


NHS Health Scotland annual
report and accounts – for the
year ended 31 March 2019

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NHS Health Scotland is a WHO Collaborating Centre for Health Promotion and Public Health Development.

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Performance report

1. Overview

1.1 Chief Executive's statement

2018/19 was an unprecedented year for NHS Health Scotland. It was a year of change and transition as plans developed for the organisation to become part of a new public health body. This new body – Public Health Scotland – will bring together all domains of public health in order to make a real difference to the health of the people of Scotland. This is an exciting change that we welcome at NHS Health Scotland, as indeed we warmly welcome the collaborative approach being taken by the Scottish Government in developing the new body.

Throughout the year we ensured that we had the capacity to effectively contribute to, and manage the impact of, change while also driving forward our work on fairer health improvement. I would like to highlight four areas of work of particular note.

On 1 May 2018, the Scottish Government introduced a **Minimum Unit Price (MUP)** for alcohol and NHS Health Scotland was assigned the important task of leading an independent evaluation. Therefore this year we have reviewed and constructed our Monitoring and Evaluating Scotland's Alcohol Strategy (MESAS) programme to recognise the change and to design a series of studies that will assess the impact of the measure. This will inform the review of MUP that the Scottish Parliament will carry out before 30 April 2024.

It became clear this year that **life expectancy in Scotland**, as with other UK countries, has stalled after a period of almost uninterrupted and significant progress over 70 years. NHS Health Scotland has coordinated a series of studies to understand this key event that is a bellwether of public health and wellbeing, explore the causes, and seek measures that would be most likely to re-establish a steady increase in life expectancy. Our best understanding at the moment is that austerity, pressures on health and social services, and influenza, have all contributed to the recent trends.

On 30 November 2018, **the Scottish Prison Service successfully introduced smoke-free arrangements across all of its establishments**. This took place with

the full support of NHS Health Scotland, including coordinating the NHS Scotland response and preparations for the change. This involved developing new guidance involving all NHS and Scottish Prison Service partners, support and provision of products and services to help detainees (three-quarters of whom smoked) to stop nicotine altogether or to cope with the effects of tobacco addiction, and advised on a programme of research.

In August, we published our latest results from the **Scottish Burden of Disease study**, highlighting that nearly a third (32.9%) of early deaths and ill health in Scotland could be avoided if the whole population had the same life circumstances as the people who live in our wealthiest areas. The majority of conditions that cause most of the burden of disease are related to modifiable factors that affect our health, and so the project is now exploring implications for workforce planning and the potential impact of a range of interventions.

In addition, and against an in-year revenue resource allocation of £20,169k and a brought-forward surplus of £123k from 2017/18, we spent £19,826k and will carry forward £343k to 2019/20. In previous years we maintained a financial policy of spending our annual allocation and managing within the flexibility of around 1% on brought-forward and carry-forward surpluses. However in the build up to Public Health Scotland we need to have a slightly higher flexibility of 1.7% as a carry-forward to 2019/20, subject to Scottish Government approval, and have planned for this level in our Financial Plan for 2019/20.

The year ahead is one of transformation and it will be our final year of operation as NHS Health Scotland. Whilst 2019/20 will therefore be a year of significant organisational change, we are as committed as ever to our work towards a fairer, healthier Scotland. Our mission to reduce health inequalities and improve health is as relevant now as it was in 2012 when we introduced our first strategy focused on A Fairer Healthier Scotland. The task we have set ourselves this year is to make sure that this mission remains key within the context of wider public health reform as we move successfully into the new agency

1.2 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).

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 (CPPs), 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
- applying evidence of what works to reduce inequalities and improve health along with good practice, to professional and public audiences
- providing specialist marketing support linked to local health improvement services and facilitating the integration of local and national approaches 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.

1.3 Delivery performance summary

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.

2018/19 was the second year of our five-year strategic framework for the 2017–22 period.

For each of our five strategic priorities and three strategic change priorities we set long-term outcomes in our five-year strategy, knowing that the strategy would provide a framework for action on fairer health improvement for our successor body, Public Health Scotland. We know now that fairer health improvement will have a prominent role in the new body, and features strongly in the national Public Health Priorities launched last year.

Annual delivery commitments towards meeting these long-term priorities are set and monitored by a senior cross-organisational management group on behalf of the Corporate Management Team and Board. Regular detailed quarterly performance reports showed that we are making good progress towards the long-term outcomes set out in our strategy, despite the challenging economic context that we share with public bodies and civil society throughout Scotland. This context makes our work all the more crucial for the health of the people of Scotland, especially those who are feeling the brunt of austerity most keenly.

1.4 Financial performance summary

The Board ended financial year 2018/19 with a revenue surplus of £343k which is 1.7% of its revenue budget and just below its planned year-end forecast surplus of £362k, which will be carried forward to 2019/20 subject to agreement 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 5 below and disclosed in detail further in that section.

For 2019/20, the Board's core allocation is planned to be £19,009k, as subject to actual pay funding which has been confirmed in principle by the Scottish Government. This represents the second successive year where no uplift to the core allocation has been applied, in line with other non-patient-facing National Boards, causing further cost pressures (part pay and project) for the organisation.

The Board's 2019/20 financial plan (which reflects this revised core budget) which has been submitted to the Scottish Government following a robust project budget review process, shows a balanced business plan. Year-by-year efficiency targets are already challenging and proving hard to meet without prioritising key services. The Board will continue to respond flexibly to the changing circumstances facing delivery partners.

Under current accounting arrangements Health Boards must show liabilities for future years in their accounts without showing funding anticipated from the Scottish Government Health and Social Care Directorate (SGHSCD). This has resulted in net liabilities on the Statement of Financial Position. The Statement of Financial Position reflects liabilities falling due in future years that are expected to be met by the receipt of funding from the Scottish Government. Accordingly, the accounts have been prepared on the going concern basis.

1.5 Key risks and issues

Six key risks and issues were identified in the Corporate Register for 2018/19:

- 1** Core funding reductions.
- 2** Resources being used for transition at the detriment to the delivery plan.
- 3** Lack of contingency planning for delayed start to the new health body leading to gaps in accountability resulting in reputational damage.
- 4** Different cultures and practices in the legacy bodies becoming an impediment to the creation of the new body.
- 5** Impacts on productivity and staff turnover resulting from change, meaning we do not deliver all our commitments for 2018/19.
- 6** Lack of engagement with local-authority and third-sector stakeholders in creating the new public health body, resulting in reduced credibility.

In addition to these key risks the impact of Brexit/EU withdrawal was considered with minimal effect on the organisation of any change. These key risks were mitigated and managed through the year by appropriate action with reports to each Audit Committee. See further details on page 28.

