



ANNUAL REPORT AND ACCOUNTS

For

Year Ended 31 March 2017

NHS ORKNEY ANNUAL REPORT AND ACCOUNTS 2016/17

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NHS ORKNEY

ANNUAL REPORT AND ACCOUNTS 2016/17

A. PERFORMANCE REPORT

1. OVERVIEW

NHS Orkney is the common name for Orkney Health Board.

The NHS Board was established in 1974/75 under the National Health Service (Scotland) Act 1972 and is responsible for commissioning health care services for the residents of Orkney, with a growing population of approximately 21,500.

NHS Boards have a governing Board which is responsible for improving the health of the local population and delivering the healthcare they require. The overall purpose of the Board is to ensure efficient, effective and accountable governance, and to provide strategic leadership and direction.

The role of the Board is to:

- improve and protect the health of the local people
- improve health services for local people
- focus on health outcomes and people's experience of their local NHS
- promote integrated health and community planning by working closely with other local organisations
- provide a single focus of accountability for the performance of the local NHS.

The functions of the Board comprise:

- strategy development
- resource allocations
- implementation of the Local Delivery Plan through our Strategy Deployment quality improvement approach
- performance management.

Development of the Board's Strategy and Corporate Plan

NHS Orkney having approved its strategy 'Our Orkney, Our Health – transforming services strategy' is in a period of implementing our agreed strategic direction. This transformational change programme is overseen by the Programme Board now known as Transforming Implementation Programme Board. The Board is chaired by the Chief Executive. A Strategy Deployment Matrix (SDM – quality improvement method) has been developed to ensure our strategic goals/corporate objectives drive progress and actions at all levels within the organisation. Our vision is to:

<i>'Be the best remote and rural care provider in the UK'</i>

This programme to date has delivered a number of quality improvement activities across NHS Orkney. For example we continue to implement the change from General Dental Services to Public Dental Services in line with the Board's decision to build a sustainable public dental service. In addition the Board opened a new purpose built primary care facility in Eday.

Repatriation of services where appropriate and safe are also being progressed and the CT service has now been extended to include:-

- the majority of oncology patients (including first time and further surveillance scans)
- Angiography (including abdominal, peripheral and carotid studies)
- CT colonography
- The majority of orthopaedic studies.

It is our intention to continue to use technology to deliver services in Orkney. During 2016/17 in preparation for migration to the new build we increased and relocated acute inpatient services aligned with the High Dependency Unit, this arrangement mimics the layout of the new hospital. It is our intention to use opportunities such as these to familiarise staff in new ways of working.

An updated Corporate Plan was approved by the Board in April 2017. In approving the Corporate Plan, the Board endorsed our operating principles and the corporate objectives which drive our personal objectives and staff development and appraisal processes.

Our Local Delivery Plan for 2016/17 focused on implementing change to support delivery of the triple aim (improving health, experience and value) within an Orkney context aligned with the nine strategic improvement priorities:

- Health Inequalities and Prevention
- Antenatal and Early Years
- Safe Care
- Person Centred Care
- Primary Care
- Integration

- Scheduled Care
- Unscheduled Care
- Mental Health.

The Board and Clinical and Care Governance Committee have received ongoing assurance through bi-monthly reports on key Healthcare Acquired Infection (HAI) performance indicators, these reports are publicly available.

NHS Orkney continues to strive to meet the HAI standards however they can be easily breached due to our small numbers. For the period end 31st March 2017 NHSO had 4 Clostridium Difficile cases reported against our LDP standard of 3. Overall prescribing of antimicrobials in primary care continues to be among the lowest in Scotland, and is below the Scottish average. Prescribing of antimicrobials associated with a higher risk of Clostridium Difficile infection has continued to decrease. NHS Orkney compliance with cleanliness and estates monitoring standards has been consistently above 95% throughout the year.

For the period up to end of 31st March 2017 we are within our LDP Staph Aureus Bacteraemia standard with two cases reported against the LDP standard of three.

Updates on the follow up actions from the Vale of Leven were provided to the Clinical and Care Governance Committee and to the Board. Our local response, action plan and progress relating to the Vale of Leven report was reported in August 2016.

Work in the Balfour Hospital continues to ensure compliance with the Older People in Acute Care Standards and the recommendations of the inspections carried out in April 2014 and May 2016. Activity has focussed on:

- Improving the care of patients affected by cognitive impairment
- Compliance with dementia standards including the environment (the appointment of a Dementia Specialist Nurse is helping to inform our compliance)
- Training associated with the Adults with Incapacity Act and Do Not Attempt Cardiopulmonary Resuscitation requirements
- Documentation and record keeping
- Ensuring the patient and or family/carers is involved in decision making regarding care and treatment
- Patient safety including prevention of harm e.g. falls, pressure damage, catheter acquired infection.

Reconfiguration work has been undertaken to align the current hospital to the future models of care within the new hospital. This includes increasing the number of single rooms for acutely unwell patients, relocating HDU alongside the acute ward and improving the overall environment. This has decreased the requirement to move patients in line with the dementia standards and improved compliance with infection prevention and control recommendations.

Staffing models have been reviewed to increase leadership at ward level and a development programme is underway to ensure staff have the necessary skills and competencies to deliver care across all areas within the hospital.

The care of children has been reviewed and a training needs analysis undertaken to ensure staff are equipped to manage children where necessary either prior to transfer or during day surgery. Although not equipped for paediatric patients the requirement to manage children safely in a rural district general hospital is essential.

Maternity services have been reviewed in light of the national maternity services review, the Morecombe Bay report and the finding from the review of Wick Maternity Unit. Assurance has been provided to the Board regarding the model of care including risk mitigation and prevention of harm. The consultant led obstetric model is fully embedded and supportive of the midwife led model of care currently being delivered locally. The repatriation of gynaecology services from NHS Grampian to NHS Orkney is now well established.

The Lead AHP is responsible for oversight of local delivery of requirements within the AHP National Delivery Plan (2012/15) and for further national developments aligned to this. Key achievements:

- Speech and Language Therapy services have been working through a transition period following review. Changes in staffing have delayed progress but work continues to ensure pathways are clearly defined and implemented according to assessment criteria and level of need
- AHP waiting times 18 week standard
- Physiotherapy redesign has ensured appropriate staffing levels for inpatient caseload and waiting times standards for outpatient, falls and day hospital services, however, Musculoskeletal is at 4 weeks
- The Integrated Care Team provide in hours support to A&E to facilitate discharges from hospital and this has been extended to included cover during public holidays which has been successful
- The AHP teams accept self-referral, promoting self management and enablement
- Podiatry Services have been brought in house and the Personal Footcare Guidelines have been implemented. Specific work is underway to develop the diabetic foot guidance and associated pathways.

Moving forward, national AHP priorities will be informed by the development of the Active and Independent Living Improvement Program (Adults) and Ready to Act (Children) delivery plans.

Population Health

The Clinical and Care Governance Committee has received ongoing assurance through quarterly reports on population health and as a Health Promoting Health Service, staff work across NHS Orkney to improve and protect the health of the population.

Vaccination programmes have been delivered in line with national expectations. The childhood flu programme for school age children continued to be delivered in primary schools with a further increase in uptake. There was a 40.5% uptake rate of flu vaccine for staff.

Public Health delivered a range of health promotional campaigns including a campaign related to mental well-being with partners across Orkney titled "There is no shame in saying I'm not fine".

Work continued on tackling adult and childhood obesity. Obesity has been recognised as a key issue for community planning partners. Performance against the HEAT standard for smoking cessation was reported detailing the work that was undertaken to improve performance.

