

**ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017**

**CONTENTS:**

	<b>PAGE</b>
<b>PERFORMANCE REPORT</b>	<b>2</b>
<b>ACCOUNTABILITY REPORT</b>	<b>8</b>
<b>FINANCIAL STATEMENTS:</b>	
<b>INDEPENDENT AUDITOR'S REPORT</b>	<b>26</b>
<b>STATEMENT OF COMPREHENSIVE NET EXPENDITURE</b>	<b>29</b>
<b>STATEMENT OF FINANCIAL POSITION</b>	<b>30</b>
<b>STATEMENT OF CASH FLOW</b>	<b>31</b>
<b>STATEMENT OF CHANGES IN TAXPAYERS' EQUITY</b>	<b>32</b>
<b>NOTES TO THE ACCOUNTS</b>	<b>33</b>
<b>DIRECTION BY THE SCOTTISH MINISTERS</b>	<b>59</b>

# NHS HEALTH SCOTLAND

## ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017

### PERFORMANCE REPORT

#### OVERVIEW

##### 1. Chief Executive Statement

This has been the last delivery year of NHS Health Scotland's five year strategic plan "A Fairer Healthier Scotland". Our final year has seen us further shifting our focus towards the upstream fundamental causes of health inequalities. This reflects in our work in areas such as Fuel Poverty; Healthcare Retail Standard, Place Standard; Homelessness & Health; Obesity (preparing for action); Measuring and Evaluating Scotland's alcohol strategy (MESAS); Adverse Childhood Experiences (ACEs), Child Poverty Elearning Module; and our work around Early Learning & Childcare. It represents a range of topic areas, cross sector work and highlights the maturity and continuing long term nature of our work.

Other highlights include:

- Our November 2016 inequality briefing '*Good work for all*'; our engagement with the Fair Work directorate of the Scottish Government and the submission of our evidence to the Fair Work Convention.
- Our report 'Restoring the Public Health Response to Homelessness' in May 2015, which opened up a series of opportunities for stronger collaborative working between public health and the homelessness sector. It was showcased at the Scottish Health and Homelessness Event March 2016 that shared practice and learning on how to prevent homelessness and improve the health of those who experience homelessness.
- The report and conference '*Polishing our Gems: A call for action on Childhood Adversity*', in November 2016 developed understanding of how childhood adversity can be tackled through developing public sector service responses.
- The Public Health Skills and Knowledge Framework launched in March 2017 to stimulate conversation with key national and local stakeholders to consider what this revised framework means for Scotland.

The publication of Scottish Government Health and Social Care Delivery Plan in December 2016, signified change ahead, not least in the establishment of a new public health body in 2019. We have begun planning for this change in understanding and evidencing the cumulative impact of our work as our legacy to the new body for the important domain of public health for which we have national responsibility, namely Health Improvement.

Against an in-year revenue resource allocation of £18,990k and a brought-forward surplus of £226k from 2015/16, we spent £19,071k and will carry-forward £145k to 2017/18. This maintains our financial policy of spending our annual allocation and managing within the flexibility of around 1% on brought-forward and carry-forward surpluses.

#### **History, statutory background, purpose and activities**

NHS Health Scotland, a Special Health Board with a national remit, was established on 1 April 2003 (Statutory Instrument 1990 No. 2639 (S.224) and Scottish Statutory Instrument 2003 No. 154 refer).

NHS Health Scotland's mission is to reduce health inequalities and improve health. To do this we seek to influence policy and practices, informed by evidence, and promote action across public services to deliver greater equality and improved health for all in Scotland.

At a local level we work with NHS boards and their health improvement partners – local authorities, community planning partnerships, health and social care partnerships, local businesses, and community and voluntary groups. Nationally, we are an advocate for the reduction in health inequalities and the improvement of health.

Specific functions of our work include:

- providing specialist advice to support Scottish Government public health improvement and health inequalities policy making
- disseminating and explaining relevant public health improvement and health inequalities evidence, learning and good practice, to professional and public audiences
- providing support marketing linked to local health improvement services and facilitating the integration of local marketing approaches with the national strategy, where appropriate
- evaluating agreed aspects of Scotland's public health improvement and health inequalities national programmes
- reviewing published research and commissioning new research on innovations, insights and evidence on public health improvement and health inequalities.

Health Scotland's business strategy was set out in A Fairer Healthier Scotland (AFHS) *Our strategy 2012 – 2017* with annual delivery plans being the means of achieving the strategy over the same period. A new strategic framework was agreed in March 2017 for the next 5 year period 2017 – 2022.

### **Key Issues and risks affecting the delivery of our objectives**

In 2016/17:

- 70% of our work was completed or achieved what was planned for the year
- 30% of our work was, to some extent, postponed, delayed or changed from what had been planned at the start of the year.
- The main reason for not completing work was issues with staff capacity, which affected 53% of incomplete work

For the second year, we identified a set of corporate priorities based on our Scottish Government annual review. Of the work contributing to these, performance was similar to overall organisational performance, with 66% of planned work being completed or fully achieving what had been planned for the year and staff capacity being the main reason behind incompleteness.

This 70/30 full/partial completion performance rate is similar to 2015/16 and merits consideration. This achievement rate may indicate a good balance between achieving ambitious and complex organisational work programmes, while also dealing pragmatically with the need to adapt plans through the year in response to a variety of external drivers. Equally, it poses questions about the effectiveness of organisational processes for prioritisation and staff capacity planning.

We have made improvements to both processes, which we hope will have a positive impact on performance over 2017/18. Several of these improvements relate to the kind of performance data we gather and how we use it. In 2017/18 our aim is to have even more timely and accurate performance data routinely available to us. The intention is that this will help managers be in a position to understand better the extent to which this 70/30 full/partial performance delivery completion rate can be improved on and how.

In 2016/17 we identified 11 corporate risks associated with our delivery plans and the specific operating context for the business year. The risks reflected the political uncertainties in which we were operating, the financial challenges facing us and the partners we were seeking to work with and some specific challenges associated with some aspects of workforce.

As part of improvements to our risk and performance reporting processes, we reported on action taken against each of these quarterly to the Board, at each of the Board's governance sub-committee meetings, and monthly to CMT. All 11 risks have been signed-off by the respective committees and a final concluding report will be made to the Board in June.

We are pleased with the changes to our reporting processes and will continue these into next financial year.

## Performance summary

For 2016/17 our annual delivery plan achieved the progress required towards our strategic objectives as noted in Section 3 below and within our financial budgets as noted in Financial Performance Section below. The Board remains on track therefore to deliver its 5 year strategy.

Health Scotland's 2016/17 core revenue resource limit announced by the Scottish Government was £19.216m. This total consisted of three elements; baseline recurring (£18.232m), earmarked recurring (£0.252m) and non-recurring (£0.732m).

The Board ended financial year 2016/17 with a revenue surplus of £145k which is 0.75% of its revenue budget and within tolerance (+/-£50k) of its planned y/e forecast surplus of £0.175m, which can be carried forward to 2017/18 under an arrangement with the Scottish Government. Reports on the financial position were presented to the Audit Committee and the Board throughout the year and financial performance was monitored closely. Financial performance for the year is summarised under item 2 below and disclosed in detail further in this section.

Looking forward into 2017/18, the Board's core allocation has been uplifted by 1%. For 2017/18 the Special Boards have been tasked with collective savings of £15m. At 31 March the Special Boards have committed through their own LDP plans a collective £7.6m with the remaining £7.4m to be identified through collaborative working in the period to 30 September. We have committed £0.5m of savings being part of the £7.6m and will work collectively with our Special Board colleagues on the remaining savings for 2017/18. The Board's 2017/18 financial plan (which reflects this revised core budget) is expected to be approved by the Scottish Government in due course and, following a robust project budget review process, a balanced business plan has been prepared and approved. Year by year efficiency targets, which are higher in 2017/18 than 2016/17 are already challenging and proving hard to meet without prioritising services. The Board will continue to respond flexibly to the changing circumstances facing delivery partners.

## 2. PERFORMANCE ANALYSIS

### Financial performance

	(1) Limit as set by SGHSCD £000	(2) Actual outturn £000	(3) Variance over(-)/under (1) - (2) £000
1 Core revenue resource limit	19,216	19,071	145
Non core revenue resource limit (Depreciation)	415	415	-
Non-core AME provision resource limit	1,027	1,027	-
2 Core capital resource limit	250	220	30
3 Cash requirement	19,000	19,000	-
<b>MEMORANDUM FOR IN YEAR OUTTURN</b>		<b>£000</b>	
Brought forward surplus from previous financial year		226	
Surplus/(Deficit) against in year total revenue resource limit		(81)	

In relation to financial performance management, appropriate Board officers had a personal objective which required that, for the budgets for which they are responsible, 95% were fully committed by 31 January 2017, 90% spent by 28 February, 95% spent by 31 March, and 99% spent by the closure of accounts. Although our actual spend was lower than target at 28 February, taking into account our planned year end outturn and budgeted costs in March, our actual spend on this basis was 88%. We traditionally have a higher planned spend than average in March, as evidenced by our high committed spend by 31 January of 98% which was again the case this year. Overall, with this one exception, these targets have been met and improved upon as shown below.

Target	Performance
95% commitment by 31 January 2017	98%
90% spent by 28 February 2017	88% (see above)
95% spent by 31 March 2017	99%
99% spent by the closure of accounts	99%

The 2016/17 revenue surplus being carried into financial year 2017/18 will enable the Board to progress actions taken during the year to achieve its strategic priorities and maintain its workforce as agreed in partnership. It will be able progress other actions planned to increase efficiency working with its fellow Special Boards.

During the year the Audit Committee played a key role in monitoring performance in delivering the 2016/17 delivery plan and reviewed actions taken by the Corporate Management Team, particularly in relation to improving budget profiling and reducing year end pressures. Regular update reports were provided to the Board at its meetings.

The third phase of the Board's estates strategy commenced in 2015/16 with a review of the floor usage requirement at Meridian Court and certain changes in our office layout at both offices. We consolidated onto one floor at Meridian Court in mid-July 2016 and undertook certain layout changes at both offices which were completed in March 2017 with only some minor works outstanding.

Financial assistance was provided by the Scottish Government in 2016/17 as part of our Estate Strategy which extended into a fourth year but is now complete.

### 3. Performance against key non-financial targets (2016/17)

NHS Health Scotland has a performance framework that directly aligns the Scottish Government's National Performance Framework with *A Fairer Healthier Scotland 2017-22: A Strategic Framework for Action*, the successor to our corporate strategy, *A Fairer Healthier Scotland 2012-17*.

#### Analysis of performance

We provide a detailed analysis of our performance in two documents: our Impact Assessment Report and Quarter 4 Report. The Quarter 4 Report, which reports progress against planned work from our Delivery Plan, is presented to the Board in May each year. The Impact Assessment, which contains a fuller assessment against a range of impact and performance targets, goes to the Board in June.