2 Performance analysis

2.1 Financial performance

No.	Category	(1) Limit as set by SGHSCD £'000	(2) Actual outturn £'000	(3) Variance over (-) /under (1) – (2) £'000
1	Core revenue resource limit	19,881	19,538	343
	Non-core revenue resource limit	288	288	-
	Total revenue resource limits	20,169	19,826	343
2	Core capital resource limit	6	6	-
3	Cash requirement	19,050	19,087	(37)

Memorandum for in-year outturn	£'000
Brought forward surplus from previous financial year	123
Surplus/(deficit) against in-year total revenue resource limit	220

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 2019, 90% spent by 28 February, 95% spent by 31 March, and 98% spent by the closure of accounts as at 30 April 2019. As stated in the Chief Executive statement at 1 above in the build up to Public Health Scotland we need to have a slightly higher flexibility of 1.7% as a carry-forward to 2019/20 and have planned for this level in our Financial Plan for

2019/20. Although our actual spend was lower than target at 28 February, taking into account our planned year-end outturn and traditionally higher budgeted costs in March, our actual spend on this basis was 87%. We traditionally have a higher planned spend than average in March, as evidenced by our high committed spend by 31 January of 95%, which was again the case this year. Overall, our targets have been in line with our revised expectations as shown below.

Target	Performance
95% commitment by 31 January 2019	95%
90% spent by 28 February 2019	87% (see above)
95% spent by 31 March 2019	98%
98% spent by the closure of accounts at 30 April 2019	98%

The 2018/19 revenue surplus being carried into financial year 2019/20 will enable the Board to progress actions taken during the year to achieve its strategic priorities and maintain its workforce as agreed in partnership with trade unions. It will be able to progress other actions planned to increase efficiency working with its fellow National Boards*.

*National NHS Boards support the regional NHS Boards by providing a range of important specialist and national services

For 2018/19 the National Boards were tasked with achieving collective recurring savings of £15m. At 31 March 2019 the National Boards committed through their own Annual Operating Plans (AOPs) a collective £12.3m (recurring and non-recurring) with the remaining £2.7m to be carried forward to 2019/20 as a non-recurring collective target. We have committed £385k of savings from our in-year allocation and an additional £83k from our brought-forward surplus of £123k from 2017/18 as part of the £12.3m.

For 2019/20 the National Boards' £12.3m saving identified in 2018/19 produced a £10.6m recurring saving leaving a £4.4m shortfall against the £15m recurring target.

We have committed to £392k of the £10.6m recurring saving being a small increase from the £385k (£325k recurring and £60k non-recurring) identified in 2018/19. There are a number of initiatives across the National Boards, notably in finance, procurement, human resources, and estates and facilities, which are being followed up in 2019/20 which will hopefully deliver the remaining £4.4m shortfall. We have committed to progressing these initiatives in the 2019/20 year.

During the year the Audit Committee played a key role in monitoring performance in delivering the 2018/19 delivery plan and reviewed actions taken by the Corporate Management Team (CMT), particularly in relation to improving budget profiling and reducing year-end pressures. Regular update reports were provided to the Board at its meetings.

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 public bodies who are working towards the accelerated payment target of 10 working days.

In 2018/19 average credit taken was eight days by volume (prior year: eight days). In 2018/19 the Board paid 98% by volume and 98% by value within 30 days (prior year: 97% and 98%). In 2018/19 the Board paid 81% by volume and 65% by value within 10 days (prior year: 80% and 86%). The drop in value within 10 days percentage for 2018/19 relates to a small number of invoices being delayed in authorisation due to the holiday period causing January 19 to drop to 33%. Actions to maintain payment performance will continue with other Health Boards under the Financial Accounting Network in 2018/19.

2.2 Non-financial performance

Our ongoing work was delivered as short-term outcomes in 2018/19 for each of the strategic priorities set out in our five-year strategy. Performance information relating to risk has been reported and monitored through the year. The main issues reported by managers in relation to performance issues were staff and partner capacity causing delays or the need to adjust plans and timings in some aspects of work.

However, these risks were managed and none of the priority programme areas have reported significant issues in progress at the end-of-year point. Progress against the organisational priorities was reported in a highlights report to the Board in May 2019, with the key points in the report reproduced below. A full end-of-year performance and impact report will be shared with the Board in June 2019.

Strategic priority 1: Fairer and healthier policy.

Short-term outcome: We have supported national policy development and evaluation to influence health outcomes in key health-related areas.

Achievement: We have established the programme required to evaluate the Scottish Government's Monitoring and Evaluating Scotland's Alcohol Strategy (MESAS) over the next five years.

Short-term outcome: We have influenced policy areas where the impact on reducing health inequalities and population health improvement is likely to be greatest.

Achievement: We have focused our work building health into all policies on the issue of income inequality.

Strategic priority 2: Children, young people and families.

Short-term outcome: The Child and Adolescent Health Strategy for Europe is more focused on areas where impact on reducing health inequalities is greatest.

Achievement: We have increased Scotland's profile internationally in the field of child and adolescent health.

Short-term outcome: NHS and local authorities increasingly implement improvements in planning and delivery that contribute to tackling child poverty.

Achievement: We have facilitated closer and more coordinated working between national partners to support efforts to tackle child poverty.

Strategic priority 3: A fair and inclusive economy.

Short-term outcome: More employers are aware of and engaged in good work practices that promote good work.

Achievement: We have provided practical and high-quality guidance on the value of good work to health.

Short-term outcome: Social security policy is informed by evidence of what is most likely to contribute to a reduction in health inequalities.

Achievement: We have been influential in developing and putting forward the case for the strong connection between social security policy and health inequalities.

Strategic priority 4: Healthy and sustainable places.

Short-term outcome: The Place Standard is being increasingly used to inform decision-making on the physical environment, service delivery and community-led action.

Achievement: We have continued to promote housing as a key determinant of health.

Short-term outcome: Health outcomes are embedded into local and national strategic housing plans.

Achievement: We have continued to promote housing as a key determinant of health.

Strategic priority 5: Transforming public services.

Short-term outcome: Those responsible for commissioning, managing and delivering public services have an increased understanding of how to plan and deliver them in order to protect the right to health and reduce inequalities.

Achievement: We have contributed to the effective development of Local Outcome Improvement Plans, a key tool in assisting CPPs to take collective action in improving health.

Achievement: We have contributed to the 10-year Monitoring and Evaluation strategy for primary care.

Achievement: We received recognition for our approach to promoting partnership working in the field of sensory impairment.

Achievement: We helped deliver Scotland's first Citizens' Hearing on the Right to Health.

Strategic change priority 1: Leading public health improvement.

Short-term outcome: We are engaging with key public health reform stakeholders to share learning around impact and influence and embed our legacy around fairer health improvement.

Achievement: We have been effective in our engagement with key public health reform stakeholders throughout the year.

Short-term outcome: We have provided credible and trusted advice and support to influence the reform of the public health function in Scotland.

Achievement: Scottish Public Health Network (ScotPHN) has played a central role in public health reform.

Strategic change priority 2: Making a difference.

Short-term outcome: Products and services are designed and delivered using new strategic approaches that continue to improve their efficiency and effectiveness.

Achievement: We published a new edition of Ready Steady Baby!

Strategic change priority 3: Fit for the future.

Short-term outcome: NHS Health Scotland is well prepared for the transition to the new public health body and has contributed effectively to the national shared services agenda.