A cross-board arrangement supporting delivery of the Healthy Working Lives agenda continued in 2016/17.

A Service Level Agreement for sexual health services with Nordhaven Clinic also continued in 2016/17. Reports on performance related to screening programmes were presented alongside a report on the dental inspection programme and audit for Orkney.

Detect Cancer Early work occurred locally in line with national campaigns for the three primary cancers, lung, bowel and breast.

Workforce

As a remote and rural Board, NHS Orkney faces ongoing challenges with recruitment and retention. However with innovative and agile arrangements, as well as collaboration with other NHS Boards, we have had significant success in recruiting to Isles nursing posts.

A run of the national workload tools was completed early 2016. This is a mandatory annual requirement to inform nurse staffing levels and skill mix in both hospital and community settings, and supports our staffing model.

Supplementary staffing, bank and locum expenditure has increased during 2016/17. We have invested in a dedicated locum and bank co-ordinator, which has enabled improvement and we work collaboratively with agencies and other NHS Boards to look at new ways of working to improve consistency of cover and reduce costs.

Recruitment to medical vacancies remains challenging and to date we have not been able to recruit to consultant posts in a number of our specialties. In the meantime we have introduced 'two week on/two week off' arrangements and this has proved successful especially in primary care. In secondary care the arrangements provide a greater level of clinical continuity and service sustainability. This is of particular importance in an Island Board setting given our geography and reduced redirection capability.

In the last 18 months we have benefited from a regional Clinical Development Fellow (CDF) programme which has been very positive, so much so we have secured ongoing CDFs into February 2018. Thanks to the support of our Director of Medical Education (shared appointment with NHS Highland) we are now also attracting General Practice Speciality Training (GPST) to Orkney for the first time in a few years. This has moved us from a position of a non-consultant rota that was 80% reliant on locums to a position where our rota is 80% covered from within, giving continuity to the team.

We celebrated success in relation to our Youth Employment Strategy. Two Modern Apprentices from 2014/15 have permanent employment within NHS Orkney, and we continue with our rolling programme: a further 4 MA's in Estates and Facilities, 2 in Medical Records and 1 in Care. We offered SVQ in Business Administration to 9 administration staff, and secured funding to develop 2 in house assessors to support, mentor and reinstate our SVQ Centre Accreditation.

Work continues with implementation of Everyone Matters, our Workforce Strategy. The Local Delivery Plan sets out our priorities in delivering the 2017/18 action plan.

Patient Exemption Checking

The national Counter Fraud Service (CFS) patient claims team undertakes a Scotland-wide programme of random checks to confirm that exemption from NHS patient dental and ophthalmic charges are being claimed correctly. When entitlement is not confirmed patients are asked to repay the charge.

Counter Fraud Service estimate the potential level of fraud / error for the financial year 2016/17. These are shown in Table 1 below:

Table 1

CFS Estimation Of Income Not Recovered From Family Health Services

Service	NHS Orkney		Scotland
	£	%	%
Dental	444	22.3	42.9
Ophthalmic	207	84.3	41.6

Estimated Potential Fraud / Error

2. PERFORMANCE ANALYSIS

a) FINANCIAL PERFORMANCE

	Limit as set by SGHD £000	Actual Outturn £000	Variance (Over)/Under £000
Core Revenue Resource Limit	52,934	52,845	89
Non Core Revenue Resource Limit	1,801	1,801	0
Core Capital Resource Limit	3,037	3,037	0
Cash Requirement	57,294	57,294	0

b) MEMORANDUM FOR IN YEAR OUTTURN

Brought forward surplus from previous financial year	(161)
Outturn against in year Revenue Resource Limit	72
Total Savings against in year Revenue Resource Limit	(89)

2016/17 saw continuing financial pressures relating to the essential cover from locums to maintain staffing levels and provide safe clinical services and slow progress in savings. Engagement with budget holders resulted in 100% of the £2.187m savings target being achieved, contributing to the overall position for the year ended 31 March 2017. This position has been achieved without any brokerage from Scottish Government and the remaining brokerage totaling £1.062m was repaid in 2016/17.

Provisions for impairment of receivables

NHS Orkney has included a provision of £88,000 (2016/17: £8,000) to cover doubtful receivables.

Outstanding liabilities

NHS Orkney has £6.014m of current liabilities and £1.066m of non-current liabilities; these consist principally of routine trade payables with no items of significant note.

Legal obligations

NHS Orkney has no outstanding legal obligations over and above those already reflected in these financial statements.

The following represent provisions that have been included in the financial statements with regard to possible legal obligations in 2015/16, which are the subject of claims but with no agreed resolution:

- Clinical & Medical – £0 (2016/17: £50,000)
The basis of the Clinical / Medical provision is based on information provided by Central Legal Office.
- Off island treatments – £0 (2016/17: £118,000)
NHS Orkney is engaged in discussion with Councils about liability for the off island treatment of a small number of patients. The provision is based on the actual value of the treatment packages.
- HMRC – £79,000 (2016/17: £0)
A new provision for payment to HMRC of uncollected income tax was made in 2016/17 and is expected to be resolved in 2017/18.

Prior year adjustments

There were no prior year adjustments.

Significant changes in fixed assets

There were no significant changes in Fixed Assets.

Private Finance Initiative (PFI) /Public Private Partnerships (PPP) / Non-Profit Distributing (NPD)

An NPD Scheme for a New Hospital and Healthcare Facility has been agreed with The Scottish Government for completion in 2018/19. The Pre Financial Close KSR was signed on behalf of STF on 23rd March 2017 and by the Chief Executive on behalf of the Board on 27th March 2017.

c) PERFORMANCE AGAINST KEY NON FINANCIAL TARGETS AND STANDARDS

Local Delivery Plan (LDP) Standards have replaced the system of Health Improvement, Efficiency and Governance, Access to Services and Treatment (HEAT targets), with the identified priorities also being reflected in the financial Local Delivery Plan.

LDP Standards are priorities that are set and agreed between the Scottish Government and NHS Boards to provide assurance on NHS Scotland performance and quality ambitions.

NHS Orkney monitors performance against these standards on a monthly basis and reports on progress to each Board meeting.

Whilst performance against the Knowledge and Skills Framework (eKSF) is no longer a national standard, NHS Orkney continues to monitor performance against the requirement for 80% of staff to have an annual review against their post outline. Performance at the end of March 2017 saw eKSF rates increase to just over 60% and whilst this is below our stretch target of 80% it is significant improvement on our previous year's performance.

Waiting Times and Treatment Time Guarantee

The waiting times targets form part of the LDP standards and we continue to see breaches in relation to our 12 week outpatient standard, although we have met our elective 18 week referral to treatment standard. Achievement of the target is negatively impacted by performance in Orthopaedics and Ophthalmology where demand exceeds the capacity available from visiting services. This has also impacted on our referral to treatment performance, particularly in relation to ophthalmology. NHS Orkney is working with neighbouring Boards to increase our access capacity.

There have been dips in performance in relation to the cancer 62 day target for those urgently referred with a suspicion of cancer to begin treatment, due to the small volumes of patients, 2 of the 3 patients being delayed caused this standard to be breached.