The 2016/17 End of Year Impact Report will be structured around our Performance Framework agreed by the Board in June 2016. The report will explain the impact that we have made in the 2016/17 financial year and will be presented to the Board for approval in June 2017. The

indicators will cover aspects of our performance that we are both directly responsible for, and have made a contribution to influencing change and impact. The report will also give qualitative case studies to illustrate impact.

Ahead of this report being finalised, we can highlight several important improvements that we have made to our performance management processes and systems in 2016/17 as a result of our impact results last year. These also give us insight into our approach to performance and will support ongoing improvement in subsequent years. We have:

- Strengthened our strategic planning and performance process by developing the role of cross-organisational commissioning to ensure ownership and accountability for delivery. The initial evaluation of this change has been positive.
- Developed an improved performance framework fully aligned with our new strategic priorities, strategic change priorities, core business and Scotland Performs- National Performance Outcomes. This was approved by the Board in March 2017.
- Improved our systems to track new work that initiates during the year. Last year, around 20% of our externally facing products and services were initiated in year. This is higher than we expected (we had estimated about 10%). This year in planning we encouraged staff to leave more flexibility in their plans for new work.
- Developed and deployed a staff time recording tool. The data from this tool and improved analysis of staff time planning during planning helped us identify that some staff were planning unrealistically for what they could achieve in the year. We expect that this will reduce the proportion of our work not delivered because there was not sufficient staff time.
- Developed and tested an improved stakeholder survey. This have us the best insight into the perspective of our customers and partners to date and also a system of measurement that we have been able to integrate within our refreshed performance framework

In relation to the HEAT sickness absence standard of 4%, the Board's 2016/17 sickness absence rate was 3.84%.

We have a local target of 90% of our staff to have completed eKSF reviews, objectives and have a performance development plan in place. The annual monitoring cycle of this target is from May to May, to allow staff to set objectives that are fully aligned with the organisation's delivery and workforce plans, which are approved in March. As at 31 March 2017, 92% of eligible staff had a review, 95% had a PDP and 97% had objectives agreed within the previous twelve months.

#### **4. Sustainability and environmental reporting**

In addition to its scheme of mandatory reporting, the Scottish Government encourages public bodies to disclose their sustainability and environmental performance via their directors' reports and accounts. In 2016/17 the Board's Sustainability group was chaired by the Director of Public Health Science, with membership drawn from across the organisation.

During this year, the Sustainability group has continued to meet the actions identified in response to its Good Corporate Citizen Model self-assessment. Key developments during the year have included further elaboration of the Board's approach to benchmarking progress in reducing business related activities that contribute towards carbon release and creation of waste. Annual organisational performance against these benchmarks was considered formally by the Audit Committee in September 2016, with notable progress being reported on intra-office (and wider) travel, paper usage in printing and copying, and waste reduction. The introduction of the new NHS Scotland eExpenses, which includes enhanced car travel data, will further enhance this monitoring. As in previous years, the Board has been commended by the World Land Trust programme for carbon offsetting in its work on paper saving in the publishing service.

The group has continued to pursue improved sustainability through a focus on issues common to other tenants of its two premises. The group maintains close links with experts in NHS National Services Scotland, both as main occupant of the two offices and co-ordinator of sustainability matters for several NHS Scotland functions, about their corporate commitment and opportunities to mesh action plans on topics of joint interest. NHS Health Scotland staff have become more active in supporting NHS National Services Scotland develop and deliver its corporate sustainability actions.

NHS Health Scotland maintains its position as a full member of the national NHS Scotland Sustainability Group (SSG), which seeks to ensure a consistent and coherent approach to achieving sustainable facilities across the Scottish NHS Estate. It is particularly helpful that this group is now seeking the advice and guidance of colleagues within NHS Health Scotland to establish greater opportunities to broker human and environmental health and sustainability in the work of the SSG.

The Group has continued to progress its broader programme of discussion and encouragement for action that exert greater influence on sustainability programmes across the NHS. The Scottish Managed Sustainability Network (SMaSH), hosted from ScotPHN, is part of this endeavour. During 2016/17 SMaSH was invited to be a significant contributor to the first NHS Scotland Sustainability Day, providing a keynote address and a workshop. The feedback from this was positive and SMaSH, NHS Health Scotland have now been invited to become co-organisers of this national event.

One important collaboration which has developed further in 2016/17 is that which seeks to encourage NHS suppliers and partners to pursue environmental aspirations through procurement. Building on the implementation of the new duty of sustainable procurement duty, NHS Health Scotland and Health Facilities Scotland have initiated work to embed "Scope 3" carbon footprint and waste management data into the procurement of pharmaceuticals within NHS Scotland. Whilst this work is likely to extend into 2017/18, the development represents a significant step forward in national collaboration to support sustainable procurement.

Finally, in regard to its mandatory reporting, NHS Health Scotland produced its first Climate Change Adaptation Plan. This provides detail of the ways in which the organisation will ensure business continuity and support the Board's work to support population health in response to realistic climate change scenarios.

During 2016/17 it was originally intended to develop a consolidated approach to the Board's overall reporting on sustainability. However, with the UK work to update the Corporate Green Code reporting system, which aims to streamline public sector reporting for Scotland, it was decided to put our efforts into supporting this development during the year. As a result work to develop the Board's approach to overall reporting will be initiated in 2017/18.

## **Approval and signing of the Performance Report**



Signed by:

Gerald McLaughlin  
Chief Executive as Accountable Officer

22 June 2017

# NHS HEALTH SCOTLAND

## ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017

### ACCOUNTABILITY REPORT

### CORPORATE GOVERNANCE REPORT

### DIRECTORS' REPORT

1. **Naming convention**

In these accounts NHS Health Scotland is also referred to as Health Scotland.

2. **Date of issue**

Financial statements were approved and authorised for issue by the Board on 22 June 2017.

3. **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. The Auditor General appointed Deloitte to undertake the audit of the Board. 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.

4. **Board membership**

Under the terms of the Scottish Health Plan, the 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. Non-executive members are appointed through an open public appointments process.

In its activities the Board reflects the partnership approach which is essential to improving health and health care.

The Board Chair during the financial year was David Crichton and the Chief Executive was Gerald McLaughlin.

The names and positions of other Board Members who served during the year are disclosed in the remuneration report.

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

5. **Board Members' and senior managers' interests**

As required by International Accounting Standard (IAS) 24, details of any interests of Board Members, senior managers and other senior staff in contracts or potential contractors with the Board are disclosed in Note 16.

Details of company directorships or other significant interests held by Board Members which may conflict with their management responsibilities are recorded in the Register of Board Members' Interests. If required, further information is available from the Chief Executive's office at Health Scotland.

6. **Administration costs of Board Meetings and committees**

Administration costs are primarily Board member travel costs in attending Board and committee meetings. See also Note 4 to the Accounts.



7. **Directors' third party indemnity provisions**  
No qualifying third party indemnity provision (whether made by the Board or otherwise) has been in place for one or more of the directors at any time during the financial year.
8. **Pension liabilities**  
The accounting policy note for pensions is provided in Note 1 and disclosure of the costs is shown within Note 14 and the remuneration report.
9. **Remuneration for non-audit work**  
Details of any remuneration paid to auditors in respect of any non-audit work carried out on behalf of the Board are disclosed in Note 3.
10. **Value of land**  
The land owned by NHS Health Scotland at 31 March 2017 was £NIL (31 March 2016 £NIL).
11. **Public Services Reform (Scotland) Act 2010**  
Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010 imposed 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 financial year.

The Board meets the requirements of the above act by publishing relevant information on its website (<http://www.healthscotland.com/about/reports/PSRA.aspx>).

12. **Personal data related incidents reported to the Information Commissioner.**  
There was one personal data related incident, which we reported to the Information Commissioners Office.

NHS Health Scotland is responsible for holding customer data on a web based database that is accessible to licensed users in 14 Boards. During May 2016 we were alerted to a communication sent out by another NHS organisation which included email addresses displayed. Whilst the vast majority would be businesses email addresses given the focus on business of HWL, some, especially those of small businesses may also be used as personal addresses. The investigation resulted in a review of our systems and processes. We closed down access to the database until the Privacy Statement had been updated. The other NHS organisation issued an apology to the contacts affected. The Licence Agreement that database users agree was updated in light of the data leak. This incident was reported to the Information Commissioner's Office, who determined no further action was necessary.

13. **Payment policy**  
The Scottish Government is committed to supporting business in 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.

In 2016/17 average credit taken was 7 days by volume (prior year 7 days). In 2016/17 the Board paid 99% by volume and 98% by value within 30 days (prior year 98% and 97% respectively). In 2016/17 the Board paid 86% by volume and 84% by value within 10 days (prior year 87% and 82% respectively).

Actions to maintain improvement of payment performance by continuing work with other Health Boards under the 'Purchase to Pay' focus group in 2017/18.

14. **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 he/she ought reasonably to have taken

as a director to make himself/herself aware of any relevant audit information and to establish that the Board's auditors are aware of that information.

15. **Events after the end of the reporting period**

No events after the end of the reporting period need to be disclosed.

16. **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 15.

## **NHS HEALTH SCOTLAND**

### **ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017**

#### **ACCOUNTABILITY REPORT (CONT'D)**

##### **Statement of the Chief Executive's responsibilities as the accountable officer of NHS Health Scotland**

Under Section 15 of the Public Finance and Accountability (Scotland) Act 2000, the Principal Accountable Officer of the Scottish Government has appointed me as Accountable Officer of NHS Health Scotland.

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
- 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
- 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 in the Departmental Accountable Officer's letter of 21 September 2010 to me.

## **NHS HEALTH SCOTLAND**

### **ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017**

#### **ACCOUNTABILITY REPORT (CONT'D)**

##### **Statement of Board members' responsibilities in respect of the accounts.**

Under the National Health Service (Scotland) Act 1978, NHS Health Scotland 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 Board as at 31 March 2017 and of its operating costs for the year then ended. In preparing these accounts the Board Members are required to:

- apply on a consistent basis the accounting policies and standards approved for 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 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 Health Scotland Board Members confirm they have discharged the above responsibilities during the financial year and in preparing the accounts.

## NHS HEALTH SCOTLAND

### ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017

#### ACCOUNTABILITY REPORT (CONT'D)

##### GOVERNANCE STATEMENT

###### Scope of responsibility

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

###### Purpose of internal control

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

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

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

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

###### Governance framework of the Board

The accountability arrangements surrounding my role involve the Board, its committees, the Corporate Management Team and the Partnership Forum, and the strands of corporate governance (clinical, staff, financial and information) are each supported by the embedded risk management and internal control processes, i.e. the internal control framework.

The Board meets regularly during the year to progress its business. It is supported in this work by the Audit Committee, the Staff Governance Committee, the Remuneration Committee and the Health Governance Committee.