Achievement: We have prepared comprehensively for the changes facing NHS Health Scotland through public health reform.

2.3 Workforce performance indicators

In relation to the Health Improvement, Efficiency, Access, Treatment (HEAT) sickness absence standard of 4%, the Board's 2018/19 rate was 3.75%. This was very similar to previous years.

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 2018, 94% of eligible staff had a review, 96% had a personal development plan (PDP) and 96% had objectives agreed within the previous twelve months.

2.4 Social matters

The Board has no matters to report on non-financial information including social matters, respect for human rights, anti-corruption, and anti-bribery matters.

2.5 Sustainability and environmental impact

The Board has continued to be proactive in progressing carbon-releasing business improvements and influencing Scotland-wide public health environment work. More detail will be provided in the 2018/19 End-of-year Impact Report, which will be published on our website following approval by the Board in June 2019.

Approval and signing of the Performance report

Signed by:

Gerald McLaughlin

Chief Executive as Accountable Officer

21 June 2019

Accountability report

Corporate governance report

Directors' report

1. Date of issue

The Annual Report and Accounts were approved and authorised for issue by the Board on 21 June 2019.

2. 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 LLP 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.

3. 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 (see page 30).

The board members' responsibilities in relation to the accounts are set out in the Governance Statement following this report (see page 20).

4. 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 17.

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 which is available at: www.healthscotland.scot/our-organisation/our-board-and-executive-team/register-of-interests If required, further information is available from the Chief Executive's office at NHS Health Scotland.

5. 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.

6. Remuneration for non-audit work

No non-audit work has been carried out by the auditors on behalf of the Board in either 2017/18 or 2018/19.

7. 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 (www.healthscotland.scot/our-organisation/annual-and-corporate-reports/annual-reviews-and-self-assessments-accounts-and-reports).

8. Personal data-related incidents reported to the Information Commissioner.

There were no personal data-related incidents which we needed to report to the Information Commissioner's Office.

9. 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.

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 confirm that the Annual Report and Accounts as a whole are fair, balanced and reasonable and take personal responsibility for the Annual Report and Accounts and the judgements required for determining that it is fair, balanced and understandable

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.

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 2019 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.

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 CMT 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 2019 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 six times during 2018/19 to consider matters pertaining to board finances and corporate governance issues.

At 31 March 2019 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 five times during 2018/19. 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 ensured robust arrangements to implement the Staff Governance Standard were in place and monitored. This included acting as the 'parent committee' of the Remuneration Committee, which reports to the Staff Governance Committee. It also ensured that implementation of the Staff Governance Standard helped 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 and so on), within the framework of NHS Scotland policy. Further information relating to the Remuneration Committee is disclosed in the remuneration report.

The last meeting of the **Health Governance Committee** was held on 29 November 2018. The Committee comprised Dr Paul Stollard (Chair), Ms Jane-Claire Judson,

Mr Paul McColgan and Ms Michele McCoy. The Health Governance Committee met three times during 2018 to seek assurance, on behalf of the board, that NHS Health Scotland's five strategic priorities were in a good position in order to pass on our health inequalities and health improvement legacy to Public Health Scotland. The committee was assured that the work was consistent with NHS Scotland Quality Ambitions; met the three Health Governance Committee quality assurance standards of 'Knowledge into Action' (Knowledge generation, Knowledge management and Knowledge application); and met with quality assurance standards, embracing the European Foundation of Quality Management (EFQM). As the Health Governance Committee had completed the majority of its work the board agreed at the 8 February 2019 meeting to suspend the work of the committee during the final period of NHS Health Scotland's life. The remaining duties of this committee were completed by correspondence by the members or have been added to the board schedule of business

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 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.

While 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 and best value. Reference is made on pages 5–8 in these accounts to the Board’s financial performance, and on page 21 to the role 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, for example data protection and freedom of information (FOI), 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 annually. The board considers the quality of the data it uses to be acceptable.

Board and sub-committee attendance (Number of meetings attended by non-executives in year)	Board	Audit	Staff governance	Health governance
David Crichton	5			
Ali Jarvis	5	5	5	
Russell Pettigrew	4	6		

Board and sub-committee attendance (Number of meetings attended by non-executives in year)	Board	Audit	Staff governance	Health governance
Paul Stollard	5	6		3
Jane-Claire Judson	4		4	1
Paul McColgan	4	4		3
Michele McCoy	3		4	3
Rani Dhir	5	5	3	
Michael Craig (Employee Director)	2	2	4	

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 summarises the overarching structures that deal with the following areas and indicate how they are linked to each other.

Area	Mainly dealt with by
Setting and communicating the Board's vision and intended outcomes for its stakeholders, ensuring delivery and appropriateness of framework.	NHS Health Scotland has a performance framework A Fairer Healthier Scotland 2017–2022: A Strategic Framework for Action.
Measuring the quality of services for users, ensuring that services are delivered in accordance with the Board's objectives and	Health Governance Committee.

Area	Mainly dealt with by
confirming that services represent the best use of resources.	
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 whistle-blowing by staff, and recording and investigating complaints from the public.	Counter Fraud Action Plan, Whistle-blowing 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.

Area	Mainly dealt with by
Establishing clear channels of communication with all stakeholders, ensuring clear accountability 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 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. This action plan was reviewed by the Board in May 2018.

The Board agreed not to conduct another self-assessment or to develop a specific Board development plan for 2018/19 (which usually emerges from the self-assessment process). This is due to 2018/19 being a period of change and transition process towards the set-up of the new public health body.

The NHS Health Scotland governance arrangements have been reviewed against the NHS Blueprint for Good Governance and this was reported to the board on 15 February 2019. There were two areas of potential improvement that emerged from this work. Firstly, any actions required around whistle-blowing and responding to the Sturrock report as new guidance emerges in due course from Scottish Government. And secondly, to ensure the January 2019 Information Governance audit recommendation is fulfilled to include FOI in Information Governance and Business Continuity Annual Statement of Assurance which will be followed up by the Audit Committee.

The Board Governance Transition Plan has been presented to the 23 March 2018, 28 September 2018 and 15 February 2019 board meetings. A Change and Transition report is updated and presented to the board and the sub-committees of Staff Governance and Audit at each of their meetings in 2018/19.

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 CMT and Partnership Forum meet regularly to consider plans and implementation of organisational strategy.
- The Chair of the Audit Committee provides periodic reports to the Board concerning internal control.

- Internal audit provides regular reports 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.
- Managers provide regular reports 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 has been established to identify and keep up to date the record of risks facing the organisation.
- A programme of risk-awareness training has been established.
- Annual reports and/or appropriate corporate governance assurance are provided by 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. As the 2018/19 year was the start of the transition to Public Health Scotland no update was undertaken on the EFQM as there was a full review in 2017/18 and no significant changes occurred in 2018/19 to affect this review. 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.

NHS 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 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.

A reporting framework was agreed for 2018/19 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.

Disclosures in relation to significant control weaknesses

During the financial year 2018/19 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.

