinical & Medical £'000	Participation in CNORIS £'000	Other £'000	2015 Total £'000
Payable in one year	BS	764	6,994	14,051	712	22,521
Payable between 2-5 years		2,146	1,990		36	4,172
Payable between 6-10 years		2,379				2,379
Thereafter	BS	3,093				3,093
At 31 March 2015		**8,382**	**8,984**	**14,051**	**748**	**32,165**

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)

2015 £'000		Note	2016 £'000
8,984	Provision recognising individual claims against the NHS Board as at 31 March	17	15,442
(9,636)	Associated CNORIS receivable at 31 March	13	(15,426)
14,051	Provision recognising the NHS Board's liability from participating in the scheme at 31 March	17	15,241
13,399	**Net Total Provision relating to CNORIS at 31 March**		**15,257**

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

Highland Health Board

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

18. MOVEMENT ON WORKING CAPITAL BALANCES

2015 Net Movement £'000		Note	Opening Balances £'000	Closing Balances £'000	2016 Net Movement £'000
	INVENTORIES				
4	Balance Sheet	12	5,409	5,814	
4	**Net Decrease/(Increase)**				**(405)**
	TRADE AND OTHER RECEIVABLES				
1,878	Due within one year	13	48,429	57,160	
2,204	Due after more than one year	13	6,352	6,206	
			54,781	63,366	
4,082	**Net (Increase)/Decrease**				**(8,585)**
	TRADE AND OTHER PAYABLES				
3,026	Due within one year	16	63,806	72,399	
6,062	Due after more than one year	16	43,138	37,622	
178	Less: Property, Plant & Equipment (Capital) included in above		352	206	
(3)	Less: General Fund Creditor included in above		(158)	(191)	
(2,908)	Less: Lease and PFI Creditors included in above	16	(39,453)	(38,093)	
			67,685	71,943	
6,355	**Net (Decrease)/Increase**				**4,258**
	PROVISIONS				
(10,448)	Balance Sheet	17	32,165	39,891	
(10,448)	**Net Increase/(Decrease)**				**7,726**
(7)	**NET MOVEMENT (Decrease)/Increase**	CFS			**2,994**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

19. CONTINGENT LIABILITIES

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

2015	Nature	2016
£'000		£'000
2,442	Clinical and medical compensation payments	2,058
177	Employer's liability	131
0	Third party liability	6
2,619	**TOTAL CONTINGENT LIABILITIES**	**2,195**

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

2015	CONTINGENT ASSETS	2016
£'000		£'000
1,831	Clinical and medical compensation payments	1,663
103	Employer's liability	48
1,934		**1,711**

20. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

21. COMMITMENTS

2015	Capital Commitments	2016 Property, plant and equipment
	The Board has the following Capital Commitments which have not been included in the accounts	
£'000		£'000
	Contracted	
6,278	Mid Argyll PFI Lifecycle costs	6,209
5,137	Easter Ross PFI Lifecycle costs	4,433
1,400	Drumnadrochit Health Centre	0
3,500	Raigmore Critical Care and Theatres	22,800
275	Raigmore Outpatients/Cafe	0
0	eHealth Labs System	370
0	Mobile X-Ray Systems	53
0	UVA Cabinets	53
16,590	**Total**	**33,918**

2015	Authorised but not Contracted	2016
100	Seven Community Projects	2,555
120	Eigg Community Base	0
288	Argyll & Bute Intensive Paediatric Care Unit	0
810	Estates Backlog Projects	2,090
2,736	Medical Equipment	1,639
200	Other Equipment	960
85	Detecting Cancer Early	0
1,385	eHealth Replacement	3,490
	Badenoch & Strathspey Land Purchase	1,000
5,724	**Total**	**11,734**

22. COMMITMENTS UNDER LEASES

2015 £'000	Operating Leases Total future minimum lease payments under operating leases are given in the table below for the each of the following periods.	2016 £'000
	Buildings	
1,877	Not later than one year	2,740
1,843	Later than one year, not later than 2 years	2,396
4,585	Later than two years, not later than five years	5,285
14,316	Later than five years	16,018
	Other	
2,926	Not later than one year	3,037
2,540	Later than one year, not later than two years	1,536
1,238	Later than two years, not later than five years	1,015
		3
	Amounts charged to Operating Costs in the year were:	
3,989	Hire of equipment (including vehicles)	3,900
3,019	Other operating leases	3,985
7,008	**Total**	**7,885**