At 31 March 2017 the Audit Committee comprised Mr Russell Pettigrew (Chair), Ms Rani Dhir, Ms Ali Jarvis, Mr Paul McColgan, Dr Paul Stollard and Mr Michael Craig. The Audit Committee met 6 times during 2016/17 to consider matters pertaining to Board finances and corporate governance issues.

At 31 March 2017 the Staff Governance Committee comprised Ms Ali Jarvis (Chair), Ms Karen Donnelly and Ms Teresa King (staff side representatives), Ms Michele McCoy, Ms Jane-Claire Judson, Ms Rani Dhir, and Mr Michael Craig (Employee Director). The Staff Governance Committee met 5 times during 2016/17. This Committee has an important role in ensuring maintenance of a culture within the organisation where the highest possible standards of staff management are the responsibility of everyone and are built upon partnership and collaboration. It will ensure robust arrangements to implement the Staff Governance Standard are in place and monitored. This includes acting as the 'parent committee' of the Remuneration Committee, which reports to the Staff Governance Committee. It will also ensure that implementation of the Staff Governance Standard helps drive and support staff to achieve our Quality Ambitions, the Workforce 2020 Vision and the ambitions of our Strategic Framework for Action 2017-22 within a changing structural and policy landscape.

The main remit of the Remuneration Committee, as a sub-committee of the Staff Governance Committee, is to agree the remuneration and terms and conditions of employment of the Chief Executive, executive directors and other employees on contracts with a discretionary element of pay (senior managers, medical consultants etc), within the framework of NHS Scotland policy. Further information relating to the Remuneration Committee is disclosed in the remuneration report.

At 31 March 2017 the Health Governance Committee comprised Dr Paul Stollard (Chair), Ms Jane-Claire Judson, Mr Paul McColgan and Ms Michele McCoy. The Health Governance Committee met 4 times during 2016/17 to review the evidence that NHS Health Scotland's activities make an effective contribution to tackling health inequalities and improving health. This is to ensure the alignment of work with the ten agreed principles; do good, do no harm; fairness; sustainability; respect; participation; empowerment; social responsibility; openness; and accountability.

In relation to clinical governance, this is interpreted for NHS Health Scotland as continuous quality improvement. Reference is made elsewhere in these accounts to our Health Governance Committee and the role it plays in quality assurance and related matters. In accordance with the NHS Quality Strategy, the Board implemented a programme of actions intended to ensure that services are person-centred, safe and effective. Continuous improvement is sought in relation to Board systems so that staff are skilled and confident, we have the resources and equipment we need, we understand the current quality and effectiveness of our services, and we have strong leadership.

The NHS Scotland Staff Governance Standard, defines staff governance as 'a system of corporate accountability for the fair and effective management of all staff and sets out what each NHS Scotland employer must achieve in order to improve continuously in relation to the fair and effective management of staff. The standard requires that all NHS boards must demonstrate that staff are well informed, appropriately trained, involved in decisions which affect them, treated fairly and consistently, and provided with an improved and safe working environment. The 4<sup>th</sup> edition of the standard was issued in June 2013. The Partnership Forum is directly involved in assessing performance through a review of the self-assessment process which leads to an annual monitoring return. Agreed areas for improvement are set out in the Staff Governance Action Plan and progress in implementing the plan is monitored by the Staff Governance Committee and subject to audit inspection. Reference is made elsewhere in these accounts to the Staff Governance Committee and the role it plays.

Whilst the strands of corporate governance have been extended within NHS Scotland, explicitly to include staff, financial and information governance, financial governance is still fundamental to the proper conduct of business within NHS Scotland organisations. In addition to the prevention of fraud and corruption, financial governance includes budgetary control and financial reporting, capital investment, best value, and economy, effectiveness and efficiency. Reference is made elsewhere in these accounts to the Board's financial performance, and to the role played and to be played by the Audit Committee in relation to financial governance.

Information is needed to manage resources. It is also important for clinical governance, corporate governance, service planning and performance management. Policies, procedures and management accountability are needed to manage information securely, efficiently and effectively. Information governance is a framework which brings together all the statutory requirements, standards and best practice that apply to the handling of information. Relevant work encompasses areas of legislation e.g. data protection and freedom of information, and also a number of initiatives such as information security, the Caldicott Framework, records management, information quality assurance, and confidentiality. Progress in this area has been, and will continue to be, monitored by the Audit Committee and subject to audit inspection. The Board considers the quality of the data it uses to be acceptable.

<b>BOARD AND SUB-COMMITTEE ATTENDANCE (No of meetings attended by non-executives in year)</b>	Board	Audit	Staff Governance	Health Governance
David Crichton	6			
Ali Jarvis	6	6	5	
Russell Pettigrew	5	6		
Paul Stollard	5	5		4
Anne Maree Wallace (to 31/5/16)	1			
Jane-Claire Judson	4		2	2
Paul McColgan	5	5		2
Michele McCoy (from 1/6/16)	4		3	4
Rani Dhir (from 1/4/16)	6	4	4	
Michael Craig (Employee Director)	3	3	2	

### Operation of the Board

The table below describes the key elements that comprise the Board's governance arrangements, including the framework that supports the Accountable Officer discharging his responsibilities. The contents of the table summarise the overarching structures that deal with the following areas and indicate how they are linked to each other.

<b>Area</b>	<b>Mainly dealt with by</b>
Setting and communicating the Board's vision and intended outcomes for its stakeholders, ensuring delivery and appropriateness of framework	Development of new corporate strategy A Fairer Healthier Scotland (agreed by the Board on 30 March 2011)
Measuring the quality of services for users, ensuring that services are delivered in accordance with the Board's objectives and confirming that services represent the best use of resources	Health Governance Committee
Defining and documenting the roles and responsibilities of the Board, setting out protocols for effective communication, arrangements for clear delegation, and for challenging and scrutinising Board activity	Board standing orders, scheme of delegation, Board meetings, follow up actions and self-assessments
Reviewing and updating standing orders, standing financial instructions, scheme of delegation, contract/procurement regulations and supporting procedures and manuals which clearly define how decisions are taken and associated risks managed	Review and update systems (annual)
Undertaking the core functions of the Audit Committee and other standing committees of the Board	Terms of reference of standing committees reviewed annually; annual governance report from each standing committee
Ensuring compliance with relevant laws and regulations and internal policies and procedures	Regular review by management, Board, Partnership Forum, and sub-committees
Ensure safety of public funds, facilitating whistleblowing by staff, and recording and investigating complaints from the public	Counter Fraud Action Plan, Whistleblowing Policy, complaints system operational and reported to Board
Identifying and addressing the development needs of executive and non-executive directors in their strategic and operational roles	Board development plan, appraisal systems
Establishing clear channels of communication with all stakeholders, ensuring clear accountability and encouraging open consultation	Communication and engagement strategies
Promoting good governance arrangements in respect of partnerships and other group-working	Partnership Forum and Staff Governance Committee, Stakeholder Performance Forum, stakeholder input to Board Member recruitment processes, service level agreements and partnerships with other NHS bodies

## **Assessment of the Corporate Governance performance**

Taking account of the corporate governance framework described above, an assessment of the Board's compliance with the Scottish Public Finance Manual (SPFM) has been carried out. The Board considers itself to be compliant.

The Board undertakes a self-assessment of its effectiveness using the Board Diagnostic Tool. This includes the following areas of Engaging with Stakeholders; Board Strategic Intent; Holding to Account; Board Dynamics and Board Leadership. The self-assessment process was conducted in November 2016 and a Board Development session was held on 9 December 2016 from which a 2017/18 Board Development Action Plan was developed. This was subsequently approved at the Board Meeting on 17 February 2017.

A detailed analysis of 2016/17 performance is provided in the Annual Operating and Financial Review: Strategic Report with reference to the Quarter 4 Corporate Report and the Corporate End of Year Impact Report. The Quarter 4 Corporate Report summarises the performance of each directorate in terms of delivery against timelines and planned resources, and also assesses overall year performance against the organisation's Corporate Priorities. The End of Year Impact Report provides information on impact and learning from our programmes of work over the financial year and demonstrates delivery of the Board's commitments in terms of the outcomes of our strategy A Fairer Healthier Scotland.

## **Independent Assurances and 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
- comments by the external auditors in their management letters and other reports.

The following processes have been established:

- the Corporate Management Team and Partnership Forum meet regularly to consider plans and implementation of organisational strategy
- periodic reports from the Chair of the Audit Committee to the Board, concerning internal control
- regular reports by internal audit which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the system of internal control together with recommendations for improvement
- regular reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key projects
- a regular programme of risk reviews to identify and keep up to date the record of risks facing the organisation
- a programme of risk awareness training
- annual reports and/or appropriate corporate governance assurance from the Audit, Health Governance, Remuneration and Staff Governance committees.



## **EFQM/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. On 4 February 2015 the Audit Committee agreed that the organisation's assessment against the European Framework for Quality Management (EFQM) covered almost all aspects of the Best Value framework and represented additional value because of the depth and quality of the information and its direct link with organisational improvement plans. In 2016 NHS Health Scotland was assessed against the EFQM excellence model by an external team. The Audit Committee received a full report on the external assessment at their meeting of 26 August 2016. The Audit Committee received an interim annual update on Best Value at their meeting on 9 June 2017. I can therefore confirm that arrangements have been made to secure best value as set out in the SPFM.

## **Assessment of the Board's risk management arrangements**

NHS Scotland bodies are subject to the requirements of the SPFM and 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.

Health Scotland's risk management process is based on having regular:

- maintenance of corporate, master (i.e. directorate) risk registers
- reviews of risk registers, to ensure that they are up to date, and that identified risk reduction actions are being taken and are effective
- periodic reports to the Audit Committee which include an annual review of the corporate risk register, reflect high level and corporate risks, and allow the Audit Committee to provide assurance to the Board
- annual risk update to the Board

During 2015/16 the organisation instigated a review of risk registers and processes to provide added value to the organisation from its risk functions and to secure stronger alignment between the risk registers, the Corporate Planning Tool and the organisation's annual Delivery Plan. This led to a new Corporate Risk Register being approved by the Board in March 2016. The improvement project continued into 2016/17 with key steps being to enhance the governance role of all the Board's standing committees with regards to the risk register, seek further alignment between directorate and corporate level risks and involve the Board in a reassessment of overall risk appetite. Progress against this improvement programme has been regularly reported to the Audit Committee.

Our Corporate Risk Register for 2016/17 listed the 11 most important risks to the organisation achieving our objectives in the financial year. The changing political and public sector landscape, the impact that has on us and the organisations and people we work with, features highly, as does our own ability to position the organisation strategically and deliver products and services that lead others to change, as well as capacity in key parts of the organisation.