	Outpatients < 12 wks from referral to first appointment	inpatient or day case treatment < 12 wks	Elective to commence < 18 wks from referral	Patients waiting for key diagnostics < 6 wks	A&E – 4 hrs from arrival to admission, discharge	Urgent referrals cancer to treatment < 62 days	Decision to start cancer treatment < 31 days
National Target	100.0%	100.0%	90.0%	100.0%	98.0%	95.0%	95.0%
Apr-16	71.4%	100.0%	88.9%	98.8%	99.4%	78.0%	100.0%
May-16	84.3%	97.2%	94.7%	98.3%	97.5%	78.0%	100.0%
Jun-16	76.9%	98.4%	92.1%	99.2%	97.7%	78.0%	100.0%
Jul-16	76.1%	98.1%	94.4%	100.0%	98.0%	86.0%	100.0%
Aug-16	74.7%	90.6%	93.9%	98.9%	97.7%	86.0%	100.0%
Sep-16	87.4%	98.2%	96.0%	98.8%	98.8%	86.0%	100.0%
Oct-16	82.7%	94.1%	94.5%	92.9%	98.1%	100.0%	100.0%
Nov-16	82.5%	86.4%	95.4%	100.0%	98.8%	100.0%	100.0%
Dec-16	71.1%	91.5%	93.8%	100.0%	97.6%	100.0%	100.0%
Jan-17	85.2%	96.3%	96.3%	95.5%	97.9%	87.0%	100.0%
Feb-17	74.6%	98.0%	85.7%	93.9%	93.9%	87.0%	100.0%
Mar-17	81.1%	80.8%	94.3%	100.0%	97.5%	87.0%	100.0%

(January 2017 to March 2017 have not been validated by ISD)

Due to data quality issues since the implementation of Trakcare, NHS Orkney has not been able to report during the year on performance against access targets for mental health services including Child and Adolescent Mental Health Services (CAMHS) and Alcohol and Drug Treatments. By end March 2017 the backlog of processing for CAMHS targets had been completed and we were able to confirm that there had been no breaches of the target for young people to access such services within 18 weeks of referral.

d) PAYMENT POLICY

NHS Orkney is committed to supporting the Scottish Government by paying bills more quickly to aid businesses cash flow. The intention is to achieve payment of all undisputed invoices within 10 working days, across all public bodies.

Measure of Better Payment	2015/16	2016/17
Paid by value – in 10 days	63%	58%
In 30 days	92%	89%
Credit taken	18 days	18 days
Paid by volume – in 10 days	56%	53%
In 30 days	90%	89%

e) PENSION LIABILITIES

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

f) SUSTAINABILITY AND ENVIRONMENTAL REPORTING

NHS Orkney has continued with its sustainability programme continuing to invest in efficiency measures across the estate, including; oil to kerosene fuel conversion and lighting projects. The emissions has reduced to 692 tonnes of CO2 being produced in 2016/17 compared to 715 tonnes in 2015/16.

Signed

Date 26 June 2017

Catherine Cowan
Chief Executive

B. ACCOUNTABILITY REPORT

1. CORPORATE GOVERNANCE REPORT

a) DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 31 March 2017.

1. Date of Issue

Financial statements were approved and authorised for issue by the Board on 26 June 2017.

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 Gillian Woolman, Assistant Director of Audit (Audit Services), Audit Scotland to undertake the audit of NHS Orkney. 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

Board members are selected on the basis of their position or the particular expertise which enables them to contribute to the decision making process at a strategic level. The Board has collective responsibility for the performance of the local NHS system as a whole, and reflects the partnership approach, which is essential to improving health and healthcare services. During the year NHS Orkney comprised the following: -

Chair: Ian Kinniburgh

Vice Chair: Naomi Bremner

Executive Directors:

Cathie Cowan, Chief Executive
Elaine Peace, Director of Nursing, Midwifery and Allied Health Professionals
Hazel Robertson, Director of Finance
Marthinus Roos, Medical Director
Dr Louise Wilson, Director of Public Health

Non Executive Directors:

David Drever
Steven Heddle, Local Authority Representative
Rognvald Johnson
Steven Johnston, Area Clinical Forum Chair – with effect from 1 January 2017
Fiona MacKellar, Employee Director
Jeremy Richardson
Gillian Skuse
Dr Andrew Trevett, Area Clinical Forum Chair – up to 31 December 2016

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

Attendance at Board meetings:

Non-Executives:

Name:	Role:	Number of Meetings	Number Attended	%
I Kinniburgh	Chair – NHS Orkney	6	5	83
N Bremner	Vice Chair	6	6	100
D Drever	Non Executive Director	6	5	83
S Heddle	Non Executive Director	6	5	83
R Johnson	Non Executive Director	6	6	100
S Johnston	Area Clinical Forum Chair	1	1	100
F MacKellar	Employee Director	6	5	83
J Richardson	Non Executive Director	6	5	83
G Skuse	Non Executive Director	6	5	83
A Trevett	Area Clinical Forum Chair	5	4	80

Executives:

Name:	Role:	Number of Meetings	Number Attended	%
C Cowan	Chief Executive	6	6	100
E Peace	Director of Nursing, Midwifery and Allied Health Professions	6	6	100
H Robertson	Director of Finance	6	6	100
M Roos	Medical Director	6	6	100
L Wilson	Director of Public Health	6	5	83

4. The Statement of Board Members' responsibilities

Under the National Health Service (Scotland) Act 1978, the Health Board is required to prepare accounts in accordance with the directions of Scottish Ministers which require that those accounts give a true and fair view of the state of affairs of the Health Board as at 31 March 2016 and of its operating costs for the year then ended. In preparing these accounts the Directors are required to:

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

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

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

5. Board members' and senior managers' interests

Details of any interests of board members, senior managers and other senior staff in contracts or potential contractors with NHS Orkney as required by IAS 24 are disclosed in note 29.

Board Members	Declared Interest	Role within the organisation
Cathie Cowan	Chair – North of Scotland Planning Group	Chief Executive
Steven Heddle	Member of Orkney Islands Council Director – Steven Heddle Consultancy, ICT, Scientific Consultancy	Non Executive Board Member
Ian Kinniburgh	Chairman, NHS Shetland Board Chairman, National Evaluation Committee Member of National Performance Management Committee Chairman, Shetland Partnership Member, Orkney Partnership Member, ZETTRANS Member, SNP Member of North of Scotland Planning Group Chairs	NHS Orkney Board Chair
Jeremy Richardson	Chair – Age Concern Orkney Vice Chair – Relationships Scotland Vice Chair of Integrated Joint Board – voting member	Non Executive Board Member
Gillian Skuse	Director – Age Concern Integrated Joint Board – voting member	Non Executive Board Member
Dr Andrew Trevett	Provision of General Medical Services to NHS Orkney. Provision of Diving Medical Services to NHS Orkney. Director – Orkney Hyperbaric Trust	Chair – Area Clinical Forum – Non Executive Board Member GP
David Drever	Integrated Joint Board – voting member	Non Executive Board Member
Rognvald Johnson	Integration Joint Board – substitute member Chair in Orkney of Orkney and Shetland Joint Valuation Appeal Panel	Non Executive Board Member
Naomi Bremner	Integration Joint Board – substitute member Self-employed – Eyland Skyn (Management Consultancy)	Vice chair of the Board

6. Directors third party indemnity provisions

There are no third party indemnity provisions.

7. Remuneration for non audit work

No remuneration was paid to external auditors in respect of non audit work.

8. Value of Land

There is no significant difference between the market value and the balance sheet value of land at 31 March 2017.

9. Public Services Reform (Scotland) Act 2010

NHS Orkney publishes (on its web site at www.ohb.scot.nhs.uk) all payments in excess of £25,000 in compliance with Sections 31 and 32 of the Public Services Reform (Scotland) Act 2010.