2015 £'000	Finance Leases Total future minimum lease payments under finance leases are given in the table below for the each of the following periods.		2016 £'000
	Obligations under Finance leases comprise:		
	Buildings		
310	Rentals due within one year	16	331
331	Rentals due between one and two years (inclusive)	16	332
994	Rentals due between two and five years (inclusive)	16	1,020
2,385	Rentals due after five years	16	2,030
4,020			3,713
(1,713)	Less interest element		(1,483)
2,307			**2,230**

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

2015	Aggregate Rentals Receivable in the year	2016
460	Total of finance & operating leases	**891**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

23. COMMITMENTS UNDER PFI CONTRACTS ON BALANCE SHEET

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

2015 £'000	Gross Minimum Lease Payments	New Craig's £'000	Easter Ross £'000	Mid Argyll £'000	Tain HC HUB £'000	2016 Total £'000
4,170	Rentals due within 1 year	1,923	621	1,228	401	4,173
4,172	Due within 1 to 2 years	1,923	622	1,229	404	4,178
12,538	Due within 2 to 5 years	5,767	1,865	3,686	1,228	12,546
44,732	Due after 5 years	8,467	5,510	18,721	7,849	40,547
65,612	**Total**	18,080	8,618	24,864	9,882	61,444
	***Less* Interest Element**					
(2,886)	Rentals due within 1 year	(1,355)	(302)	(758)	(360)	(2,775)
(2,775)	Due within 1 to 2 years	(1,273)	(287)	(736)	(357)	(2,653)
(7,524)	Due within 2 to 5 years	(3,199)	(758)	(2,058)	(1,042)	(7,057)
(15,281)	Due after 5 years	(2,220)	(1,130)	(5,702)	(4,044)	(13,096)
(28,466)	**Total**	(8,047)	(2,477)	(9,254)	(5,803)	(25,581)
	Present value of minimum lease payments					
1,284	Rentals due within 1 year	568	319	470	41	1,398
1,397	Due within 1 to 2 years	650	335	493	47	1,525
5,014	Due within 2 to 5 years	2,568	1,107	1,628	186	5,489
29,451	Due after 5 years	6,247	4,380	13,019	3,805	27,451
37,146	**Total**	10,033	6,141	15,610	4,079	35,863

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

2015 £'000		2016 £'000
4,186	Service charges	4,165
2,935	Interest charges	2,887
4	Contingent Rent	6
7,125	**Total**	**7,058**

24. PENSION COSTS

The NHS board participates in the National Health Service Superannuation Scheme for Scotland which is a notional defined benefit scheme where contributions are credited to the Exchequer and the balance in the account is deemed to be invested in a portfolio of Government securities. The pension cost is assessed every five years by the Government Actuary; details of the most recent actuarial valuation can be found in the separate statement of the Scottish Public Pensions Agency (SPPA).

The National Health Service Superannuation Scheme for Scotland is a multi-employer scheme where the share of the assets and liabilities applicable to each employer is not identified. The NHS board will therefore account for its pension costs on a defined contribution basis as permitted by IAS 19.

For the current year, normal employer contributions of £38.2m were payable to the SPPA (prior year £34.3m) at the rate of 14.9% (prior year: 13.5%) of total pensionable salaries. In addition, during the accounting period the NHS Board incurred additional costs of £0 (prior year £0) arising from the early retirement of staff. The most recent actuarial valuation discloses a balance of £1.4 billion to be made by future contributions from employing authorities.

Provisions amounting to £1.87 m are included in the Balance Sheet and reflect the difference between the amounts charged to the Statement of Comprehensive Net Expenditure and the amounts paid directly.

The new NHS Pension Scheme (Scotland) 2015

From 1 April 2015 the NHS Pension Scheme (Scotland) 2015 was introduced. This scheme is a Career Average Re-valued Earnings (CARE) scheme. Members will accrue 1/54 of their pay as pension for each year they are a member of the scheme. The accrued pension is re-valued each year at an above inflation rate to maintain its buying power. This is currently 1.5% above increases to the Consumer Prices Index (CPI). This continues until the member leaves the scheme or retires. In 2015-16 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.

All other members automatically joined the NHS 2015 scheme on 1 April 2015.