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. See page 16 for Register of Interests and page 98 for 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.

At 31 March 2019 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 four times during 2018/19 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 five executive team posts at 31 March 2019, three 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, NHS 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.

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.

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 Scottish Public Pensions Agency (SPPA). The information in the following tables has been subject to audit unless otherwise stated.

Single total figure of remuneration

Executive name	Salary 2018/19 £'000	Salary 2017/18 £'000	Pension benefits 2018/19 £'000	Pension benefits 2017/18 £'000	Total 2018/19 £'000	Total 2017/18 £'000
McLaughlin, G* (Chief Executive)	105-110	100-105	10	16	115-120	120-125
Bell, S*** (Director of Health and Work to 20/5/18)	10-15 (FYE 75-80)	75-80	1	19	10 - 15	90-95
Denholm, C * (Director of Strategy)	80-85	80-85	46	18	125-130	95-100
Dodds, G (Director of Health Equity) (Director of Health and Work from 21/5/18)	90-95	90-95	17	1	105-110	90-95
Fraser, A* (Director of Public Health Science) **	160-165	155-160	-	-	160-165	155-160
Patience, A (Head of Finance & Procurement)	70-75	65-70	20	19	90-95	80-85

* Executive Director

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

*** S Bell was Director of Health & Work for the period 1 April to 20 May 2018, remaining in the employment of NHS Health Scotland for the rest of the financial year.

Non-executive name	Salary	Salary	Pension benefits	Pension benefits	Total	Total
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	£'000	£'000	£'000	£'000	£'000	£'000
Crichton, D (Chair)	25-30	25-30	-	-	25-30	25-30
Dhir, R	5-10	5-10	-	-	5-10	5-10
Jarvis, A	5-10	5-10	-	-	5-10	5-10
Judson, J-C	5-10	5-10	-	-	5-10	5-10
McColgan, P	5-10	5-10	-	-	5-10	5-10
McCoy, M*	5-10	5-10	-	-	5-10	5-10
Pettigrew, R	5-10	5-10	-	-	5-10	5-10
Stollard, P	5-10	5-10	-	-	5-10	5-10
Craig, M (Employee Director) **	50-55	50-55	15	10	65-70	60-65

* Remuneration paid in lieu to employer **Salary includes £43k (2017/18 £42k) in respect of non-board duties.

Pension benefits

Executive name	Accrued pension at pension age as at 31/3/19	Total accrued lump sum at age 65 at 31/3/19	Real increase in pension at pension age	Real increase in lump sum at age 65 at 31/3/19	Cash equivalent transfer value (CETV) at 31/3/19	Cash equivalent transfer value (CETV) at 31/3/18	Real Increase in cash equivalent transfer value (CETV)
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
McLaughlin, G	60-65	0-5	0-2.5	0-2.5	1,096	1,049	32
Denholm, C	25-30	30-35	2.5-5.0	0-2.5	387	345	42
Bell, S (to 20/5/18)*	20-25	70-75	0-2.5	0-2.5	520	516	4

Executive name	Accrued pension at pension age as at 31/3/19 £'000	Total accrued lump sum at age 65 at 31/3/19 £'000	Real increase in pension at pension age £'000	Real increase in lump sum at age 65 at 31/3/19 £'000	Cash equivalent transfer value (CETV) at 31/3/19 £'000	Cash equivalent transfer value (CETV) at 31/3/18 £'000	Real Increase in cash equivalent transfer value (CETV) £'000
Dodds, G	60-65	0-5	0-2.5	0-2.5	936	897	40
Fraser, A (to 31//19)**	75-80	235-240	0-2.5	0-2.5	1,914	1,903	(8)
Patience, A	5-10	0-5	0-2.5	0-2.5	94	69	25
Craig, M	10-15	25-30	0-2.5	0-2.5	220	204	16

*Figures provided for S Bell at 20 May 2018 being the end date as Director of Health and Work. **A Fraser left the pension scheme at 31 January 2019 so pension benefit figures as at 31 January 2019.

Notes

No performance-related bonus payments nor benefits in kind were made to directors or senior employees in 2017/18 or 2018/19.

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 SPPA 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.

Fair pay disclosure

Category	2018/19	2017/18
Range of staff remuneration (£'000s)	15 to 165	15 to 160
Band of highest paid director's total remuneration (£'000s)	160 to 165	155 to 160
Median total remuneration (£)	32,974	33,058
Ratio	4.93	4.84

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 CETV of pensions.

Staff report

a) Higher paid employees' remuneration

Employees whose remuneration fell within the following ranges (clinicians)	2017/18 number	2018/19 number
£80,001 to £90,000	1	1
£100,001 to £110,000	1	-

Employees whose remuneration fell within the following ranges (other)	2017/18 number	2018/19 number
£70,001 to £80,000	3	8
£80,001 to £90,000	2	2
£90,001 to £100,000	1	1
£100,001 to £110,000	1	1
£150,001 to £160,000	1	-
£160,001 to £170,000	0	1

b) Staff numbers and costs

2017/18 £'000	Staff costs	Executive team members £'000	Non-executive members £'000	Permanent staff £'000	Inward/outward(-) secondes £'000	Other staff £'000	Total 2018/19 £'000
9,704	Salaries and wages	528	94	9,326	(133)	-	9,815
983	Social security costs	67	3	950	(15)	-	1,005
1,376	NHS pension scheme employer's costs*	74	1	1,338	(20)	-	1,393
230	Inward secondees	-	-	-	100	-	100
73	Agency staff	-	-	-	-	144	144
12,366	Sub-total	669	98	11,614	(68)	144	12,457
66	Compensation for loss of office or early retirement			51	-		51
12,432	Total	669	98	11,665	(68)	144	12,508
283	Staff numbers (WTEs)	5	9	264	(2)	4	280

Included in the total staff numbers were disabled staff of 14 in 2017/18 and 15 in 2018/19.

* Staff pension benefits are provided through the NHS Superannuation Scheme for Scotland. Details of the scheme are in Note 14.

c) Staff composition – headcount*

Sex composition of NHS Health Scotland permanent staff

Category	Average mean 2018/19 Male	Average mean 2018/19 Female	Average mean 2018/19 Total	Average mean 2017/18 Male	Average mean 2017/18 Female	Average mean 2017/18 Total
Non-executive directors and Employee Director	5	4	9	5	4	9
Executive team	4	1	5	5	1	6
Other	80	184	264	76	187	263
Total headcount average mean	89	189	278	86	192	278

d) Sickness absence rate*

Category	2018/19	2017/18
Sickness absence rate	3.75%	3.57%

e) Staff policies relating to employment of disabled people*

NHS Health Scotland is an equal opportunities employer. NHS 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. NHS Health Scotland has a recruitment and selection policy which includes appropriate provision for disabled people. This policy states that NHS 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 NHS Health Scotland through a fair and efficient process, which is consistent with best practice.

f) Exit packages

There was one non-compulsory, agreed departure in 2018/19 (2017/18: 2) at a total resource cost of £51k (2017/18: £70k).

g) Trade union regulations

Relevant union officials	2018/19	2017/18
Number of employees who were relevant union officials during the period 1 April to 31 March	9	8
WTE	2.19	2.31

Percentage of time spent on facility time:	2018/19	2017/18
0%	-	-
1-50%	7	6
51- 99%	2	2
100%	-	-

Percentage of pay bill spent on facility time:	2018/19	2017/18
	£'000	£'000
Total cost of facility time*	96	102
Total pay bill	11,614	11,364
Percentage of total pay bill spent on facility time	0.8%	0.9%

*Assumption on total cost of facility time based on facilities staff being a reasonable cross-section of staff.