A reporting framework was also agreed for 2016/17 which allowed the Audit Committee and the Board to receive regular assurance that risk management strategies are operating effectively. For the Board, as well as an annual report, risk updates will be integrated within quarterly performance reports. Each corporate risk is also directly overseen by either the whole Board or delegated to a governance subcommittee, and they receive an update every time they meet.

In addition, the risk management process has and will continue to:

- specify the key controls, strategies and management arrangements in place to manage these key risks
- identify the individuals in the organisation responsible for the management of the key risks
- continue the process of embedding risk management and risk awareness throughout the organisation.

For 2017/18 the Corporate Risk Register has been further revised down to 6 risks in relation to the Delivery Plan and was approved by the Board on 24 March 2017.

**Disclosures in relation to significant control weaknesses**

During financial year 2016/17 no significant control weaknesses or issues have arisen and no significant failures have arisen in relation to the expected standards for good governance, risk management and control.

I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Board and the Audit Committee, and I have received appropriate assurances from the executive directors and the chairs of the Audit Committee, Staff Governance Committee, Remuneration Committee and Health Governance Committee.

## **NHS HEALTH SCOTLAND**

### **ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017**

#### **ACCOUNTABILITY REPORT (CONT'D)**

#### **REMUNERATION AND STAFF REPORT**

##### **Remuneration Report**

##### **Board Members' and Executive Team remuneration**

Information disclosed in this report relates to the remuneration of Board Members and the Executive Team. Other disclosures in these accounts provide details of the interests of Board Members and senior employees, and information about related party transactions.

Non-executive Board Members are remunerated in accordance with national guidelines. Executive Board Members and senior employees are remunerated in accordance with approved national pay rates. All posts at this level are subject to rigorous job evaluation arrangements and the pay scales applied reflect the outcomes of these processes. All extant policy guidance issued by the Scottish Government Health Directorates has been appropriately applied and agreed by the Remuneration Committee. Determination of individual salary placement on appointment is guided by the terms of the following circulars: HDL(2006)23, HDL(2006)59, CEL(2007)04, CEL(2007)22, and CEL(2008)52.

At 31 March 2017 the Remuneration Committee comprised Mr David Crichton (Chair), Mr Russell Pettigrew, Ms Ali Jarvis, Dr Paul Stollard and Mr Michael Craig (Employee Director). The Remuneration Committee met 4 times during 2016/17 and conducted other relevant business between meetings through electronic processes.

All posts within the Executive Team have been evaluated under an appropriate national scheme (HAY, Agenda for Change or Medical Consultant terms and conditions). Of the six Executive Team posts at 31 March 2017, four are under Executive and Senior Management arrangements, one is under Medical Consultant arrangements and one is under Agenda for Change arrangements.

During the year the Remuneration Committee considered the national review of NHS Scotland executive and senior management pay arrangements.

In line with current guidance and directives, performance management arrangements which create clear links between individual and organisational performance are in place. A formal review takes place annually with individuals when annual objectives are set. Personal development plans are created for all executive and senior managers as part of this process. An interim review is also conducted during the year. The Remuneration Committee plays a crucial role in managing and overseeing performance management processes to ensure that reviews are robust and fit for purpose, and that ratings awarded are supported by performance reported.

As part of the NHS Scotland governance framework, Health Scotland operates the national system of performance related pay for senior managers. The performance appraisal process provides written evidence of the basis for allocating performance ratings to individuals and this is made available to the Remuneration Committee. The Remuneration Committee robustly reviews the individual performance ratings against the evidence of overall organisational performance prior to agreeing any pay awards. Proposals are then submitted to the National Performance Management Committee for review, and implementation of any resulting pay increases is not made until confirmation of these proposals has been received.

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. Non-executive members are appointed by the Scottish Government, normally for a period of three or four years. Contracts of the Executive Team are open ended and all executive team members are required to give six months'

notice of termination of contract. No contract contains any provision for compensation for early termination.

During the year there were no awards made to past Executive Team members and no amounts were payable to third parties for the services of directors. Awards were not payable to Executive Team members in the form of bonuses during 2016/17. The Pay Circulars PCS(AFC) 2015-01, PCS(DD) 2015-01, PCS(ESM) 2015-01 & PCS(MD) 2015-01 have been followed and no provision has been made for non-consolidated performance payments during 2016/17.

Details of Board Members' remuneration are disclosed in the following table which is in the disclosure format as per the Accounts Manual. Figures for the 2015 Pension Scheme (CARE) have been added to relevant members as provided by the SPPA. The information in the following tables has been subject to audit.

**NHS HEALTH SCOTLAND**

**ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017**

**ACCOUNTABILITY REPORT (CONT'D)**

**REMUNERATION AND STAFF REPORT - Remuneration Report (continued)**

**FOR THE YEAR ENDED 31 MARCH 2017**

Single total figure of remuneration	Salary	Salary	Pension Benefits	Pension Benefits	Total	Total
	2017 £000	2016 £000	2017 £000	2016 £000	2017 £000	2016 £000
<b>Executive Team</b>						
<b>McLaughlin, G*</b> (Chief Executive)	100-105	100-105	20	23	120-125	120-125
<b>Bell, S</b> (Director of Health and Work)	70-75	70-75	22	21	90-95	90-95
<b>Denholm, C*</b> (Director of Strategy)	75-80	75-80	20	18	95-100	90-95
<b>Dodds, G</b> (Director of Health Equity)	90-95	85-90	0	21	85-90	105-110
<b>Fraser, A*</b> (Director of Public Health Science) **	155-160	155-160	12	30	170-175	185-190
<b>Patience, A</b> (Head of Finance & Procurement)	65-70	60-65	17	15	80-85	75-80

\* Executive Director

\*\* Remuneration as medical consultant influenced by distinction award and medical director allowance.

**Non executive members:**

Crichton, D (Chair from 1/12/15)	25-30	5-10	-	-	25-30	5-10
Burns, M (Chair to 30/11/15)	-	15 - 20	-	-	-	15-20
Dhir, R (from 1/4/16)	5-10	-	-	-	5-10	-
Fraser, J (to 31/1/16)	-	5-10	-	-	-	5-10
Fullerton, E (to 31/1/16)	-	5-10	-	-	-	5-10
Jarvis, A	5-10	5-10	-	-	5-10	5-10
Judson, J-C (from 1/2/16)	5-10	0-5	-	-	5-10	0-5
McColgan, P (from 1/2/16)	5-10	0-5	-	-	5-10	0-5
McCoy, M (from 1/6/16)	5-10	-	-	-	5-10	-
Mellon, M (to 31/1/16)	-	5-10	-	-	-	5-10
Pettigrew, R	5-10	5-10	-	-	5-10	5-10
Stollard, P	5-10	5-10	-	-	5-10	5-10
Wallace, A M (until 31/5/16)	0-5	5-10	-	-	0-5	5-10
Craig, M (Employee Director) ***	45-50	45-50	12	11	60-65	60-65

\*\*\* Salary includes £42k (2015/16 £41k) in respect of non-Board duties.

Pension Benefits	Accrued pension at pension age as at 31/3/17 £000	Total accrued lump sum at age 65 at 31/3/17 £000	Real increase in pension at pension age £000	Real increase in lump sum at age 65 at 31/3/17 £000	CETV at 31/3/17 £000	CETV at 31/3/16 £000	Real Increase in CETV £000
McLaughlin, G	10-15	0-5	0-2.5	0-2.5	178	147	17
Denholm, C	20-25	0-5	0-2.5	0-2.5	294	269	25
Bell, S	20-25	65-70	0-2.5	2.5-5	428	392	28
Dodds, G	0-5	0-5	0-2.5	0-2.5	782	755	27
Fraser, A	70-75	220-225	0-2.5	2.5-5	1,706	1,625	57
Patience, A	15-20	0-5	0-2.5	0-2.5	45	25	20
Craig, M	10-15	25-30	0-2.5	0-2.5	172	158	14

**Notes**

No performance related bonus payments nor benefits in kind were made to directors or senior employees in 2016/17 and 2015/16.

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 lump sum less the contributions made by the individual. Any negative pension benefit is shown as 0. The cash equivalent transfer value (CETV) calculation has changed between years, resulting in the opening CETV being revised for inflation or pay arrears. This also affects the real difference between the brought forward and carried forward numbers. The Scottish Public Pensions Agency has confirmed these calculations are correct.

The accrued lump sum associated with staff in the 1995 scheme is three times the accrued pension stated above. G McLaughlin, G Dodds and A Patience are not part of that scheme and receive no lump sum.

**NHS HEALTH SCOTLAND**

**ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017**

**ACCOUNTABILITY REPORT (CONT'D)**

**REMUNERATION AND STAFF REPORT (CONT'D)**

**Fair Pay Disclosure:**

<b>2016-17</b>		<b>2015-16</b>	
Range of Staff remuneration (£000's)	15 to 160	Range of Staff remuneration (£000's)	15 to 160
Band of Highest Paid Director's Total Remuneration (£000s)	155 to 160	Band of Highest Paid Director's Total Remuneration (£000s)	155 to 160
Median Total Remuneration (£)	32,731	Median Total Remuneration (£)	33,560
Ratio	4.81	Ratio	4.69

**Commentary**

The remuneration of the highest paid director is as a medical consultant and is influenced by a distinction award and a medical director allowance.

Total remuneration includes salary and benefits in kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value (CETV) of pensions.

**NHS HEALTH SCOTLAND**

**ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017**

**ACCOUNTABILITY REPORT (CONT'D)**

**REMUNERATION AND STAFF REPORT**

**STAFF REPORT**

**a) HIGHER PAID EMPLOYEES' REMUNERATION**

2016 Number	Employees whose remuneration fell within the following ranges:	2017 Number
<b>Clinicians</b>		
1	£80,001 to £90,000	1
1	£110,001 to £120,000	1
<b>Other</b>		
9	£50,001 to £60,000	8
7	£60,001 to £70,000	8
2	£70,001 to £80,000	2
1	£80,001 to £90,000	1
1	£90,001 to £100,000	1
1	£100,001 to £110,000	1
1	£150,001 to £160,000	1

**b) STAFF NUMBERS AND COSTS**

2016 £000	Staff costs	Executive Team Members £000	Non Executive Members £000	Permanent staff £000	Inward/ outward(-) secondes £000	Other staff £000	Total 2017 £000
8,646	Salaries and wages	570	93	8,490	(100)	-	9,053
716	Social security costs	72	3	879	(10)	-	944
1,230	NHS pension scheme employer's costs*	85	-	1,213	(15)	-	1,283
109	Inward secondees	-	-	-	161	-	161
277	Agency staff**	-	-	-	-	416	416
10,978	<b>Sub-total</b>	727	96	10,582	36	416	11,857
93	Compensation for loss of office or early retirement			18	-		18
11,071	<b>Total</b>	727	96	10,600	36	416	11,875
255	<b>Staff Numbers (WTE's)</b>	6	9	241	2	7	265

14	Included in the total Staff numbers were disabled staff of:	18
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\* Staff pension benefits are provided through the NHS Superannuation Scheme for Scotland. Details of the scheme are in Note 14.