Further information is available on the Scottish Public Pensions Agency (SPPA) web site at www.sppa.gov.uk

National Employment Savings Trust (NEST)

The Pensions Act 2008 and 2011 Automatic Enrolment regulations required all employers to enrol workers meeting certain criteria into a pension scheme and pay contributions toward their retirement. For those staff not entitled to join the NHS Superannuation Scheme (Scotland), the Board utilised an alternative pension scheme called NEST to fulfil its Automatic Enrolment obligations.
NEST is a defined contribution pension scheme established by law to support the introduction of Auto Enrolment. Contributions are taken from qualifying earnings, which are currently from £5,824 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.

	2016	**2015**
	£'000	**£'000**
Pension cost charge for the year	38,206	34,313
Pension cost in year of staff transferred from Highland Council	6,866	6,997
Provisions/Liabilities/Pre-payments included in the Balance Sheet	1,877	1,996

IAS 19 Multi-employer plans 148

(a) NHS Highland 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) NHS Highland 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.

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(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 NHS Highland is unable to identify its share of the underlying assets and liabilities of the scheme.

(iii) The employer contribution rate for the period from 1 April 2015 will be 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 2015 were £659.8 million (see note 3 in the scheme accounts). Contributions collected in the year to 31 March 2016 will be published in November 2016.)

NHS Highland's level of participation in the scheme is 5.20% based on the proportion of employer contributions paid in 2014-15.

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 gain in the Fund for the year from 1 April 2015 to 31 March 2016 of £0.180m, giving a total to 31st March 2016 of £11.285m (total to 31st March 2015 of £11.465m). This is included in two parts in NHS Highland's accounts:-

a) £10.247m of realised deficit in SOCNE which has been covered by funding from Scottish Government and

b) £1.038m 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:	2016 £000	2015 £000
Current Service cost	7,221	6,750
Interest Cost	1,078	863
Return in the Fund Assets	(657)	(589)
Financial Assumptions Loss/(Gain)	4,010	3,315
Charge to statement of comprehensive net expenditure	11,652	10,339

The current assets and liabilities are made up of :-

Present Value of the Scheme Liabilities	2016 £000	2015 £000
Opening defined benefit obligation	29,678	16,251
Current Service Cost	7,221	6,750
Interest Cost	1,078	863
Change in financial assumptions	(4,204)	2,823
Estimated benefits paid	(377)	(234)
Changes in demographic assumptions	0	291
Other experience	(88)	1,701
Contributions by scheme participants	1,214	1,233
Closing Value	34,522	29,678

Fair Value of the Scheme Assets	2016 £000	2015 £000
Opening Fair Value of scheme assets	18,213	11,358
Expected return on scheme assets	(282)	1,500
Interest Income	657	589
Contributions by employer	3812	3,767
Contributions by Scheme participants	1214	1,233
Estimated benefits paid (net of transfers in)	(377)	(234)
Closing value	23,237	18,213

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 2017 is £3.898m.

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 2016 are as follows:

		2016	2015
(a) Long term expected rate of return on assets in the scheme		3.5%	3.2% pa
(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		4.2%	4.3%
Rate of increase in pensions (CPI)		2.2%	2.4%
Rate of discounting scheme liabilities		3.5%	3.2%
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		44%	45%
Debt Securities		18%	20%
Private Equity		4%	3%
Real Estate		11%	11%
Investment Funds & Unit Trusts		19%	20%
Cash		4%	1%
Total		100%	100%

25. PRIOR YEAR ADJUSTMENTS

There are no disclosures to be made.

26 Financial Assets
CONSOLIDATED

At 31 March 2016	Notes	Loans & Receivables £'000	Available for Sale £'000	Total £'000
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

At 31 March 2016	Notes	Loans & Receivables £'000	Available for Sale £'000	Total £'000
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**

CONSOLIDATED (Prior Year)

At 31 March 2015	Notes	Loans & Receivables	Available for Sale	Total
Assets per balance sheet				
Investments	14		7,812	7,812
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	13	32,047		32,047
Cash and cash equivalents	15	1,707		1,707
		33,754	**7,812**	**41,566**

BOARD (Prior Year)

At 31 March 2015	Notes	Loans & Receivables	Available for Sale	Total
Assets per balance sheet				
Investments	14		123	123
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable	13	32,201		32,201
Cash and cash equivalents	15	158		158
		32,359	**123**	**32,482**

26. FINANCIAL INSTRUMENTS (cont'd)

Financial Liabilities
CONSOLIDATED

AT 31 MARCH 2016	Note	Other financial liabilities £'000	Total £'000
Liabilities per balance sheet			
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 recoverable.	16	48,570	48,570
		86,663	**86,663**