Paid trade union activities:	2018/19	2017/18
Time spent on paid trade union activities as a percentage of total paid facility time hours**	9.3%	7.2%

**Calculated as (total hours spent on paid trade union activities by trade union representatives during the relevant period divided by total paid facility time hours) x 100. The above disclosure is not subject to audit.

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 £300k require formal approval to regularise such transactions and their notation in the annual accounts.

No losses or special payments over £300k were incurred or made in the year to 31 March 2019 (2017/18: £nil).

a) Fees and charges

As required in the fees and charges guidance in the SPFM, 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 2019 (2017/18: £nil).

Approval and signing of the Accountability report

Signed by:

Gerald McLaughlin

Chief Executive as Accountable Officer

21 June 2019

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

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 2019 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 Cash Flow, the Statement of Changes in Taxpayers' Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2018/19 Government Financial Reporting Manual (the 2017/18 FReM).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers of the state of the board's affairs as at 31 March 2019 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 2018/19 FReM
- have been prepared in accordance with the requirements of the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is three years. We are independent of the board and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the board. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

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

- the use of the going-concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the board has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about its ability to continue to adopt the going-concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the **Audit Scotland website**, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Accountable Officer for the financial statements

As explained more fully in the Statement of the Chief Executive's responsibilities as the Accountable Officer, the Accountable Officer is responsible for the preparation of

financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Accountable Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accountable Officer is responsible for assessing the board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going-concern basis of accounting unless deemed inappropriate.

Auditor's responsibilities for the audit of the financial statements

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website **www.frc.org.uk/auditorsresponsibilities**. This description forms part of our auditor's report.

Other information in the annual report and accounts

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

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual report and accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Report on other requirements

Opinions on matters prescribed by the Auditor General for Scotland

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

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

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the National Health Service (Scotland) Act 1978 and directions made thereunder by the Scottish Ministers
- 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
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records
- we have not received all the information and explanations we require for our audit
- there has been a failure to achieve a prescribed financial objective.
-

We have nothing to report in respect of these matters.

Conclusions on wider-scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider-scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose.

In accordance with paragraph 120 of the Code of Audit Practice, We do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Pat Kenny, CPFA (for and on behalf of Deloitte LLP)

110 Queen Street

Glasgow

G1 3BX

United Kingdom

21 June 2019

Statement of comprehensive net expenditure and resource outturn (SoCNE)

Net expenditure

2017/18 £'000	Category	Note	£'000	2018/19 £'000
12,432	Staff costs	3a	12,676	
7,425	Other operating expenditure	3b	7,384	
19,857	Gross expenditure for the year			20,060
(144)	Less: other operating income	4		(234)
19,713	Net expenditure for the year			19,826

Summary of core revenue resource outturn

2017/18 £'000	Category	Note	£'000	2018/19 £'000
19,713	Net expenditure for the year (above)			19,826
(299)	Total non-core expenditure (see below)			(288)
19,414	Total core expenditure			19,538
19,537	Core revenue resource limit			19,881
123	Saving/(excess) against core revenue resource limit			343

Summary of non-core revenue resource outturn

2017/18 £'000	Category	Note	£'000	2018/19 £'000
284	Depreciation/amortisation			288
15	Annually managed expenditure - creation of provisions			-
299	Total non-core expenditure			288
299	Non-core revenue resource limit			288
-	Saving/(excess) against non-core revenue resource limit			-

Summary resource outturn

Category	Resource £'000	Expenditure £'000	Saving/(excess) £'000
Core	19,881	19,538	343
Non-core	288	288	-
Total	20,169	19,826	343

The primary statements and notes to the accounts, numbered 1 to 17 on the following pages, form an integral part of these accounts.

Statement of financial position (SoFP)

£'000	2017/18 £'000	Category	Note	£'000	2018/19 £'000
		Non-current assets			
1,398		Property, plant and equipment	7a	1,167	
70		Intangible assets	6	19	
	1,468	Total non-current assets			1,186
		Current assets			
		Financial assets:			
241		Trade and other receivables	8	286	
719		Cash and cash equivalents	9	141	
	960	Total current assets			427
	2,428	Total assets			1,613
		Current liabilities			
		Financial liabilities:			
(1,714)		Trade and other payables	10	(1,087)	
(45)		Provisions (< 12 months)	11	(55)	
	(1,759)	Total current liabilities			(1,142)
	669	Non-current assets +/- net current assets/liabilities			471

£'000	2017/18 £'000	Category	Note	£'000	2018/19 £'000
		Non-current liabilities			
(2)		Trade and other payables (>1 year)	10	(2)	
(825)		Provisions (> 12 months)	11	(788)	
	(827)				(790)
	(158)	Total assets less liabilities			(319)
		Taxpayers' equity			
	158	General fund	SOCTE		(319)
	(158)	Total taxpayers' equity/(deficit)			(319)

Authorised and approved by the Board on 21 June 2019.

Russell Pettigrew

Audit Committee Chair

Gerald McLaughlin

Chief Executive

The primary statements and notes to the accounts, numbered 1 to 17 on the following pages, form an integral part of these accounts.

Statement of cash flow (SoCF)

2017/18 £'000	Category	Note	2018/19 £'000	2018/19 £'000
	Cash flows from operating activities			
(19,713)	Net operating cost	SOCNE	(19,826)	
284	Adjustments for non-cash transactions	2	288	
(7)	Movements in working capital	2	(121)	
(19,436)	Net cash outflow from operating activities			(19,659)
	Cash flows from investing activities			
(15)	Purchase of property, plant & equipment (PP&E)	7	(6)	
(15)	Net cash inflow/(outflow) from investing activities			(6)
	Cash flows from financing activities			
19,450	Funding		19,665	
165	Movement in general fund working capital	SOCTE	(578)	
19,615	Cash drawn down	SOCTE		19,087
19,615	Net financing			19,087
164	Net increase/(decrease) in cash/cash equivalents in period			(578)
555	Cash and cash equivalents at beginning of period			719

2017/18 £'000	Category	Note	£'000	2018/19 £'000
719	Cash and cash equivalents at end of period			141
	Reconciliation of net cash flow to movement in net (debt)/cash			
164	Increase/(decrease) in cash in year			(578)
555	Net debt/cash at 1 April	9		719
719	Net (debt)/cash at 31 March	9		141

The primary statements and notes to the accounts, numbered 1 to 17 on the following pages, form an integral part of these accounts.