10. Personal Data Incidents reported to the Information Commissioner

Two incidents involving personal data were reported and investigated during the year, however, no clinical loss of data was identified. General security measures were increased in Garden House following one of the incidents. Following all incidents staff are reminded of their responsibilities in relation to the security and confidentiality of personal data

11. 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 NHS Orkney'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 NHS Orkney's auditors are aware of that information.

b) STATEMENT OF ACCOUNTABLE OFFICERS' RESPONSIBILITIES

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

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 NHS Orkney's disposal; and
- safeguarding the assets of NHS Orkney.

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 disclosed and explain any material departures; and
- prepare the accounts on a going concern basis.

I confirm that the Annual Report and Accounts as a whole are fair, balanced and reasonable.

I am responsible for ensuring proper records are maintained and that the Accounts are prepared under the principles and in the format directed by Scottish Ministers. To the best of my knowledge and belief, I have properly discharged my responsibilities as accountable officer as intimated in the Departmental Accountable Officer's letter to me of the 3rd February 2012.

c) GOVERNANCE STATEMENT

Scope of Responsibility

As Accountable Officer, I am responsible for maintaining an adequate and effective system of internal control which supports compliance with the organisation's policies and promotes achievement of the organisation's aims and objectives, including those set by Scottish Ministers. In pursuing a Board that is performing to a high standard, I am also mindful of ensuring that the best interests of patients are central to all that we do. I am also responsible for safeguarding the public funds and assets assigned to the organisation.

Purpose of Internal Control

The Board has a corporate responsibility for ensuring that arrangements are in place for the conduct of its affairs, including compliance with applicable guidance and legislation, and ensuring that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Board has an ongoing responsibility to ensure that it monitors the adequacy and effectiveness of these arrangements in practice.

In the context of the Board's principal role to protect and improve the health of the Orkney population, the Chief Executive, as Accountable Officer, has delegated authority and responsibility to secure the economical, efficient and effective operation and management of NHS Orkney and to safeguard its assets in accordance with the statutory requirements and responsibilities as the Accountable Officer for NHS Orkney.

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.

A central register of circulars is maintained by the Board Secretariat listing reference, date issued, topic, distribution, date distributed within NHS Orkney and action confirmed by lead director. Circulars are distributed to the responsible Director and others as appropriate. The Director is responsible for ensuring that required actions are taken and that circulars are disseminated. There is an obligation for Directors to respond to the Board Secretary detailing action taken. This report is circulated to the Information Governance Group to enable members to assure themselves that the organisation is being kept up to date with new requirements, regulations and standards being issued by the Scottish Government Health and Social Care Directorate and seek assurance that appropriate action has been taken. The list of circulars and action taken is included on the Board agenda under key documents, and goes to all the professional advisory groups for information. In 2017/2018 all circulars received will be considered formally by the Senior Management Team and actions monitored to further improve our compliance.

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

The Board meets regularly during the year to progress the business of NHS Orkney. Against each member shows their attendance levels. The following standing committees are in operation within NHS Orkney:

- Audit
- Finance and Performance
- Quality and Improvement / Clinical and Care Governance
- Staff Governance
- Remuneration

Audit Committee:

NHS Orkney has established the Audit Committee to support the Board in its responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge including the review of the annual accounts and internal and external audit reports. There were seven meetings held during 2016/17.

Members:

Naomi Bremner (attended 7 of 7)	(Chair)
Rognvald Johnson (6 of 7)	(Vice Chair)
David Drever (6 of 7)	
Fiona Mackellar (6 of 7)	

Jeremy Richardson (2 of 7)	(Deputy)
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Finance and Performance Committee:

The purpose of the Finance and Performance Committee is to review the financial and non financial targets of NHS Orkney, to ensure that appropriate arrangements are in place to deliver against organisational performance

measures, to secure economy, efficiency, and effectiveness in the use of all resources, and provide assurance that the arrangements are working effectively. There were six meetings held during 2016/17.

Members:

Rognvald Johnson (6 of 6) (Chair)
Steven Heddle (4 of 6) (Vice Chair)
Cathie Cowan (1 of 6)
Ian Kinniburgh (6 of 6)
Hazel Robertson (6 of 6)
Gillian Skuse (5 of 6)

Quality and Improvement Committee:

During the financial year ending 31 March 2017, the Quality and Improvement Committee's remit was extended with the Committee changing to the Clinical and Care Governance Committee with effect from 23 June 2016. Membership of the NHS Orkney Quality and Improvement Committee, which met once only during 2016/17.

Members:

Jeremy Richardson (1 of 1) (Chair)
Dr Andrew Trevett (1 of 1) (Vice Chair)
Naomi Bremner (1 of 1)
Cathie Cowan (0 of 1)
Ian Kinniburgh 1 of 1)
Elaine Peace (1 of 1)
Marthinus Roos (1 of 1)
Heather Tait, Public Representative (1 of 1)
Louise Wilson (1 of 1)

Clinical and Care Governance Committee:

During the financial year ending 31st March 2017, membership of the NHS Orkney Clinical and Care Governance Committee, which replaced the Quality and Improvement Committee with effect from 23 June 2016.

The purpose of the Clinical and Care Governance Committee is to provide NHS Orkney with the assurance that robust clinical governance controls and management systems are in place and effective throughout NHS Orkney. As Accountable Officer I introduced a reporting structure led by each of the Board's Clinical Directors. The reporting governance structure covers: Person Centered Care, Safe and Effective Care and Population Based Health. This new sub structure is being reviewed to ensure its fitness for purpose as part of a wider improvement governance focus. The review will also take account of the Senior Information Responsible Officer role and its purpose in providing assurance to the Board and Committee. There were three meetings held during 2016/17.

Members:

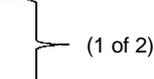
Jeremy Richardson (2 of 3) (Chair)
Dr Andrew Trevett (2 of 2) (Vice Chair) (up to 31 December 2016)
Ian Kinniburgh, NHS Orkney Chair (2 of 3)
Naomi Bremner, Non Executive Board Member (2 of 3)
Steven Johnston, Non Executive Board Member (1 of 1) (from 1 January 2017)
Cathie Cowan, Chief Executive (1 of 3)
Marthinus Roos, Medical Director (3 of 3)
Elaine Peace, Director of Nursing, Midwifery and Allied Health Professions (3 of 3)
Louise Wilson, Director of Public Health (2 of 3)
Chris Nicolson, Director of Pharmacy (1 of 1)
Heather Tait, Public representative (3 of 3)
Jon Humphreys, Head of Service, Children and Families and Criminal Justice, Chief Social Work Officer (3 of 3)

Four Elected Orkney Islands Council members:

Russ Madge, Chair Integration Joint Board (IJB) (0 of 2)
Alan Clouston, IJB member (2 of 2)
John Richards, IJB member (2 of 2)

Any one of the following:

Janice Annal, Elected member (deputy)
Gwenda Shearer, Elected member (deputy)
Bill Stout, Elected member (deputy)



Staff Governance Committee:

The purpose of the Staff Governance Committee is to advise NHS Orkney on its responsibility, accountability and performance against the NHS Scotland Staff Governance Standard, addressing the issues of policy, targets, standards and organisational effectiveness.

This will be demonstrated through achievement and progress towards the Standard by:

- qualitative data collected during the self-assessment audit conducted by the local partnership forum
- the action plans submitted to, and approved by, the Staff Governance Committee
- staff survey results
- i-matter roll out and support
- quantitative data provided in statistical returns

There were 4 meetings held during 2016/17.