BOARD

	Note	£'000	£'000
Liabilities per balance sheet			
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 recoverable.	16	48,539	48,539
		86,632	**86,632**

CONSOLIDATED (Prior Year)

	Note	Other financial liabilities £'000	Total £'000
Finance lease liabilities	16	2,307	2,307
PFI Liabilities	16	37,146	37,146
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation	16	41,440	41,440
		80,893	**80,893**

BOARD (Prior Year)

	Note	Other financial liabilities £'000	Total £'000
Finance lease liabilities	16	2,307	2,307
PFI Liabilities	16	37,146	37,146
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation	16	41,422	41,422
		80,875	**80,875**

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 2016	**£'000**	**£'000**	**£'000**	**£'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**

At 31 March 2015	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
PFI Liabilities	4,170	4,172	12,538	44,732
Finance lease liabilities	310	332	994	2,384
Trade and other payables exc statutory liabilities	51,831		5,048	
Total	**56,311**	**4,504**	**18,580**	**47,116**

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 2016

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 15/16 for Adult Social Care was circa £94.3 million, and is shown in note 8 for income. The value of the agreement for Childrens Services was circa £8.9 million and is included in Note 4.

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016

29. SEGMENT INFORMATION

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

	Note	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

29. SEGMENT INFORMATION – PRIOR YEAR

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

	Note	A&B CHP	Raigmore Hospital	North & West Operational Unit	South & Mid Operational Unit	Adult Social Care Central	Adult Social Care Funding	Child Services	Other	2015
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Net operating cost		184,906	146,307	127,744	185,729	6,444	(93,072)	8,659	83,372	650,089

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016
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.

	2015	Gross Inflows	Gross Outflows	2016
	£'000	£'000	£'000	£'000
Monetary amounts such as bank balances and monies on deposit	525	1,365	(1,151)	739
Total Monetary Assets	**525**	**1,365**	**(1,151)**	**739**

NOTES TO THE ACCOUNTS
for the year ended 31 March 2016
31a. CONSOLIDATED STATEMENT OF COMPREHENSIVE NET EXPENDITURE

Group 2015 £'000		Board 2016 £'000	Endowment 2016 £'000	Intra Group adjustment 2016 £'000	Consolidated 2016 £'000
	Clinical Services Costs				
616,773	Hospital and Community	648,696			648,696
129,999	Less: Hospital and Community Income	132,671			132,671
486,774		516,025			516,025
163,583	Family Health	168,408			168,408
4,271	Less: Family Health Income	4,989			4,989
159,312		163,419			163,419
646,086	**Total Clinical Services Costs**	**679,444**			**679,444**
4,777	Administration Costs	4,853			4,853
74	Less: Administration Income	9			9
4,703		4,844			4,844
14,526	Other Non Clinical Services	19,739	2,735	(106)	22,368
15,226	Less: Other Operating Income	16,198	1,693	(106)	17,785
(700)		3,541	1,042	0	4,583
650,089	**Net Operating Costs**	**687,829**	**1,042**		**688,871**

Intragroup adjustments relates to in year trading between Board and Endowments. Endowments Accounts have been show as per Board Accounting Policies resulting in unrealised gains being excluded from the SOCNE above. Costs relating to A&B IJB from its inception in August 2015 to the end of financial year are not material and therefore have not been consolidated.