\*\* Higher agency costs were incurred in 2016/17 due to short term vacancy periods mainly in marketing posts

**c) Staff Composition – Headcount**

Gender composition of Health Scotland permanent staff.

	Ave Mean 2017			Ave Mean 2016		
	Male	Female	Total	Male	Female	Total
Non-Executive Directors and Employee Director	5	4	9	5	4	9
Executive Team	5	1	6	5	1	6
Other	72	169	241	61	194	255
Total Headcount - Ave Mean	82	174	256	71	199	270

**d) Sickness Absence Data**

	2017	2016
Sickness Absence Rate	3.84%	3.25%

**e) Staff policies relating to employment of disabled people**

Health Scotland is an equal opportunities employer. Health Scotland's approach to equal opportunities is incorporated within the Equality, Diversity and Human Rights Policy which was updated in May 2016, to ensure consistency with NHS Partnership Information Network (PIN) Guidelines.

Health Scotland has a recruitment and selection policy which includes appropriate provision for disabled people. This policy states that Health Scotland recognises that the recruitment and retention of the most suitable employees depends on demonstrating fair recruitment and selection practices, which meet or exceed all statutory requirements. All applicants or potential applicants for posts will be treated fairly and courteously in a non-discriminatory fashion. Applicants will be assessed purely on merit for the post and without reference to sex, race, marital status, religion, colour, ethnic origin, nationality, creed, disability, sexual orientation, unrelated criminal conviction, gender alignment or age. The purpose of this policy is to attract and select the best possible candidates for employment at Health Scotland through a fair and efficient process, which is consistent with best practice.

**f) Exit packages**

Cost Band	Number of Compulsory	2017	
		Number of other departures agreed	Total number of exit packages by cost band
£10,000 - £25,000		1	1
<b>Total number of exit Packages by type</b>		<b>1</b>	<b>1</b>
<b>Total Resource Cost (£'000)</b>	<b>-</b>	<b>18</b>	<b>18</b>
Cost Band	Number of Compulsory	2016	
		Number of other departures agreed	Total number of exit packages by cost band
£25,000 - £50,000		1	1
£50,000 - £100,000		1	1
<b>Total number of exit Packages by type</b>		<b>2</b>	<b>2</b>
<b>Total Resource Cost (£'000)</b>	<b>-</b>	<b>93</b>	<b>93</b>



## NHS HEALTH SCOTLAND

### ANNUAL REPORT AND ACCOUNTS FOR YEAR ENDED 31 MARCH 2017

#### ACCOUNTABILITY REPORT (CONT'D)

#### PARLIAMENTARY ACCOUNTABILITY REPORT

The Parliamentary Accountability report collates the key Parliamentary accountability documents into the annual report and accounts.

##### **a) Losses and Special Payments**

On occasion, the Board is required to write off balances which are no longer recoverable. Losses and special payments over £250k require formal approval to regularise such transactions and their notation in the annual accounts.

No losses or special payments over £250k were incurred or made in the year to 31 March 2017 (31 March 2016 £NIL)

##### **b) Fees and Charges**

As required in the fees and charges guidance in the Scottish Public Finance Manual, NHS Health Scotland charges for services provided on a full costs basis, wherever applicable.

No service was provided over £1m in the year to 31 March 2017 (31 March 2016 £NIL)

#### Approval and signing of the Accountability Report



Signed by:

Gerald McLaughlin  
Chief Executive as Accountable Officer

22 June 2017

# Independent Auditor's Report

## **Independent auditor's report to the members of NHS Health Scotland the Auditor General for Scotland and the Scottish Parliament**

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

## **Report on the audit of the financial statements**

### **Opinion on financial statements**

We have audited the financial statements in the annual report and accounts of NHS Health Scotland for the year ended 31 March 2017 under the National Health Service (Scotland) Act 1978. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cashflow, the Statement of Changes in Taxpayers' Equity and notes to the financial statements numbered 1 to 20, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2016/17 Government Financial Reporting Manual (the 2016/17 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM; and
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

### **Basis of opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the board in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of the Accountable Officer for the financial statements**

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

## **Other information in the annual report and accounts**

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

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

## **Report on regularity of expenditure and income**

### **Opinion on regularity**

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

### **Responsibilities for regularity**

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

## **Report on other requirements**

### **Opinions on other prescribed matters**

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

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

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

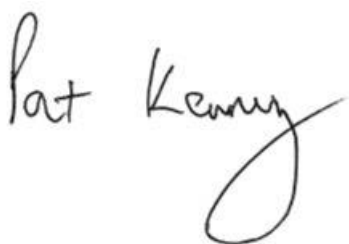
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the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

**Matters on which we are required to report by exception**

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

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

We have nothing to report in respect of these matters.

A handwritten signature in black ink that reads "Pat Kenny". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Pat Kenny, CPFA (for and on behalf of Deloitte LLP)  
110 Queen Street  
Glasgow  
G1 3BX

22 June 2017

**NHS HEALTH SCOTLAND**

**STATEMENT OF COMPREHENSIVE NET EXPENDITURE**

**FOR THE YEAR ENDED 31 MARCH 2017**

<b>2016 £000</b>		<b>Note</b>	<b>2017 £000</b>	<b>2017 £000</b>
	<b>Non clinical costs</b>			
3,343	Administration	4		3,272
16,428	Other non-clinical services	5	17,323	
<u>(72)</u>	Less: other operating income	6	(82)	
<u>16,356</u>	<b>Total non-clinical costs</b>			<u>17,241</u>
19,699	<b>Net operating costs</b>	SOCF		20,513

**Summary of core revenue resource outturn**

19,699	<b>Net operating costs</b>		20,513
<u>(269)</u>	Total non-core expenditure (see below)		<u>(1,442)</u>
19,430	<b>Total core expenditure</b>		19,071
<u>19,204</u>	Core revenue resource limit		<u>19,216</u>
226	<b>Saving/(excess) against core revenue resource limit</b>		145

**Summary of non-core revenue resource outturn**

269	Depreciation/amortisation		415
-	Annually managed expenditure - creation of provisions		1,027
269	<b>Total non-core expenditure</b>		1,442
<u>269</u>	Non-core revenue resource limit		<u>1,442</u>
-	<b>Saving/(excess) against non-core revenue resource limit</b>		-

**Summary resource outturn**

	<b>Resource £000</b>	<b>Expenditure £000</b>	<b>Saving/(excess) £000</b>
Core	19,216	19,071	145
Non-core	1,442	1,442	-
<b>Total</b>	<b>20,658</b>	<b>20,513</b>	<b>145</b>

**Note**

The primary statements and notes to the accounts, numbered 1 to 20 on the following pages, form an integral part of these accounts.

**NHS HEALTH SCOTLAND**

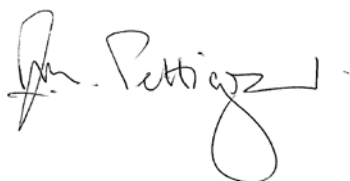
**STATEMENT OF FINANCIAL POSITION**

**AS AT 31 MARCH 2017**

2016 £000	2016 £000		Note	2017 £000	2017 £000
		<b>Non-current assets</b>			
1,792		Property, plant and equipment	7 (c)	1,632	
<u>140</u>		Intangible assets	7 (b)	105	
	<u>1,932</u>	<b>Total non-current assets</b>			<u>1,737</u>
		<b>Current assets</b>			
		Financial assets:			
189		Trade and other receivables	8	199	
<u>856</u>		Cash and cash equivalents	9	555	
	<u>1,045</u>	<b>Total current assets</b>			<u>754</u>
	2,977	<b>Total assets</b>			2,491
		<b>Current liabilities</b>			
		Financial liabilities:			
(1,687)		Trade and other payables	10	(1,319)	
<u>(12)</u>		Provisions (< 12 months)	11	(221)	
	<u>(1,699)</u>	<b>Total current liabilities</b>			<u>(1,540)</u>
	1,278	<b>Non-current assets +/- net current assets/liabilities</b>			951
		<b>Non-current liabilities</b>			
(1)		Trade and other payables (>1 year)	10	(2)	
<u>(26)</u>		Provisions (> 12 months)	11	(844)	
	<u>(27)</u>	<b>Total assets less liabilities</b>			<u>(846)</u>
	1,251	<b>Total assets less liabilities</b>			105
		<b>Taxpayers' equity</b>			
	1,251	General fund	SOCTE		105
	<u>1,251</u>	<b>Total taxpayers' equity</b>			<u>105</u>

Authorised and approved by the Board on 22 June 2017

Russell Pettigrew  
Audit Committee Chair



Gerald McLaughlin  
Chief Executive



The primary statements and notes to the accounts, numbered 1 to 20 on the following pages, form an integral part of these accounts.

**NHS HEALTH SCOTLAND**

**STATEMENT OF CASH FLOW**

**FOR THE YEAR ENDED 31 MARCH 2017**

<b>2016</b>		<b>Note</b>	<b>2017</b>	<b>2017</b>
<b>£000</b>			<b>£000</b>	<b>£000</b>
	<b>Cash flows from operating activities</b>			
(19,699)	Net operating cost	SOCNE	(20,513)	
269	Adjustments for non-cash transactions	3	415	
91	(Increase)/decrease in trade & other receivables	12	(10)	
75	Increase/(decrease) in trade & other payables	12	(65)	
(4)	Increase/(decrease) in provisions	11	1,027	
(19,268)	<b>Net cash outflow from operating activities</b>			(19,146)
	<b>Cash flows from investing activities</b>			
(53)	Purchase of property, plant & equipment (PP&E)	7 (c)	(220)	
0	Purchase of intangible assets	7 (b)	0	
0	Net book value of disposals of PP&E	7 (a)	0	
(53)	<b>Net cash inflow/(outflow) from investing activities</b>			(220)
	<b>Cash flows from financing activities</b>			
19,321	Funding			19,366
752	Movement in general fund working capital	SOCTE		(301)
20,073	Cash drawn down	SOCTE		19,065
20,073	<b>Net financing</b>			19,065
752	Net increase/(decrease) in cash/cash equivalents in period			(301)
104	Cash and cash equivalents at beginning of period			856
856	<b>Cash and cash equivalents at end of period</b>			555
	<b>Reconciliation of net cash flow to movement in net debt/cash</b>			
752	Increase/(decrease) in cash in year			(301)
104	Net debt/cash at 1 April	9		856
856	<b>Net debt/cash at 31 March</b>	9		555

The primary statements and notes to the accounts, numbered 1 to 20 on the following pages, form an integral part of these accounts.