Statement of changes in taxpayers' equity (SoCTE)

Category	Note	General fund and total reserves £'000
Balance at 31 March 2018		(158)
Changes in taxpayers' equity for 2018/19		
Net operating cost for the year		(19,826)
Total recognised income and expense for 2018/19		(19,826)
Funding: Drawn down	SOCP	19,087
Funding: Movement in general fund	SOCP	578
Balance at 31 March 2019	SOFP	(319)
Balance at 31 March 2017		105
Changes in taxpayers' equity for 2017/18		
Net operating cost for the year		(19,713)
Total recognised income and expense for 2017/18		(19,713)
Funding: Drawn down	SOCP	19,615
Funding: Movement in general fund	SOCP	(165)
Balance at 31 March 2018	SOFP	(158)

The primary statements and notes to the accounts, numbered 1 to 17 on the following pages, form an integral part of these accounts.

Notes to the accounts

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 2018/19

The following accounting standards have been applied for the first time in 2018-19:

- (i) IFRS 9 Financial Instruments. The standard replaces IAS 39 and introduces a single approach to classification and measurement of financial instruments; a new forward-looking expected loss impairment model; and a revised approach to hedge accounting.
- (ii) IFRS 15 Revenue from Contracts with Customers. The standard introduces greater disclosures requirements, as well as a new five-stage model for assessing and recognising revenue from contracts with customers.

There is no material impact from applying these new accounting standards for HS.

(b) Standards issued but not adopted

Standard	Change published	Impact to NHS Health Scotland
IFRS14 Regulatory Deferral Accounts	Not EU endorsed. Applies to first-time adopters of IFRS after 1 January 2016, therefore not applicable to HS.	Not applicable.
IFRS16 Leases	Application required for accounting periods beginning on or after 1 January 2019 but not yet adopted by the FReM, early adoption is not therefore permitted.	All leases will be brought onto the SoFP. Main change will be premises leases that are currently recognised in revenue.
IFRS17 Insurance Contracts	Application required for accounting periods beginning on or after 1 January 2021 but not yet adopted by FReM, early adoption is not therefore permitted.	Minimal impact. HS does not act as an insurer.
IFRIC23 Uncertainty over income tax treatments	Application required for accounting periods beginning on or after 1 January 2019.	Not applicable to HS.

2. 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. See Financial Performance at Section 1.4 on page 5.

3. Accounting convention

The accounts are prepared on a historical-cost basis.

4. 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.

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.

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.

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

- 1) assets in the course of construction are not depreciated until the asset is brought into use or reverts to the Board, respectively

- 2) buildings installations and fittings are depreciated over the estimated life of the asset
- 3) equipment is depreciated over the estimated life of the asset
- 4) property, plant and equipment held under finance leases are depreciated over the shorter of the lease term and the estimated useful life.

Depreciation is charged on a straight-line basis.

The following asset lives have been used:

Asset category/component	Useful life (years)
Leasehold improvements (buildings, fixtures & fittings)	Length of the remaining leases
Furniture (fixtures & fittings)	10
Office and IT equipment	3–5

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:

Software

Software which is integral to the operation of hardware (for example, 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 (for example, 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.

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:

Asset category/component	Useful life (years)
Other intangible assets	10

Amortisation is charged on a straight-line basis.

8. Leasing

Operating leases: Leases other than finance 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.

9. 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.

10. 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 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.

11. 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 SPPA 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.

12. Clinical and medical negligence costs

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

13. Related-party transactions

Material related-party transactions are disclosed in Note 17 in line with the requirements of IAS 24.

14. 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.

15. 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.

16. 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
- 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.

17. 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.

18. Financial instruments

Financial assets

Classification

The Board classifies its financial assets at fair value through profit or loss

Impairment of financial assets

Provisions for impairment of financial assets are made on the basis of expected credit losses. The Board recognises a loss allowance for expected credit losses on financial assets and this is recognised in the Statement of Comprehensive Net Expenditure and by reducing the carrying amount of the asset in the Statement of Financial Position.

Recognition and measurement

Financial assets are recognised when the Board becomes party to the contractual provisions of the financial instrument and are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and HS has transferred substantially all risks and rewards of ownership.

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 liabilities

Classification

The Board classifies its financial liabilities at amortised cost. Financial liabilities held at amortised cost are disclosed in current liabilities, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current liabilities. The Board's financial liabilities held at amortised cost comprise trade and other payables in the Statement of Financial Position.

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 Statement of Financial Position when it is extinguished, that is when the obligation is discharged, cancelled or expired.

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

19. 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 5. This information is provided by directorates. Working individually and collectively, the activities of the directorates are guided towards achievement of corporate objectives.

20. 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.

21. 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.

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.

22. 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.

For the injury benefit provision specific sources for judgement (life expectancy tables) and sensitivity analysis (discount rates) on assumptions are used. See note 11 to the accounts.

2a Adjustments for non-cash transactions

2017/18 £'000	Category	Note	2018/19 £'000
35	Amortisation	6	51
249	Depreciation	7a	237
-	Impairments charged to SOCNE	7a	-
284	Total expenditure not paid in cash	SOCF	288

2b Movement on working capital balances

Trade and other receivables

2017/18 Net movement £'000	Category	Note	Opening balance £'000	Closing balance £'000	2018/19 Net movement £'000
(42)	Due within one year	8	241	286	(45)
(42)	Net decrease/increase (-)				(45)

Trade and other payables

2017/18 Net movement £'000	Category	Note	Opening balance £'000	Closing balance £'000	2018/19 Net movement £'000
395	Due within one year	10	1,714	1,087	
-	Due after more than one year	10	2	2	
(165)	Less: general fund creditor included in above	10	(719)	(141)	
230	Net (decrease)/increase				(49)

Provisions

2017/18 Net movement £'000	Category	Note	Opening balance £'000	Closing balance £'000	2018/19 Net movement £'000
(195)	Due within and outwith one year	11	870	843	(27)

Net movement

2017/18 Net movement £'000	Category	Note	Opening balance £'000	Closing balance £'000	2018/19 Net movement £'000
(7)	(decrease)/increase	SOCF			(121)

3. Expenditure

3a Staff costs

2017/18 £'000	Category	Note	2018/19 £'000
12,432	Other staff	SOCNE	12,676

Further detail and analysis of staff costs can be found in the Remuneration and Staff report, forming part of the Accountability Report (see pages 30–41).

3b Other operating expenditure

2017/18 £'000	Category	Note	2018/19 £'000
7,387	Non-staff costs		7,347
38	Statutory audit External auditor's remuneration and expenses		37
7,425	Total other operating expenditure	SOCNE	7,384

4. Operating income

Other operating income

2017/18 £'000	Category	Note	2018/19 £'000
81	Miscellaneous income		25
39	Print income		18
24	Training income		23
-	Outward secondees (non-HS)		168
144	Total other operating income	SOCNE	234
44	Amount derived from NHS bodies, of the above		35

5. Segment information

Segmental information as required under IFRS has been reported by directorate. This is consistent with the form of reporting to the CMT, Audit Committee and Board.