31b. CONSOLIDATED GROUP BALANCE SHEET

Group 2015 £'000		Note	Board 2016 £'000	Endowment 2016 £'000	Intra Group adjustment 2016 £'000	Group 2016 £'000
	Non-current Assets:					
324,954	Property, plant and equipment	11	327,242			327,242
1,719	Intangible assets	10	2,371			2,371
	Financial assets:					
7,812	Available for sale financial assets	14	121	7,813		7,934
6,352	Trade and other receivables	13	6,206			6,206
340,837	**Total non-current assets**		**335,940**	**7,813**		**343,753**
	Current Assets:					
5,409	Inventories	12	5,814			5,814
	Financial assets:					
48,275	Trade and other receivables	13	57,160	12	(1,674)	55,498
1,707	Cash and cash equivalents	15	191	1,709		1,900
55,391	**Total current assets**		**63,165**	**1,721**	**(1,674)**	**63,212**
396,228	**Total Assets**		**399,105**	**9,534**	**(1,674)**	**406,965**
	Current liabilities					
(22,521)	Provisions		(19,783)			(19,783)
	Financial liabilities:					
(63,824)	Trade and other payables	16	(72,399)	(1,705)	1,674	(72,430)
(86,345)	**Total current liabilities**		**(92,182)**	**(1,705)**	**1,674**	**(92,213)**
309,883	**Non-current assets plus/less net current assets/liabilities**		**306,923**	**7,829**	**0**	**314,752**
	Non-current liabilities					
(9,644)	Provisions	17	(20,108)			(20,108)
	Financial liabilities:					
(43,138)	Trade and other payables	16	(37,622)			(37,622)
(52,782)	**Total non-current liabilities**		**(57,730)**			**(57,730)**
257,101	**Assets less liabilities**		**249,193**	**7,829**	**0**	**257,022**
	Taxpayers' Equity					
146,902	General Fund	SOCTE	138,904			138,904
99,764	Revaluation reserve	SOCTE	101,080			101,080
1,369	Other reserves	SOCTE	9,209			9,209
9,066	Funds Held on Trust	SOCTE		7,829		7,829
257,101	**Total taxpayers' equity**		**249,193**	**7,829**		**257,022**

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

Highland Health Board

31c. CONSOLIDATED STATEMENT OF CASHFLOWS

Board 2015 £'000	Endowment 2015 £'000	Group 2015 £'000		Board 2016 £'000	Endowment 2016 £'000	Group 2016 £'000
			Cash flows from operating activities			
(650,036)	(53)	(650,089)	Net operating cost	(687,829)	(1,042)	(688,871)
13,597		13,597	Adjustments for non-cash transactions	20,069		20,069
3,448		3,448	Add back: interest payable recognised in net operating cost	3,036		3,036
(6)		(6)	Deduct: Interest receivable recognised in net operating costs	(14)		(14)
4,082	(46)	4,036	(Increase)/decrease in trade and other receivables	(8,585)	1,507	(7,078)
4		4	Decrease/(Increase) in inventories	(405)		(405)
6,355	(6)	6,349	Increase/(decrease) in trade and other payables	4,258	13	4,271
(10,448)		(10,448)	Increase/(decrease) in provisions	7,726		7,726
(633,004)	**(105)**	**(633,109)**	**Net cash outflow from operating activities**	**(661,744)**	**478**	**(661,266)**
			Cash flows from investing activities			
(15,017)		(15,017)	Purchase of property, plant and equipment	(9,989)		(9,989)
(1,520)		(1,520)	Purchase of intangible assets	(1,126)		(1,126)
	(504)	(504)	Investment Additions		(1,376)	(1,376)
109		109	Proceeds of disposal of property, plant and equipment	106		106
1		1	Proceeds of disposal of intangible assets	0		0
4	1,190	1,194	Receipts from sale of investments	2	1,057	1,059
6		6	Interest and dividends received	14		14
(16,417)	**686**	**(15,731)**	**Net cash outflow from investing activities**	**(10,993)**	**(319)**	**(11,312)**
			Cash flows from financing activities			
649,961		649,961	Funding	667,133		677,133
3		3	Movement in general fund working capital	33		33
649,964	0	649,964	Cash drawn down	677,166		677,166
2,908		2,908	Capital element of payments in respect of finance leases and on-balance sheet PFI contracts	(1,360)		(1,360)
(278)		(278)	Interest paid	84		84
(3,170)		(3,170)	Interest element of finance leases and on-balance sheet PFI/PPP contracts	(3,120)		(3,120)
649,424	**0**	**649,424**	**Net Financing**	**672,770**		**672,770**
3	581	584	**Net increase in cash and cash equivalents in the period**	33	160	193
155	968	1,123	**Cash and cash equivalents at the beginning of the period**	158	1,549	1,707
158	1,549	1,707	**Cash and cash equivalents at the end of the period**	**191**	**1,709**	**1,900**
			Reconciliation of net cash flow to movement in net debt/cash			
3	581	584	Increase in cash in year	33	160	193
155	968	1,123	Net cash at 1 April	158	1,549	1,707
158	**1,549**	**1,707**	**Net cash at 31 March**	**191**	**1,709**	**1,900**

Highland Health Board

DIRECTION BY THE SCOTTISH MINISTERS

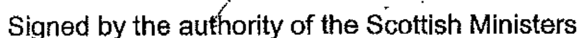
1. The Scottish Ministers, in pursuance of sections 86(1), (1B) and (3) of the National Health Services (Scotland) Act 1978, hereby give the following direction.

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