**NHS HEALTH SCOTLAND**

**STATEMENT OF CHANGES IN TAXPAYERS' EQUITY**

**FOR THE YEAR ENDED 31 MARCH 2017**

		<b>General fund £000</b>	<b>Revaluation reserve £000</b>	<b>Total reserves £000</b>
<b>Balance at 31 March 2016</b>		1,252	-	1,252
<b>Changes in taxpayers' equity for 2016/17</b>				
Net operating cost for the year		(20,513)	-	(20,513)
<b>Total recognised income and expense for 2016/17</b>		(20,513)	-	(20,513)
<b>Funding:</b>				
Drawn down	SOCF	19,065	-	19,065
Movement in general fund	SOCF	301	-	301
<b>Balance at 31 March 2017</b>	SOFP	105	-	105
<b>Balance at 31 March 2015</b>		1,629	-	1,629
<b>Changes in taxpayers' equity for 2015/16</b>				
Net operating cost for the year		(19,699)	-	(19,699)
<b>Total recognised income and expense for 2015/16</b>		(19,699)	-	(19,699)
<b>Funding:</b>				
Drawn down	SOCF	20,073	-	20,073
Movement in general fund	SOCF	(752)	-	(752)
<b>Balance at 31 March 2016</b>	SOFP	1,251	-	1,251

The primary statements and notes to the accounts, numbered 1 to 20 on the following pages, form an integral part of these accounts.



# NHS HEALTH SCOTLAND

## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED 31 MARCH 2017

#### 1. 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), International Financial Reporting Interpretations Committee (IFRIC) 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 27 below.

##### **(a) Standards, amendments and interpretations effective in 2016/17**

There are no new standards, amendments or interpretations which affect our policies for the first time in 2016/17.

##### **(b) Standards, amendments and interpretations early adopted in 2016/17**

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

##### 2. Prior year adjustments

There are no prior year adjustments.

##### 3. 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.

##### 4. 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.

##### 5. Funding

Most of the Board's expenditure is met from funds advanced by the Scottish Government within an approved revenue resource limit (RRL). Cash drawn down to fund expenditure within this approved RRL 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 outwith the RRL is allocated to match actual expenditure incurred for the provision of specific 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.

## 6. **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.

### 6.1 **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 asset 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.

### 6.2 **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 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 owned 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 (e.g. 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)).

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

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 comprehensive net expenditure.

### 6.3 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.

Implementation of the estates strategy has led to Health Scotland investing approximately £2m in the estate and infrastructure over two financial years, resulting in a number of new assets being created. With this investment there has been an update to the accounting policy note to reflect the new asset categories created.

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 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 or transfer' ceases to be depreciated upon the reclassification.
- 4) Buildings installations and fittings are depreciated on current value over the estimated remaining life of the asset, as advised by the appointed valuer. They are assessed in the context of the maximum useful lives for building elements.
- 5) Equipment is depreciated over the estimated life of the asset.
- 6) Property, plant and equipment held under finance leases are depreciated over the shorter of the lease term and the estimated useful life.

Depreciation is charged on a straight line basis.

The following asset lives have been used.

<b>Asset category/component</b>	<b>Useful life (years)</b>
Leasehold improvements ( <i>buildings, fixtures &amp; fittings</i> )	Length of the remaining leases
Furniture ( <i>fixtures &amp; fittings</i> )	10
Office and IT equipment	3 - 5
Intangible Assets	5

## 7. Intangible assets

### 7.1 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 as follows.

#### Internally generated intangible assets

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets.

Expenditure on research and development is not capitalised.

#### 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.

#### Websites

Websites are capitalised only when it is probable that future economic benefits will flow to, or service potential be provided to, the Board, where the cost of the asset can be measured reliably, and where the cost is at least £5,000.

### 7.2 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 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.

### 7.3 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) Internally generated intangible assets. Amortised on a systematic basis over the period expected to benefit from the project.
- 2) Software. Amortised over expected useful life.
- 3) Software licences. Amortised over the shorter term of the licence and useful economic lives.
- 4) Other intangible assets. Amortised over expected useful lives.
- 5) Intangible assets which have been reclassified as 'held for sale' cease to be amortised upon the reclassification.

Amortisation is charged on a straight line basis.

Asset categories and useful lives used are shown at item 6.3 above.

### 8. Non-current assets held for sale

The Board has no non-current assets held for sale.

### 9. Donated assets

The Board has no donated assets.

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

Disposal of non-current assets is accounted for as a reduction to the value of assets equal to the net book value of the assets disposed of. 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.

### 11. Leasing

#### Finance leases

Where substantially all risks and rewards of ownership of a leased asset are borne by the Board, the asset is recorded as property, plant and equipment and a corresponding liability is recorded. Assets held under finance leases are valued at their fair values 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 charge is allocated to each period during the lease term 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.

#### **12. Impairment of non-financial assets**

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

#### **13. General fund receivables and payables**

Where the 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 Scottish Government Health and Social Care Directorates (SGHSCD). Where the Board has a net overdrawn cash position at the year end, a corresponding debtor is created and the general fund credited with the same amount to indicate that additional cash is to be drawn down from the SGHSCD.

#### **14. 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.

#### **15. 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 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 annual 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 the Exchequer. The pension cost is assessed every four years by the Government Actuary and this determines the rate of contributions required. The most recent actuarial valuation published by the Scottish Public Pensions Agency took place in the year to 31 March 2016. The next actuarial valuation will be at 31 March 2020.

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.

16. **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 by the Scottish Government.

17. **Related party transactions**

Material related party transactions are disclosed in Note 16 in line with the requirements of IAS 24.

18. **Value Added Tax (VAT)**

Some of the activities of the Board are outside the scope of VAT and, for these activities, 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.

19. **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.

20. **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 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed 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.

21. **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.

22. **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) Financial assets at fair value through profit or loss

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

(b) 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.

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

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive net expenditure.

Financial assets carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the statement of comprehensive net expenditure.

(b) 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.

(c) 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.

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

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

#### (b) 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 Board's other financial liabilities comprise trade and other payables in the balance sheet.

### Recognition and measurement

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

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

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

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

Financial liabilities carried at fair value through profit or loss are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the statement of comprehensive net expenditure.

#### (b) Other financial liabilities

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

## **23. 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. For NHS Health Scotland the chief operating decision-maker has been identified as the Board. This reflects the Board's role in areas such as approving the corporate strategy and annual business plans, allocating resources and monitoring organisational performance.

Segmental information appropriate for NHS Health Scotland is disclosed at Note 17. This information is provided by directorate. Working individually and collectively, the activities of the directorates are guided towards achievement of corporate objectives.

24. **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.

25. **Foreign exchange**

The functional and presentational currencies of the Board are pounds 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.

26. **Third party assets**

The Board had no third party assets.

27. **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 Board has made estimates, assumptions and judgements that have no significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the financial statements within the next financial year.

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**2. STAFF NUMBERS AND COSTS**

Total staff costs for the year to 31<sup>st</sup> March were £11,875k (2016: £11,071k) Further detail and analysis of staff costs can be found in the Remuneration and Staff report, forming part of the Accountability Report.

**3. OTHER OPERATING COSTS**

2016 £000		Note	2017 £000
	<b>Expenditure not paid in cash</b>		
269	Depreciation and amortisation	7(b)&(c)	286
-	Impairments charged to SOCNE	7(c)	129
269	<b>Total expenditure not paid in cash</b>	SOCF	415
	<b>Statutory audit</b>		
40	External auditor's remuneration and expenses		43

**4. ADMINISTRATION COSTS**

2016 £000		Note	2017 £000
65	Audit and financial services fees		75
27	Recruitment fees		35
1,311	Rent, rates, maintenance of buildings (see note A below)		1,106
377	Equipment maintenance/renewals		374
72	Telephones, postage and stationery		49
22	Miscellaneous		18
201	Leased cars and staff travel		205
801	Board Members' remuneration		823
32	Administration of Board meetings and committees		26
0	Losses and special payments	18	0
269	Depreciation and amortisation (see note B below)	3	415
166	System developments (inc shared services)		146
3,343	<b>Total administration costs</b> (see note below)	SOCNE	3,272

Note

The main year-on-year changes in administration costs relate to the items below:

- A Rent, rates, maintenance of buildings – lower due to reduction in office floors at Meridian Court from July 2016.
- B Depreciation and amortisation – higher due to impairment of leasehold improvements on reduction in office floors as above

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**5. OTHER NON CLINICAL SERVICES**

<b>2016</b>		<b>2017</b>	<b>2017</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>
	<b>Analysis of expenditure on projects and staffing by directorate:</b>		
561	Chief Executive's office	549	
1,757	Strategy	2,160	
7,790	Health Equity	8,149	
3,356	Public Health Science	3,125	
2,871	Healthy Working Lives	2,295	
16,335	<b>Sub-total expenditure by directorate</b>		16,278
93	Severance costs		18
-	Injury benefit costs		1,027
16,428	<b>Total other non-clinical services</b>	SOCNE	17,323

**6. OPERATING INCOME**

<b>2016</b>		<b>2017</b>
<b>£000</b>		<b>£000</b>
	<b>Other operating income</b>	
5	Miscellaneous income	17
67	Print income	65
72	<b>Total other operating income</b>	82
66	<b>Of the above, the amount derived from NHS bodies is</b>	43

NHS HEALTH SCOTLAND

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2017

7. (a) ANALYSIS OF CAPITAL EXPENDITURE

2016 £000		Note	2017 £000
	<b>Expenditure</b>		
53	Acquisition of property, plant and equipment	7 (c)	220
	<b>Gross capital expenditure</b>		
	<b>Capital income</b>		
-	Net book value of disposal of property, plant & equipment		-
53	<b>Net capital expenditure</b>		220
<b>SUMMARY OF CAPITAL RESOURCE OUTTURN</b>			
53	Net capital expenditure as above		220
100	Capital resource limit		250
47	<b>Saving/excess(-) against capital resource limit</b>		30

7. (b) INTANGIBLE ASSETS

	Software licences £000	Other Intangible £000	Total £000
<b>CURRENT YEAR</b>			
<b>Cost or valuation:</b>			
As at 1 April 2016	108	175	283
Additions	-	-	-
<b>As at 31<sup>st</sup> March 2017</b>	<b>108</b>	<b>175</b>	<b>283</b>
<b>Amortisation</b>			
As at 1 April 2016	(108)	(35)	(143)
Provided during the year	-	(35)	(35)
<b>At 31 March 2017</b>	<b>(108)</b>	<b>(70)</b>	<b>(178)</b>
<b>Net book value at 1 April 2016</b>	-	140	140
<b>Net book value at 31 March 2017</b>	<b>-</b>	<b>105</b>	<b>105</b>
	SOFP		
<b>PRIOR YEAR</b>			
<b>Cost or valuation:</b>			
As at 1 April 2015	108	175	283
Additions	-	-	-
<b>At 31 March 2016</b>	<b>108</b>	<b>175</b>	<b>283</b>
<b>Amortisation</b>			
As at 1 April 2015	(108)	-	(108)
Provided during the year	-	(35)	(35)
<b>At 31 March 2016</b>	<b>(108)</b>	<b>(35)</b>	<b>(143)</b>
<b>Net book value at 1 April 2015</b>	-	175	175
<b>Net book value at 31 March 2016</b>	<b>-</b>	<b>140</b>	<b>140</b>
	SOFP		