Members:

David Drever (4 of 4)	(Chair)
Fiona MacKellar (4 of 4)	(Vice Chair)
Naomi Bremner (3 of 4)	
Cathie Cowan (2 of 4)	
Annie Ingram (3 of 4)	
Kate Smith, Partnership representative (3 of 4)	
James Robertson, Partnership representative(1 of 4)	
Andrew Trevett (3 of 3)	(up to 31 December 2016)
Steven Johnston (1 of 1)	(from 1 January 2017)

Remuneration Committee:

The Remuneration Committee is responsible for determining and regularly reviewing NHS Orkney's pay policy, in line with national conditions and guidance. The committee also agrees the individual in-year objectives of the NHS Orkney's executive directors. The committee is required to approve the annual performance assessment of executive directors in June each year. There were six meetings held during 2016/17.

Members:

Ian Kinniburgh (6 of 6)	(Chair)
Steven Heddle (3 of 6)	(Vice Chair)
Fiona MacKellar (4 of 6)	
Rognvald Johnson (5 of 6)	

Endowment Fund Sub Committee:

The Endowment Fund Sub Committee is responsible for the routine administration of the Endowment Account, working to designated authority levels for approval of expenditure. There were four meetings held during 2016/17.

Members:

Gillian Skuse (4 of 4)	(Chair)
Fiona MacKellar (2 of 4)	(Vice Chair)
Rognvald Johnson (4 of 4)	
Steven Heddle (3 of 4)	
Elaine Peace (4 of 4)	
Hazel Robertson (4 of 4)	

Under the terms of the Scottish Health Plan, the NHS Board is a board of governance. Its purpose is to ensure the efficient, effective and accountable governance of the local NHS system and to provide strategic leadership and direction for the system as a whole, focusing on outcomes.

The NHS Board comprises of the Chair, eight non-executive and five executive directors; of the non-executive directors one is nominated by Orkney Islands Council; two are nominated via their roles with the Area Clinical Forum and Area Partnership Forum and other non-executives are appointed through a public appointments process by the Scottish Ministers and are selected on the basis of their position or their particular expertise which enables them to contribute to our vision, strategic direction and the decision making process at a strategic level.

Our organisation's vision is that:

'Be the best remote and rural care provider in the United Kingdom'

Functions of the Board

An effective Board articulates an ambition for their organisation whilst managing the risk contained within that ambition and demonstrating leadership by undertaking three key roles:

- Formulating strategy, including the development of the Local Delivery Plan
- Ensuring commitment and accountability by holding the organisation to account for performance and the delivery of both improvement in population health/addressing health inequalities and individual experience of care whilst operating within a context of affordability and sustainability.
- Shaping a positive culture (open, just and fair) for the Board and organisation

Responsibilities of Members of the Board

Membership of Orkney NHS Board carries with it a collective and corporate responsibility for the discharge of these functions. All members are expected to bring an impartial judgement to bear on issues of strategy, performance management, key appointments and accountability, upwards to Scottish Ministers and outwards to the local community.

It is the duty of the Chair and me as Chief Executive to ensure that Board Members and staff understand their responsibilities. Board Members and Managers have received copies of the [Code of Corporate Governance](#) and the Board Secretary maintains a list of managers to whom the Code of Corporate Governance has been issued. Managers are responsible for ensuring their staff understand their own responsibilities.

The NHS Board has governance arrangements in place which provide an integrated approach to governance across clinical areas, staff arrangements, involving and engaging people in our service, developments and performance management. The conduct and proceedings of the NHS Board are set out in its Code of Corporate Governance; this document specifies the matters which are solely reserved for the NHS Board to determine, the matters which are delegated under the Scheme of Delegation and the matters which are remitted to a Standing Committee of the NHS Board.

The Code of Corporate Governance also includes the Code of Conduct that board members must comply with, along with the Standing Financial Instructions. These documents are the focus of the NHS Board's Annual Review of governance arrangements. The Board of NHS Orkney reviews and approves the Code of Corporate Governance each year. The Standing Orders are made in accordance with The Health Boards (Membership and Procedure) (Scotland) Regulations 2001.

The non-executive members provide constructive scrutiny and challenge and this is evidenced in minutes of meetings. In addition to the Code of Conduct for Members, the NHS Board has a Corporate Plan which sets out 'our promise' to patients and their families and how NHS Orkney prides itself in delivering high quality care whilst ensuring all our patients are treated with dignity and respect. The Corporate Plan sets out 'our promise' to staff and our expectations from staff to demonstrate their commitment and accountability for their actions and contribution to individual, team/department and organisational performance.

All NHS Board executive directors review their development needs as part of the annual performance management and development process. This process is directed by the Board's agreed corporate objectives detailed within the Corporate Plan.

Our corporate themes/objectives, informed by our staff, and approved by the Board, for 2016/17 were:

- Improve the Health and Wellbeing of the people of Orkney and reduce health inequities
- Pioneer ways of working to meet local health needs
- Value and develop our people
- Nurture a culture of excellence and continuous improvement
- Demonstrate best value using our resources
- Improve the delivery of safe, effective and person centred care and our services.
- As a high performing cohesive organisation demonstrate behaviours that are consistent with our values and engender a supportive and empowering environment
- Objective 8 is a personal objective that describes a staff member's contribution to improving the performance of NHS Orkney

These corporate themes/objectives drive the annual performance and development appraisal process. I am accountable to the Board through the Chair of the NHS Board. The Chair agrees my (Chief Executive) annual objectives in line with the Board's strategic and corporate plans. Our [Corporate Plan \(2017/18\)](#) was updated and approved by the Board in April 2017 and informs our 'new' corporate objectives which in the main align with the above objectives and our recently approved operating principles.

NHS Orkney strives to consult with all of its key stakeholders. How we inform, involve and consult with patients, partners and the public in transforming clinical services is an important part of how we plan for the future. To fulfil our responsibilities for public involvement, we routinely communicate with and involve people and communities including Community Council members in developing our plans. Our Patient and Public Partnership Group provides a mechanism for promoting and encouraging the involvement of local people and communities in the design and delivery of the health services they use. A review of how the group is working will be undertaken with the involvement of the Scottish Health Council will be undertaken in 2017/2018. The output from the review will inform how we effectively involve our patients, carers, communities and Board members of the Integration Joint Board in the planning and provision of healthcare in Orkney and/or by other NHS Boards.

NHS Orkney has a well established complaints system, whereby members of the public can make a formal complaint to the Board regarding their care or treatment or how services are organised. Information on our complaints system which has been updated to reflect the new complaints procedure can be accessed through NHS Orkney's website. (The whistleblowing policy can be located with this [link](#)).

Complaints must be acknowledged in writing within three days and investigated within 20 working days or as soon as reasonably practicable. For 2016/17, NHS Orkney received 49 complaints of which none were withdrawn, compared with 47 in 2015/16 and 2 withdrawn. 98% of complaints have been acknowledged within 3 working days and the response rate within 20 working days was 73.5% which is similar to 68.9% at March 2016.

Three complaints were referred to the Scottish Public Services Ombudsman. One complaint regarding delayed diagnosis and poor palliative care was not upheld. The second complaint contained four separate concerns. Three of the concerns – failures in communication, obtaining consent and complaint handling - were upheld and one concern, regarding delayed diagnosis was not upheld. Recommendations were made and these have been shared with appropriate staff for action. The third complaint relates to two issues of failure in clinical treatment remains open at the time of writing.

Preparations including public awareness raising and staff training for the new Complaints Procedure took place during 2016/17. The Procedure was approved by the Board in February 2017 and rolled out across NHS Orkney on 1st April 2017.