2018/19

Segment	Net operating cost £'000	Revenue from external sources £'000	Depreciation/ amortisation £'000
Chief executive's office	1,754	168	288
Health & work	2,392		
Health equity	9,292	43	

Segment	Net operating cost £'000	Revenue from external sources £'000	Depreciation/ amortisation £'000
Strategy	3,046		
Public health science	3,288	23	
Total	19,772	234	288
SOCNE Total			19,826

2017/18

Segment	Net operating cost £'000	Revenue from external sources £'000	Depreciation/ amortisation £'000
Chief executive's office	1,742		284
Health & work	2,389		
Health equity	8,697	81	
Strategy	3,041		
Public health science	3,704	63	
Total	19,573	144	284
SOCNE Total			19,713

6. Intangible assets

Current year

Category	Note	Software licences £'000	Other intangible assets £'000	Total £'000
Cost or valuation as at 1 April 2018		108	175	283
Additions		-	-	-
Disposal		(108)	-	(108)
As at 31 March 2019		-	175	175
Amortisation as at 1 April 2018		(108)	(105)	(213)
Provided during the year		-	(51)	(51)
Disposals		108	-	108
As at 31 March 2019		-	(156)	(156)
Net book value at 1 April 2018		-	70	70
Net book value at 31 March 2019	SOFP	-	19	19

Prior year

Category	Note	Software licences £'000	Other intangible assets £'000	Total £'000
Cost or valuation as at 1 April 2017		108	175	283
Additions		-	-	-
As at 31 March 2018		-	175	175
Amortisation as at 1 April 2017		(108)	(70)	(178)
Provided during the year		-	(35)	(35)
As at 31 March 2018		(108)	(105)	(213)
Net book value at 1 April 2017		-	105	105
Net book value at 31 March 2018	SOFP	-	70	70

7. Property, plant and equipment (purchased assets)

Current year

Category	Note	Leasehold improvements £'000	IT* £'000	Fixtures & fittings £'000	Assets under construction £'000	Total £'000
Cost or valuation at 1 April 2018		1,608	416	719		2,743
Additions		-	6	-	-	6
Disposals		-	(163)	-	-	(163)
At 31 March 2019		1,608	259	719	-	2,586
Depreciation at 1 April 2018		(677)	(344)	(324)	-	(1,345)
Provided during the year		(120)	(36)	(81)	-	(237)
Disposals		-	163	-	-	163
At 31 March 2019		(797)	(217)	(405)	-	(1,419)
Net book value at 1 April 2018		931	72	395	-	1,167
Net book value at 31 March 2019	SOFP	911	42	314	-	1,167
Asset financing: owned		811	42	314	-	1,167
Net book value at 31 March 2019		811	42	314	-	1,167

Prior year

Category	Note	Leasehold improvements £'000	IT* £'000	Fixtures & fittings £'000	Assets under construction £'000	Total £'000
Cost or valuation at 1 April 2017		1,529	416	719	64	2,728
Additions		15	-	-	-	15
Transfers		64	-	-	(64)	-
At 31 March 2018		1,608	416	719	-	2,743
Depreciation at 1 April 2017		(558)	(295)	(243)	-	(1,096)
Provided during the year		(119)	(49)	(81)	-	(249)
At 31 March 2018		(677)	(344)	(324)	-	(1,345)
Net book value at 1 April 2017		971	121	476	64	1,632
Net book value at 31 March 2018	SOFP	931	72	395	-	1,398
Asset financing: owned		931	72	395	-	1,398
Net book value at 31 March 2018		931	72	395	-	1,398

*IT = information technology

8. Trade and other receivables

Receivables due within one year

2017/18 £'000	Category	Note	£'000	2018/19 £'000
55	SGHSCD		53	
34	Boards		46	
89	Total NHS debtors			99
70	VAT recoverable		114	
62	Prepayments		27	
-	Accrued income		1	
19	Other receivables		43	
1	Other public sector bodies		2	
241	Total receivables due within one year			286

Total receivables

2017/18 £'000	Category	Note	£'000	2018/19 £'000
241	Total receivables (denominated in pounds sterling)	SOFP		286

Whole of government accounts classification

2017/18 £'000	Category	Note	£'000	2018/19 £'000
34	NHS Scotland			46
125	Central government bodies			167
1	Whole government bodies			2
81	Balance with bodies external to government			71
241	Total			286

9. Cash and cash equivalents

Current year

Category	Note	At 1/4/18 £'000	Cash flow £'000	At 31/3/19 £'000
Government Banking Service account		696	(585)	111
Cash at bank and in hand		23	7	30
Total cash and cash equivalents	SOFP, SOCF	719	(578)	141

Prior year

Category	Note	At 1/4/17 £'000	Cash flow £'000	At 31/3/18 £'000
Government Banking Service account		524	172	696
Cash at bank and in hand		31	(8)	23
Total cash and cash equivalents	SOFP, SOCF	555	164	719

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

2017/18 £'000	Category	Note	£'000	2018/19 £'000
237	Payables due within one year NHS Scotland Boards		224	
237	Total NHS Scotland payables			224
719	General fund payable		141	
164	Trade payables		128	
576	Accruals		579	
18	Other payables		15	
1,714	Total payables due within one year			1,087
2	Payables due after more than one year			2
1,716	Total payables (denominated in pounds sterling)	SOFP		1,089
237	Whole of government accounts classification: NHS Scotland			224
-	Whole government bodies			21
1,479	Balances with bodies external to government			844
1,716	Total			1,089

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

11. Provisions – current year

2017/18 £'000	Note	Injury benefit £'000	Participation in CNORIS £'000	2018/19 £'000
1,065	At 1 April 2018	833	37	870
19	Arising during the year SOCF	-	3	3
(212)	Utilised during the year	(27)	(1)	(28)
(2)	Reversed unutilised	-	(2)	(2)
870	At 31 March 2019	806	37	843

Analysis of expected timing of discounted flows to 31 March 2018

2017/18 £'000	Note	Injury benefit £'000	Participation in CNORIS £'000	2018/19 £'000
45	Payable in one year	43	2	45
139	Payable between 2 and 5 years	138	1	139
172	Payable between 6 and 10 years	172	-	172
514	Payable thereafter	480	34	514
870	At 31 March 2018	833	37	870

Participation in CNORIS

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, for example 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 legal claims or legal claims late in the financial year 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 2019 (2017/18 – None) and hence has £nil against the first provision element of CNORIS as described above. NHS Scotland has made a £37,000 provision at 31 March 2019 (31 March 2018: £37,000) 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 Annually Managed Expenditure (AME) provision resource limit. The provision is based on information and advised annual rates provided by the SPPA, under the NHS Superannuation Scheme Scotland (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 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 0.29% as at the balance sheet date. As at the

balance sheet date the average life expectancy for those included in the provision was 23 years.

12. 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.

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.