NHS HEALTH SCOTLAND

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2017

7. (c) PROPERTY, PLANT AND EQUIPMENT (purchased assets)

	Leasehold Improvements	IT*	Fixtures & fittings	Assets under Construction £000	Total £000
	£000	£000	£000		£000
<b>CURRENT YEAR</b>					
<b>Cost or valuation</b>					
At 1 April 2016	1,421	416	671	-	2,508
Additions	108	-	48	64	220
Disposals	-	-	-	-	-
<b>At 31 March 2017</b>	<b>1,529</b>	<b>416</b>	<b>719</b>	<b>64</b>	<b>2,728</b>
<b>Depreciation</b>					
At 1 April 2016	(304)	(244)	(168)	-	(716)
Provided during the year	(125)	(51)	(75)	-	(251)
Impairment	(129)	-	-	-	(129)
Disposals	-	-	-	-	-
<b>At 31 March 2017</b>	<b>(558)</b>	<b>(295)</b>	<b>(243)</b>	<b>-</b>	<b>(1,096)</b>
<b>Net book value at 1 April 2016</b>	<b>1,117</b>	<b>172</b>	<b>503</b>	<b>-</b>	<b>1,792</b>
<b>Net book value at 31 March 2017</b>	<b>971</b>	<b>121</b>	<b>476</b>	<b>64</b>	<b>1,632</b>
					SOFP
<b>Asset financing:</b>					
Owned	971	121	476	64	1,632
<b>Net book value at 31 March 2017</b>	<b>971</b>	<b>121</b>	<b>476</b>	<b>64</b>	<b>1,632</b>
<b>PRIOR YEAR</b>					
<b>Cost or valuation</b>					
At 1 April 2015	1,421	409	625	-	2,455
Additions	-	7	46	-	53
Disposals	-	-	-	-	-
<b>At 31 March 2016</b>	<b>1,421</b>	<b>416</b>	<b>671</b>	<b>-</b>	<b>2,508</b>
<b>Depreciation</b>					
At 1 April 2015	(188)	(194)	(100)	-	(482)
Provided during the year	(116)	(50)	(68)	-	(234)
Disposals	-	-	-	-	-
<b>At 31 March 2016</b>	<b>(304)</b>	<b>(244)</b>	<b>(168)</b>	<b>-</b>	<b>(716)</b>
<b>Net book value at 1 April 2015</b>	<b>1,233</b>	<b>215</b>	<b>525</b>	<b>-</b>	<b>1,973</b>
<b>Net book value at 31 March 2016</b>	<b>1,117</b>	<b>172</b>	<b>503</b>	<b>-</b>	<b>1,792</b>
					SOFP
<b>Existing use value of land and buildings included above</b>	<b>1,117</b>				
<b>Asset financing:</b>					
Owned	1,117	172	503	-	1,792
<b>Net book value at 31 March 2016</b>	<b>1,117</b>	<b>172</b>	<b>503</b>	<b>-</b>	<b>1,792</b>

\* IT = information technology

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**7. (d) PROPERTY, PLANT AND EQUIPMENT DISCLOSURES**

<b>2016</b>		<b>Note</b>	<b>2017</b>
<b>£000</b>			<b>£000</b>
	<b>Net book value of tangible fixed assets at 31 March</b>		
1,792	Purchased	7 (c)	1,632
<span style="border: 1px solid black; padding: 2px;">1,792</span>	<b>Total</b>	SOFP	<span style="border: 1px solid black; padding: 2px;">1,632</span>
<u>          -</u>	<b>Net book value related to land valued at 31 March</b>		<u>          -</u>
<u>  1,117</u>	<b>Net book value related to buildings valued at 31 March</b>		<u>  1,117</u>

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**8. TRADE AND OTHER RECEIVABLES**

<b>2016</b>		<b>2017</b>	<b>2017</b>
<b>£000</b>		<b>£000</b>	<b>£000</b>
	<b>Receivables due within one year</b>		
	<b>NHS Scotland</b>		
20	SGHSCD	-	
64	Boards	14	
84	<b>Total NHS Scotland debtors</b>	14	
59	VAT recoverable	128	
29	Prepayments	33	
7	Other receivables	15	
10	Other Public Sector Bodies	9	
189	<b>Total receivables due within one year</b>		199
	<b>- Receivables due after more than one year</b>		-
189	<b>Total receivables</b> (denominated in pounds sterling)	SOFP	199
	<b>Whole of Government Accounts classification</b>		
64	NHS Scotland		14
89	Central Government bodies		137
36	Balances with bodies external to Government		48
189	<b>Total</b>		199
	Receivables that are less than three months past their due date are not considered impaired. As at 31 March 2017, debtors with a carrying value of £3k (2016 £0k) were past their due date but not impaired. The ageing of receivables which are past due but not impaired is as follows:		
3	Up to 3 months past due		-
-	3 to 6 months past due		-
3	<b>Total</b>		-

The maximum exposure to credit risk is the fair value of each class of receivable. The Board does not hold any collateral as security. The carrying amount of receivables is denominated in pounds sterling. The receivables assessed as past due but not impaired were mainly other public sector entities and there is no history of default from these customers recently.



NHS HEALTH SCOTLAND

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2017

9. CASH AND CASH EQUIVALENTS

		At 1/4/16 £000	Cash flow £000	At 31/3/17 £000
<b>Current year</b>				
Government Banking Service account		836	(312)	524
Cash at bank and in hand		20	11	31
<b>Total cash and cash equivalents</b>	SOFP, SOCF	856	(301)	555

		At 1/4/15 £000	Cash flow £000	At 31/3/16 £000
<b>Prior year</b>				
Government Banking Service account		72	764	836
Cash at bank and in hand		32	(12)	20
<b>Total cash and cash equivalents</b>	SOFP, SOCF	104	752	856

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

10. TRADE AND OTHER PAYABLES

2016 £000		2017 £000	2017 £000
	<b>Payables due within one year</b>		
	<b>NHSScotland</b>		
184	Boards	156	
184	<b>Total NHSScotland payables</b>	156	
856	General fund payable	554	
1	Trade payables		
617	Accruals	582	
29	Other payables	27	
1,687	<b>Total payables due within one year</b>		1,319
	<b>1 Payables due after more than one year</b>		2
1,688	<b>Total payables</b> (denominated in pounds sterling)	SOFP	1,321
	<b>Whole of Government Accounts classification</b>		
184	NHSScotland		156
3	Whole Government bodies		-
1,501	Balances with bodies external to Government		1,165
1,688	<b>Total</b>		1,321

The carrying amount of short term payables is in pounds sterling and approximates their fair value.

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**11. PROVISIONS - CURRENT YEAR**

2016	Note	Injury Benefit £'000	Participation in CNORIS £'000	2017
£000				£000
38	At 1 April 2016	-	38	38
-	Arising during the year	1,027	-	1,027
-	Utilised during the year	-	-	-
38	<b>At 31 March 2017</b>	1,027	38	1,065
2	Payable within 12 months			221
36	Payable after 12 months			844
Analysis of expected timing of discounted flows to 31 March 2017:				
	Payable in one year	219	2	221
	Payable between 2-5 years	137	-	137
	Payable between 6-10 years	170	-	170
	Thereafter	501	36	537
	Total as at 31 March	1,027	38	1,065

**Participation in CNORIS**

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 boards' own budgets. Participants e.g. NHS boards 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. 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 NHS Scotland has been made. NHS Scotland has no clinical or other claims under CNORIS at 31 March 2017 (31 March 2016 – None) and hence has £NIL against the first provision element of CNORIS as described above. NHS Scotland has made a £38,000 provision at 31 March 2017 (31 March 2016 £38,000) in respect of the Board's share of the total CNORIS liability on NHS Scotland as noted above.

**Injury Benefit**

The Board has provided for awards under the permanent injury benefits scheme, in discussion with the Scottish Government under the AME provision resource limit. The provision is based on information and advised annual rates provided by the Scottish Public Pensions Agency (SPPA), under the NHSSS and estimated remaining lives of recipients derived from interim life tables for Scotland produced annually by National Statistics which give period life expectancy by age and sex. Each life table is based upon population estimates, births and deaths data for a period of three consecutive years. The sum provided for each individual is recalculated annually based upon changes in their annual rates and period life expectancy at the balance sheet date. As the period life expectancies are typically for a considerable number of years during which the claimants will receive payments the actuarially calculated amounts are discounted using the provision discount rate as set by HM Treasury, which was 0.24% as at the balance sheet date. As at the balance sheet date the average life expectancy was 25 years.

NHS HEALTH SCOTLAND

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2017

12. MOVEMENT ON WORKING CAPITAL BALANCES

2016 Net movement £000		Note	2017 Opening balances £000	2017 Closing balances £000	2017 Net movement £000
	<b>TRADE AND OTHER RECEIVABLES</b>				
91	Due within one year	8	189	199	
91	<b>Net decrease/increase(-)</b>				(10)
	<b>TRADE AND OTHER PAYABLES</b>				
826	Due within one year	10	1,686	1,319	
1	Due after more than one year	10	1	1	
(752)	Less: general fund creditor included in above	10	(856)	(554)	
75	<b>Net decrease(-)/increase</b>				(65)
	<b>PROVISIONS</b>				
(4)	Due within and outwith one year	11	38	1,065	1,027
(162)	<b>NET MOVEMENT decrease(-)/increase</b>	SOCF			953

13. COMMITMENTS UNDER LEASES

**Operating leases**

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

2016 £000		2017 £000
	<b>Obligations under operating leases comprise:</b>	
	<b>Buildings</b>	
732	Not later than one year	553
732	Later than one year, not later than two years	553
2,196	Later than two years, not later than five years	1,659
3,221	Later than five years	2,272
	<b>Other</b>	
13	Not later than one year	12
11	Later than one year, not later than two years	-
	<b>Amounts charged to operating costs in the year were:</b>	
13	Hire of equipment (including vehicles)	12
732	Other operating leases	602
745	<b>Total</b>	614

## NHS HEALTH SCOTLAND

### NOTES TO THE ACCOUNTS

#### FOR THE YEAR ENDED 31 MARCH 2017

#### 14. PENSION COSTS

NHS Health Scotland participates in the NHS Superannuation Scheme Scotland (NHSSS). 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 and was completed in January 2015. The next valuation will be as at 31 March 2016 and this will set contribution rates from 1 April 2019.