Another source of communication stems from Freedom of Information requests. Responses to Freedom of Information requests are authorised by two Executive Directors to improve overall response times and provide adequate scrutiny. During 2016/17 582 requests were received of which 96% were answered within the 20 day

deadline compared with 486 requests in 2015/16 of which 96% were answered within the 20 day deadline. Quarterly reporting of statistics was provided to the Scottish Information Commissioner.

We strive to inform and involve our staff, and in this regard, we have well established methods of communication. For example I meet monthly with staff through our informal Team Orkney Communications (TOC Group), Team Briefs/Updates, staff newsletter "Keyhole", fortnightly e-bulletin and the internal Blog.

We fully implemented iMatter during 2016/2017. Our response rate was 66% with an Employee Engagement Index (EEI) score of 76% for 2016 compared to a response rate of 86% and EEI score of 75% in 2015. The drop in response rate can be attributed to system wide roll out in comparison with a small number of teams participating in 2015. However the majority of staff experience employee engagement components have improved when comparing the years 2015 and 2016 and engagement overall with iMatter when compared to the National Staff Survey has been much higher.

During 2016/2017 recurring messages from teams, through iMatter development sessions, were taken to the Board, who responded accordingly in a "you said, we did" bulletin (see [page 370](#) of the February 2017 board meeting papers). A review of the bulletin will take place during 2017 to improve how we meaningfully engage with our staff.

Overall, there are no significant differences when comparing the national response (2016) with our local Board response, overall the feedback is very favourable (score within the strive and celebrate category 67-100%) however there are four key themes worthy of highlighting at an organisational level that fall within the 'monitor to further improve' (34-50%), these include:

- I have confidence and trust in senior managers responsible for the wider organisation
- I am confident performance is managed well
- I feel senior managers for the wider organisation are sufficiently visible
- I feel involved in decisions relating to my organisation

The purpose of iMatter is about improving both staff experience and ultimately people/patient experience. We celebrated the successes from teams across NHS Orkney at our annual staff conference. Staff and managers presented their stories at the conference, enabled and encouraged by following the iMatter Continuous Improvement methodology. Feedback from the annual Staff Awards and Staff conference was very positive and it is my intention to continue to share Board wide quality improvement initiatives to support a commitment to system wide learning and development.

Going into 2017/2018 we are one of the first Boards in Scotland to move to one full run of iMatter and it is my intention with the support of the Chairman to commit to 100% of teams with action plans in place by 1st September 2017, this is set out in our SMT Strategy Deployment Matrix (SDM) and replicated in all Level 1 and 2 SDMs across the organisation.

NHS Orkney is also committed to working in partnership with its community planning partners (CPP) and the Third sector. As part of the previously agreed CPP structural changes I agreed to chair the Healthy & Sustainable Communities CPP Delivery Group. The Group is now finding its feet with a programme of work that takes account of the Chief Medical Officer's Realistic Medicine Report and its read across to supporting people make lifestyle changes within a sustainable and economically viable operating context.

Health and Social Care Integration

Health and social care integration is well established in Orkney and progress during 2016/2017 to create localities and refresh the Strategic Commissioning Plan builds on our successful partnership arrangements developed over time between Orkney Islands Council and NHS Orkney. During 2016/2017 the NHS Board and Council members met to discuss budgetary arrangements with the voting members of the Integration Joint Board. The meeting led by our Directors of Finance and Chief Officer was well received.

Further information can be located on the Scottish Government [website](#), and with this Orkney Health and Care (OHAC) [link](#).

It is our intention during 2017/2018 to review the functioning of the IJB; this would meet the expectations of the commitment given to Board and Elected members to undertake a review after 18 months of operation. Our review is intended to inform continuous improvement in performance in line with the Scottish Government's best value characteristics and improve outcomes for the people of Orkney.

Account of the corporate governance framework

Within NHS Orkney, each assurance committee has direct reporting links into the NHS Board. The Audit Committee has the overall responsibility to scrutinise the effectiveness of risk management processes and arrangements and provides assurance to the Board.

Board and Assurance Committees review their terms of reference annually and any amended Terms of Reference are subsequently submitted to the Audit Committee for approval as an amendment to the Standing Orders. Standing Financial Instructions were reviewed and presented to the Board in April 2016 for approval.

Reports requiring decisions by the Board or Assurance Committees to discharge their business or exercise their monitoring role are submitted by the Executive Members or other Senior Officers and contain sufficient detail to enable an informed decision to be made. Any associated risks are normally included in the report as well as how they will be managed / mitigated. Reports are discussed openly at meetings and any questions fully answered by Executive Directors. Decisions are normally reached by a consensus without a formal vote but at the request of a member a formal vote would be taken.

Whilst pay arrangements for NHS staff are determined under national arrangements, the pay arrangements for the Board's senior managers whose posts are part of the Executive Management cohorts are subject to the Scottish Government Health & Social Care Directorate guidance, determined by the Remuneration Sub Committee (a sub-committee of Staff Governance Committee).

In summary, I have reviewed the Scottish Public Finance Manual and believe NHS Orkney complies with it.

NHS Endowments

In accordance with IAS 27 – Consolidated and Separate Financial Statements, the Financial Statements consolidate the Endowment Funds of NHS Orkney. This statement includes any relevant disclosures in respect of these Endowment Accounts.

Assurance on governance matters relating to Endowment Funds is obtained via an Annual Assurance Statement from the Chair of the Endowment Fund Sub Committee. The Endowment Accounts are subject to their own audit process and this has been completed and no issues have been highlighted.

Review of Adequacy and Effectiveness

As Accountable Officer, I have responsibility for reviewing the adequacy and effectiveness of the system of internal control and the quality of data used throughout the organisation. My views have been informed by:

- The Executive Directors who have a responsibility for the development and maintenance of the internal control framework
- The work of the internal auditors, who submit to the organisation's Audit Committee regular reports which include their independent and objective opinion on the adequacy and effectiveness of the organisation's system of control together with recommendations for improvement
- Comments made by external auditors in their management letters and reports
- Statements of Assurance from the assurance committees of NHS Orkney
- Annual reports from assurance committees
- Executive Director's reports.

The control mechanisms are overseen and have ongoing evaluation by the NHS Board, its assurance committees and a number of other groups including:

- Risk Management Steering Group
- Information Governance Steering Group.

In this regard, the Audit Committee, which meets with both our internal and external auditors in attendance has considered 11 internal audit reports in 2016/17 as part of a three year rolling programme. The overall opinion from our Internal Auditors is that NHS Orkney has a framework of controls in place to achieve our objectives and manage key risks whilst promoting value for money and delivering best value.

Our internal audits covered key areas of governance: clinical governance, staff related governance (workforce audits to track our change to HR services having approved a shared services model by which NHS Grampian provide our HR services), financial governance including risk management. In addition IT business continuity and disaster recovery and other good housekeeping audits (property transactions, gifts and hospitality and stock control) were completed.

Waiting Times

In 2015/16 and at the request of the Chief Executive, which was supported by the Audit Committee, Internal Audit undertook an audit into waiting times list management against national guidance and best practice. There were four control objectives – three were reported as 'adequate and effective controls which are operating satisfactorily' and one reported as 'no major weaknesses in control but scope for improvement' with three recommendations. I concluded that there are strong controls in place and a strong governance structure to manage and monitor our compliance with waiting times targets and standards. The Board's waiting time performance is described in the Performance Report (located with this [link](#)).

Waiting Times are reported to both the Finance and Performance Committee and discussed in public at our regular NHS Board meetings.