2017/18 £'000	Obligations under operating leases	2018/19 £'000
555	Buildings: Not later than one year	543
555	Buildings: Later than one year, not later than two years	543
1,413	Buildings: Later than two years, not later than five years	1,086
1,973	Buildings: Later than five years	1,714
-	Other: Not later than one year	
-	Other: Later than one year, not later than two years	-
12	Charged to operating costs in the year: Hire of equipment (including vehicles)	5
555	Charged to operating costs in the year: Other operating leases	543

2017/18 £'000	Obligations under operating leases	2018/19 £'000
567	Total	548

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 2016 (completed in 2018/19) and the next valuation will be as at 31 March 2020 (completed in 2022/23) which will set contribution rates from 1 April 2024.

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.

It is accepted that the scheme can be treated for accounting purposes as a defined contribution scheme in circumstances where NHS Health Scotland is unable to identify its share of the underlying assets and liabilities of the scheme. The employer contribution rate for the period from 1 April 2019 will be 20.9% of pensionable pay. While the employee rate applied is a variable it will provide an actuarial yield of 9.8% of pensionable pay.

- (ii) At the last valuation a shortfall of £2.2 billion was identified in the notional fund which resulted in the increase in the employer contribution from 14.9% to 20.9% from 1 April 2019.

(iii) The total employer contributions received for the NHSSS in the year to 31 March 2018 were £768.7m, with the Board contributing £1,376k (0.18%). NHSSS contributions collected in the year to 31 March 2019 will be published in October 2019.

For 2018/19, normal employer contributions of £1,393k were payable to the SPPA (prior year: £1,376k) at the rate of 14.9% (prior year: 14.9%) of total pensionable salaries. During the accounting period the Board incurred additional costs of £nil (prior year: £21k) arising from voluntary redundancies.

From 1 April 2015 the NHS Pension Scheme (Scotland) 2015 was introduced.

This scheme is a Career Average Revalued Earnings (CARE) scheme. Members will accrue 1/54 of their pay as pension for each year they are a member of the scheme. The accrued pension is revalued each year at an above-inflation rate to maintain its buying power. This is currently 1.5% above increases to the Consumer Prices Index (CPI). This continues until the member leaves the scheme or retires. In 2018–10 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) closed to new joiners on 31 March 2015 but any benefits earned in either NHS 1995 or NHS 2008 sections are protected and will be paid at the section's normal pension age using final pensionable pay when members leave or retire. Some members who were close to retirement when the NHS 2015 scheme launched will continue to earn benefits in their current section. This may affect members who were paying into the scheme on 1 April 2012 and were within 10 years of their normal retirement age. Some members who were close to retirement but did not qualify for full protection will remain in their current section beyond 1 April 2015 and join the 2015 scheme at a later date.

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

Further information is available on the SPPA website at www.sppa.gov.uk

National Employment Savings Trust (NEST)

The Pensions Act 2008 and 2011 Automatic Enrolment regulations required all employers to enrol workers meeting certain criteria into a pension scheme and pay contributions toward their retirement. For those staff not entitled to join the NHS

Superannuation Scheme (Scotland), the Board used an alternative pension scheme called NEST to fulfil its automatic enrolment obligations.

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

Pension contributions

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

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

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

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

Pension costs

Pension costs	2018/19 £'000	2017/18 £'000
Pension cost charge for the year	1,393	1,376
Additional costs arising from early retirement	-	21

15. Financial instruments

a) Financial instruments by category

Financial assets – current year

Assets per statement of financial position at 31 March 2019	Note	Loans and receivables £'000	Total £'000
Trade and other receivables excluding prepayments, reimbursements of provisions, VAT recoverable and amounts due from other Boards	8	46	46
Cash and cash equivalents	9	141	141
Total		187	187

Financial assets – prior year

Assets per statement of financial position at 31 March 2018	Note	Loans and receivables £'000	Total £'000
Trade and other receivables excluding prepayments, reimbursements of provisions, VAT recoverable and amounts due from other Boards	8	20	20
Cash and cash equivalents	9	719	719
Total		739	739

Financial liabilities – current year

Liabilities per statement of financial position at 31 March 2019	Note	Other financial liabilities £'000	Total £'000
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income, superannuation and amounts due to other Boards	10	865	865
Total		865	865

Financial liabilities – prior year

Liabilities per statement of financial position at 31 March 2018	Note	Other financial liabilities £'000	Total £'000
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income, superannuation and amounts due to other Boards	10	1,479	1,479
Total		1,479	1,479

(b) Financial risk factors

Exposure to risk

The activities of NHS 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 SPFM) 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.

Current year

Category	Less than 1 year £'000	Between 1 and 2 years £'000
Trade and other payables excluding statutory liabilities at 31 March 2019	862	2
Total	862	2

Prior year

Category	Less than 1 year £'000	Between 1 and 2 years £'000
Trade and other payables excluding statutory liabilities at 31 March 2018	1,477	2
Total	1,477	2

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.

16. Transactions with NHS Scotland bodies

NHS Health Scotland is funded by the SGHSCD. During the year NHS Health Scotland has had various material transactions with other entities for which SGHSCD is regarded as the parent department. NHS 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 SPPA, HM Revenue & Customs. Details of transactions with, and balances due from, other NHS Scotland bodies are provided below.

NHS Scotland body	Due to £'000	Due from £'000	Income from £'000	Expenditure with £'000
NHS Ayrshire and Arran	-	1	4	82
NHS Borders	-	-	1	19
NHS Dumfries and Galloway	-	-	-	33
NHS Fife	6	1	2	57
NHS Forth Valley	-	-	1	36
NHS Grampian	-	1	1	71
NHS Greater Glasgow and Clyde	53	2	8	189
NHS Highland	-	-	-	42
NHS Lanarkshire	14	3	4	111
NHS Lothian	5	1	36	183
NHS Orkney	1	-	-	20
NHS Shetland	-	-	-	19
NHS Tayside	-	-	-	51

NHS Scotland body	Due to £'000	Due from £'000	Income from £'000	Expenditure with £'000
NHS Western Isles	-	-	-	19
National Services Scotland	80	23	136	1,209
Scottish Ambulance Service	24	12	50	170
NHS Education for Scotland	7	-	2	8
State Hospital	-	-	-	-
NHS 24	34	-	-	45
Healthcare Improvement Scotland	-	2	11	-
NHS National Waiting Times Centre	-	-	-	1
Total boards and special health boards	224	46	256	2,365

17. Related-party transactions

During the year 2018/19 NHS Health Scotland made payments of £540 to Historic Environment Scotland and £2,538 to The Robertson Trust (2017/18: £nil). Mr Paul Stollard is a board member of Historic Environment Scotland and Mr Gerry McLaughlin a trustee of Kintail Trust (Corporate Trustees of The Robertson Trust). The payment was authorised under delegated authority with no involvement from either of NHS Health Scotland's board members.

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.

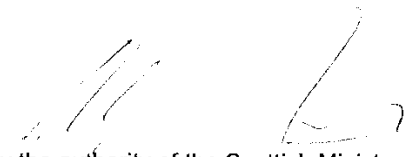
Direction by the Scottish Ministers for the year ended 31 March 2019



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