NHS Health Scotland has no liability for other employers obligations to the multi-employer scheme.

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.

- (i) The scheme is an unfunded multi-employer defined benefit scheme.
- (ii) It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where the (name of body) 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 2017 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 employer's pension contributions for fourteen years from 1 April 2016. This contribution is included in the 14.9% employer's contribution rate.
- (v) The total employer contributions received for the NHSSS scheme in the year to 31 March 2016 were £739m, with the Board contributing £1,230k (0.17%). NHSSS scheme contributions collected in the year to 31 March 2017 will be published in November 2017.

For 2016/17, normal employer contributions of £1,283k were payable to the SPPA (prior year £1,230k) at the rate of 14.9% (prior year 13.5%) of total pensionable salaries. In addition, during the accounting period the Board incurred additional costs of £Nil (prior year £Nil) arising from voluntary redundancies.

Changes to the scheme were implemented from 1 April 2008. Staff who joined the scheme up to 31 March 2008 will keep the benefits of the '1995 scheme' at that date but will be given the choice to transfer to the '2008 scheme'.

**Scheme to 31 March 2008 ('1995 scheme')**: this provides benefits on a 'final salary' basis at a normal retirement age of 60. Annual benefits are normally based on 1/80<sup>th</sup> of the best of the last three years' pensionable pay for each year of service. In addition, a lump sum equivalent to three years' pension is payable on retirement. Members pay tiered contribution rates ranging from 5% to 10.9% (5% to 10.9% 2013/14) of pensionable earnings. Pensions are increased in line with the Retail Prices Index.

# NHS HEALTH SCOTLAND

## NOTES TO THE ACCOUNTS

### FOR THE YEAR ENDED 31 MARCH 2017

#### 14. PENSION COSTS (cont.)

On death, pensions are payable to the surviving spouse at a rate of half the member's pension. On death in service, the scheme pays a lump-sum benefit of twice pensionable pay and also provides a service enhancement on computing the spouse's pension. The enhancement depends on length of service and cannot exceed 10 years. Child allowances are payable according to the number of dependant children and whether there is a surviving parent who will get a scheme widow/widower's pension. Medical retirement is possible in the event of serious ill health. In this case, pensions are brought into payment immediately where the member has more than 2 years' service. Where service exceeds 5 years, the pension is calculated using specially enhanced service, with a maximum enhancement of 10 years.

Members aged 50 or above may take voluntary early retirement and receive a reduced pension. Alternatively, if the employer agrees to this, the member will be able to retire on the full pension and lump sum which he/she has earned.

**Scheme from 1 April 2008 to 31 March 2015 ('2008 scheme')**: this scheme provides benefits on a 'final salary' basis at a normal retirement age of 65. Pension will have an accrual rate of 1/60<sup>th</sup> and be calculated on the basis of the average of the best consecutive three years' pensionable pay in the ten years before retirement. There is an option to exchange part of pension benefits for a cash lump sum at retirement, up to 25% of overall pension value. Members pay tiered contribution rates ranging from 5% to 10.9% (5% to 10.9% 2013/14) of pensionable earnings. Pensions and allowances are index linked to protect their value.

Members aged 55 or above may take voluntary early retirement and receive a reduced pension. Alternatively, if the employer agrees to this, the member will be able to retire on the full pension and lump sum which he/she has earned.

**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)** 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.

	2016/17	2015/16
	£000	£000
Pension cost charge for the year	1,283	1,230
Additional costs arising from early retirement	0	0

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**15. FINANCIAL INSTRUMENTS**

**(a) FINANCIAL INSTRUMENTS BY CATEGORY**

**Financial assets**

	Note	Loans and Receivables £000	Total £000
<b>AT 31 MARCH 2017</b>			
<b>Assets per balance sheet</b>			
Trade and other receivables excluding prepayments, reimbursements of provisions, VAT recoverable and amounts due from other Boards	8	24	24
Cash and cash equivalents	9	555	555
<b>Total</b>		<b>579</b>	<b>579</b>

	Note	Loans and receivables £000	Total £000
<b>AT 31 MARCH 2016</b>			
<b>Assets per balance sheet</b>			
Trade and other receivables excluding prepayments, reimbursements of provisions, VAT recoverable and amounts due from other Boards	8	17	17
Cash and cash equivalents	9	856	856
<b>Total</b>		<b>873</b>	<b>873</b>

**Financial liabilities**

	Note	Other financial liabilities £000	Total £000
<b>AT 31 MARCH 2017</b>			
<b>Liabilities per balance sheet</b>			
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income, superannuation and amounts due to other Boards	10	1,163	1,163
<b>Total</b>		<b>1,163</b>	<b>1,163</b>

	Note	£000	£000
<b>AT 31 MARCH 2016</b>			
<b>Liabilities per balance sheet</b>			
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income, superannuation and amounts due to other Boards	10	1,502	1,502
<b>Total</b>		<b>1,502</b>	<b>1,502</b>

## NHS HEALTH SCOTLAND

### NOTES TO THE ACCOUNTS

#### FOR THE YEAR ENDED 31 MARCH 2017

#### 15. FINANCIAL INSTRUMENTS (continued)

##### (b) FINANCIAL RISK FACTORS

###### **Exposure to risk**

The activities of Health Scotland 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 Board might not have funds available to meet its commitments to make payments

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

The Board provides written principles for overall risk management, as well as written policy, and operates a risk management strategy (adhering to the requirements of the Scottish Public Finance Manual) as disclosed within the governance statement.

###### **Credit risk**

Credit risk arises from cash and cash equivalents and 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 and parameters set by the 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.

###### **Liquidity risk**

The Scottish Parliament makes provision for the use of resources by the 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 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.

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**15. FINANCIAL INSTRUMENTS (continued)**

	<b>Less than 1 year £000</b>	<b>Between 1 &amp; 2 Years £000</b>
<b>AT 31 MARCH 2017</b>		
Trade and other payables excluding statutory liabilities	1,163	1
<b>Total</b>	1,163	1
<b>AT 31 MARCH 2016</b>		
Trade and other payables excluding statutory liabilities	1,502	1
<b>Total</b>	1,502	1

**Market risk**

The 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 Board in undertaking its activities.

- **Cash flow and fair value interest rate risk**  
The 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.
- **Foreign currency risk**  
The Board is not exposed to foreign exchange rates.
- **Price risk**  
The Board is not exposed to equity security price risk.

**(c) FAIR VALUE ESTIMATION**

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



## NHS HEALTH SCOTLAND

### NOTES TO THE ACCOUNTS

#### FOR THE YEAR ENDED 31 MARCH 2017

#### 16. RELATED PARTY TRANSACTIONS

Health Scotland is funded by the Scottish Government Health and Social Care Directorates (SGHSCD). During the year Health Scotland has had various material transactions with SGHSCD (which is regarded as a related party) and with other entities for which SGHSCD is regarded as the parent department. Health Scotland has also had a number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Scottish Public Pensions Agency, HM Revenue & Customs, and various NHS bodies in England and Wales. Details of transactions with and balances due from other NHS Scotland bodies are provided below.

<b>NHS Scotland body</b>	<b>Due to £000</b>	<b>Due from £000</b>	<b>Income from £000</b>	<b>Expenditure with £000</b>
NHS Ayrshire and Arran	-	-	-	101
NHS Borders	-	-	-	19
NHS Dumfries and Galloway	-	-	-	37
NHS Fife	5	-	-	119
NHS Forth Valley	-	-	-	36
NHS Grampian	-	-	3	65
NHS Greater Glasgow & Clyde	16	-	6	230
NHS Highland	-	-	-	43
NHS Lanarkshire	6	-	9	100
NHS Lothian	15	1	7	185
NHS Orkney	1	-	-	20
NHS Shetland	-	-	-	19
NHS Tayside	-	-	-	52
NHS Western Isles	-	-	-	19
National Services Scotland	84	13	108	1,406
Scottish Ambulance Service	18	-	-	74
NHS Education for Scotland	-	-	-	1
State Hospital	-	-	-	-
NHS 24	-	-	-	9
Healthcare Improvement Scotland	11	-	65	13
NHS National Waiting Times Centre	-	-	-	-
<b>Total boards and special health boards</b>	<b>156</b>	<b>14</b>	<b>198</b>	<b>2,548</b>

During the year 2016/17 Health Scotland made a payment to Voluntary Action Scotland for sponsorship to the value of £2,500. Ms Cath Denholm is a board member of Voluntary Action Scotland. The payment was authorised under delegated authority with no involvement in the sponsorship by Ms Denholm.

There are no other interests of Board Members, senior managers and other senior staff in contracts or potential contractors with the Board which require disclosure under International Accounting Standard (IAS) 24.

**NHS HEALTH SCOTLAND**

**NOTES TO THE ACCOUNTS**

**FOR THE YEAR ENDED 31 MARCH 2017**

**17. SEGMENT INFORMATION**

Segmental information as required under International Financial Reporting Standards has been reported by directorate. This is consistent with the form of reporting to the Corporate Management Team, Audit Committee and Board.

	<b>Net operating cost £000</b>	<b>Revenue from external sources £000</b>	<b>Depreciation £000</b>
<b>2017</b>			
Chief Executive's office	2,603		415
Healthy Working Lives	2,403		
Health Equity	8,570	39	
Strategy	3,466		
Public Health Science	3,138	43	
	20,180	82	415
<b>SOCNE Total</b>			<b>20,513</b>
<b>2016</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Chief Executive's office	1,672		269
Healthy Working Lives	2,979		
Health Equity	8,213	68	
Strategy	3,268		
Public Health Science	3,370	4	
	19,502	72	269
<b>SOCNE Total</b>			<b>19,699</b>

**18. SUMMARY OF LOSSES AND SPECIAL PAYMENTS**

<b>2016 £</b>		<b>2017 £</b>
-	Loss of equipment	100
-	<b>Total</b>	<b>100</b>

**19. EXCEPTIONAL ITEMS AND PRIOR YEAR ADJUSTMENTS**

There have been no exceptional items nor prior year adjustments in the year.

**20. EVENTS AFTER THE END OF THE REPORTING YEAR**

There have been no events after the end of the reporting period which have a material effect on these accounts.

**NHS HEALTH SCOTLAND**

**DIRECTION BY THE SCOTTISH MINISTERS**

**FOR THE YEAR ENDED 31 MARCH 2017**


**APPENDIX**



**NHS Health Scotland**

**DIRECTION BY THE SCOTTISH MINISTERS**

1. The Scottish Ministers, in exercise of the powers conferred by sections 86(1), (1B) and (3) of the National Health Service (Scotland) Act 1978, as read with article 5(1) of and the Schedule to the Health Education Board for Scotland Order 1990, (S.I. 1990/2639), and all powers enabling them in that behalf, 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