New Hospital and Healthcare Facility

During 2016/2017 Robertson Capital Projects was announced as our preferred bidder. Work to conclude the Project Agreement, Pre-Payment Agreement and ancillary documentation was achieved and we reached financial close in March 2017. Key Stage Review (KSR) sign off during this period enabled us to move forward with this significant capital project and work began in April on the new build site. Planning for migration to the new build began in earnest during 2016 and our migration plans are part of wider system wide transformational change programme that will see more services being delivered in Orkney when it is safe and appropriate to do so.

Technology

NHS Orkney invested significantly in IT systems and infrastructure to support our commitment to deliver services closer to home. This investment is part of our system wide improvement agenda including an ambition to implement an electronic patient record.

Clinical Governance

During 2016 I commissioned a review relating to the management of critical incidents, adverse events, action planning and implementation of recommendations and the adoption and spread of local learning. The output from this review will drive improvement in the Board's approach to our governance domains, notably:

- formulating strategy
- holding the organisation to account for performance and the delivery of both improvement in population health/addressing health inequalities and individual experience of care whilst operating within a context of affordability and sustainability
- shaping a improvement culture that is demonstrable in what we pay attention to and how we behave
- considering the right information using a whole system lens that encourages dialogue to inform our decisions and commitment to continuous improvement

Risk Assessment

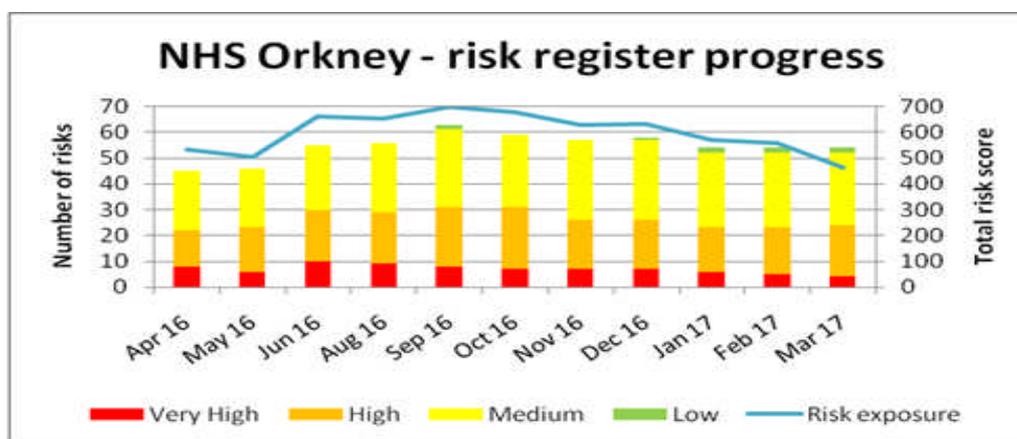
NHS Scotland bodies are subject to the requirements of the Scottish Public Finance Manual (SPFM) and must operate a risk management strategy in accordance with relevant guidance issued by Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM.

NHS Orkney acknowledges that the systematic and effective implementation of risk management is best practice at a corporate and strategic level as well as a means of improving the quality and safety of operational activities.

As Chief Executive I ensure there is suitable review and management of Corporate Risks and that all significant risk management concerns are prioritised, considered and communicated to our Governance Committees and the Board on a regular basis. As Chief Executive I have overall accountability for ensuring that an effective risk management system is in place. During 2016/2017 our internal auditors reviewed our risk management arrangements. The audit reported that we have a suite of risk registers which consists of a corporate risk register and three operational risk registers. The format of each of the risk registers is clear and understandable and includes key information as risk reference, risk owner and initial, current and target risk scores. Key mitigating actions and links to NHS Orkney's corporate objectives are recorded for each risk within the Datix Incident Management System. I concluded that there are strong controls in place and a strong governance structure to manage and monitor our risks.

The Corporate Risk Register has been reviewed in line with our approach to improve risk management arrangements. This has been led by our Director of Finance in collaboration with the Senior Management Team and Risk Management Steering Group (RMSG). We have also introduced a dedicated a risk review process that works alongside our RMSG. Diagram 1 is an extract from our Risk Management Report to the Board. It describes our risk environment: number of risks, risk exposure and total risk score for the period 2016/2017.

Diagram 1



The most significant corporate risks relate to the following themes:

- GP Practices may not be receiving all clinical letters electronically
- Healthcare Acquired Infection (HAI) IT system is not able to support reporting of HAI standard 2015 (manual system available)
- Windows Server 2003 is no longer supported by Microsoft which may lead to security vulnerabilities compromising our network
- Immediate Discharge Letter (IDL) system does not support clinical processes resulting in IDLs being manually amended
- CITRIX server unsupported by NHS Grampian.

Summary

In summary, as Accountable Officer, I have been advised of the effectiveness of the system of internal control by the Committees, our internal and external auditors and Executive Directors of the Board. This provides assurance to the Board that an appropriate system of internal control is in place. Plans to address weaknesses and ensure continuous improvement are in place. Taking account of the work undertaken in 2016/2017, I consider that we have taken appropriate steps to ensure we have discharged our responsibilities in relation to the management of risk.

2016/2017 has been another ambitious year for NHS Orkney. We continue to invest in key clinical services to support our service repatriation goals and plan for migration into our new build. In this regard we have plans to improve health and further transform our services to improve quality and patient experience. Investment in quality improvement (QI) capability has informed our policy deployment approach using a QI method known as Strategy Deployment. This methodology ensures our strategic goals drive progress and actions at all levels within NHS Orkney by aligning significant improvements against corporate objectives, resources and engagement of staff. Behind its success is better staff engagement and co-ordination of effort as we align strategy (at organisational or Board level) with the service plans of our Heads of Service (tactical) and the work performed by all our employees (operational).

In going into 2017/18 we are financially more stable although access targets in a number of key specialties, notably: orthopaedics and ophthalmology will challenge us if we fail to secure service capacity to address demand. Regionally we are working in partnership with neighbouring Boards to ensure access standards are met, however we will go outwith the Region if capacity is not accessible. We have and will continue to pursue shared service solutions to build local resilience and in 2016/2017 we set up formal partnerships with NHS NSS to host our procurement services and similarly we approved a joint HR business case with NHS Grampian.

Workforce recruitment challenges continue although we have introduced a '2 week on 2 week off' contract on the Isles and in the Hospital and this has worked well in terms of recruitment and continuity of service delivery. NHS Highland provide our medical education functions and we have worked jointly to appoint to a new clinical role – Clinical Development Fellows, recruitment to these new posts has proven to be very successful.

In conclusion, 2016/17 has been a memorable year in terms of achieving financial close on our new hospital and healthcare facilities. In addition, our performance overall was good and staff engagement including the non executive directors in QI development has been encouraging as we look to the future with a sense of optimism and pride in what we have achieved.

2. THE REMUNERATION AND STAFF REPORT

a) REMUNERATION REPORT

BOARD MEMBERS' AND SENIOR EMPLOYEES' REMUNERATION

Membership of the Remuneration Committee comprises:

Members:

Ian Kinniburgh	(Chair)
Steven Heddle	(Vice Chair)
Fiona MacKellar	
Rognvald Johnson	

The Remuneration Committee is responsible for determining and regularly reviewing NHS Orkney's pay policy, in line with national conditions and guidance. The committee also agrees the individual in-year objectives of the NHS Orkney's executive directors. The committee is required to approve the annual performance assessment of executive directors in June each year. There were six meetings held during 2016/17.

Remuneration

Remuneration of Board members and senior employees is determined in line with directions issued by Scottish Government. 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 has been appropriately applied and agreed by the Remuneration Committee.

Performance Appraisal

Performance appraisals for executive members are carried out in line with guidance and overseen by the Remuneration Committee. Annual pay rises for executive directors are dependent on achieving specified levels of performance.

Payments to Past Senior Managers

There were no payments to past senior managers during 2016/17.

Voluntary Severance

There were no voluntary severances.

Directors' and senior managers' remuneration

The following tables provide a breakdown of executive and non-executive directors' remuneration in 2016/17 and 2015/16 along with median pay information, and have been audited by NHS Orkney's auditors.

REMUNERATION REPORT

FOR THE YEAR ENDED 31 MARCH 2017

	Gross Salary (Bands of £5,000)	Benefits in Kind £'000	Total Earnings in Year (Bands of £5,000)	Pension Benefits £'000	Total Remuneration (Bands of £5,000)
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Remuneration of:

Executive Members

Chief Executive: C Cowan	105-110	0	105-110	11	115-120
Director of Nursing, Midwifery and AHP: E Peace	75-80	0	75-80	14	90-95
Director of Finance: H Robertson	80-85	0	80-85	27	105-110
Medical Director: M Roos (1)	215-220	0	215-220	313	530-535
Director of Public Health: Dr L Wilson (2)	130-135	0	130-135	33	165-170

Non Executive Members

The Chair: I Kinniburgh	20-25	0	20-25	0	20-25
N Bremner	5-10	0	5-10	0	5-10
D Drever	5-10	0	5-10	0	5-10
S Heddle	5-10	0	5-10	0	5-10
R Johnson	5-10	0	5-10	0	5-10
J Richardson	5-10	0	5-10	0	5-10
G Skuse	5-10	0	5-10	0	5-10
A Trevett (3)	5-10	0	5-10	0	5-10
S Johnston (4)	20-25	0	20-25	42	60-65
F MacKellar (5)	45-50	0	45-50	44	85-90

Other Senior Employees

Head of HR: J Nicol (6)	20-25	0	20-25	5	25-30
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- Note 1: M Roos, Medical Director, is remunerated for his substantive role as Medical Director as well as receiving remuneration in relation to his secondary role as a Consultant Orthopaedic Surgeon. Discretionary point arrears paid for previous financial years. Salary for his role as a Medical Director is in the range of £145,000 - £150,000.
- Note 2: L Wilson paid discretionary point arrears for previous years. Gross Salary for 2016/17 would represent an annual range of £120,000 - £125,000.
- Note 3: A Trevett resigned as Non Executive Member with effect from 31/12/2016. Gross salary would represent an annual range of £5,000 - £10,000.
- Note 4: S Johnston commenced as Non Executive director on 01/01/2017. The remuneration disclosed comprises remuneration for his role as Area Clinical Forum and his remuneration for his substantive post as a Dentist. The gross remuneration for his role as Non Executive Director would be in the annual range of £5,000 - £10,000.
- Note 5: F MacKellar commenced as Employee Director on the 1st April 2016. The remuneration disclosed comprises remuneration for her role as Employee Director and her remuneration for her substantive post as a Physiotherapist. The gross remuneration for her role as a Non Executive Director is in the annual range of £5,000- £10,000.
- Note 6: J Nicol is no longer Head of HR with effect from 01/08/2016 when HR services transferred to NHS Grampian. Gross salary would represent an annual range of £60,000 - £65,000

FOR THE YEAR ENDED 31 MARCH 2016

	Gross Salary (Bands of £5,000)	Benefits in Kind £'000	Total Earnings in Year (Bands of £5,000)	Pension Benefits £'000	Total Remuneration (Bands of £5,000)
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Remuneration of:

Executive Members

Chief Executive: C Cowan	105-110	0	105-110	17	120-125
Director of Nursing, Midwifery and AHP: E Peace	75-80	0	75-80	38	115-120
Director of Finance: H Robertson (1)	45-50	3.5	45-50	0	45-50
Medical Director: M Roos (2)	160-165	0	160-165	24	185-190
Director of Public Health: Dr L Wilson	125-130	0	125-130	160	285-290

Non Executive Members

The Chair: J R Scott (3)	15-20	0	15-20	0	15-20
The Chair: I Kinniburgh (4)	5-10	0	5-10	0	5-10
V Anderson (5)	45-50	0	45-50	15	60-65
N Bremner	5-10	0	5-10	0	5-10
D Drever	5-10	0	5-10	0	5-10
S Hagan (6)	0-5	0	0-5	0	0-5
S Heddle (7)	5-10	0	5-10	0	5-10
R Johnson	5-10	0	5-10	0	5-10
J Richardson	5-10	0	5-10	0	5-10
G Skuse	5-10	0	5-10	0	5-10
A Trevett	5-10	0	5-10	0	5-10

Other Senior Employees

Interim Director of Finance: R Kemp (8)	0-5	0	0-5	0	0-5
Head of HR: J Nicol	55-60	0	55-60	16	75-80

- Note 1: H Robertson commenced employment as Director of Finance from 31 August 2015. Gross salary would represent an annual range of £75,000 - £80,000.
- Note 2: M Roos, Medical Director, is remunerated for his substantive role as Medical Director as well as receiving remuneration in relation to his secondary role as a Consultant Orthopaedic Surgeon. Salary for his role as a Medical Director is in the range £135,000 - £140,000.
- Note 3: JR Scott ceased being a Non Executive member on 30 November 2015.
- Note 4: I Kinniburgh commenced as a Non Executive chair from 1 December 2015.
- Note 5: V Anderson ceased being Employee Director on the 25 March 2016. The remuneration disclosed comprises remuneration for her role as Employee Director and her remuneration for her substantive post as a School Health Nurse. The remuneration for her role as a Non Executive director is in the range £5 - £10,000 to 25 March 2016.
- Note 6: S Hagan ceased being a Non Executive member on 13 May 2015.
- Note 7: S Heddle commenced as a Non Executive member from 14 May 2015.
- Note 8: Robert Kemp ceased being a part-time Interim Director of Finance on 30 August 2015; he was an independent contractor and not an employee of NHS Orkney.

PENSION TABLE

FOR THE YEAR ENDED 31 MARCH 2017

	Total accrued pension at pensionable age at 31 March (Bands of £5,000)	Real increase in pension at pensionable age (Bands of £2,500)	Accrued Lump Sum as at age 65 at 31 March 2017 (Bands of £5,000)	Real Increase in Lump Sum at age 65 (Bands of £2,500)	Cash Equivalent Transfer Value (CETV) at 31 March 2017 £'000	Cash Equivalent Transfer Value (CETV) at 31 March 2016 £'000	Real increase in CETV in year £'000
Chief Executive: C Cowan	40-45	0-2.5	130-135	2.5-5	914	867	32
Director of Nursing, AHPs & Midwifery : E Peace	25-30	0-2.5	75-80	2.5-5	554	518	26
Director of Finance: H Robertson	20-25	0-2.5	60-65	0-2.5	405	370	35
Medical Director: M Roos	35-40	0-2.5	115-120	5-7.5	898	872	5
Director of Public Health: Dr L Wilson	40-45	0-2.5	120-125	5-7.5	917	850	38
Non Executive Director: S Johnston (from 1 January 2017)	10-15	0-2.5	0	0	84	64	20
Non Executive Director: F MacKellar	10-15	0-2.5	25-30	2.5-5	176	138	38
Head of HR: J Nicol (to 31 July 2017)	10-15	0-2.5	30-35	0	220	210	10
						Total	204

FOR THE YEAR ENDED 31 MARCH 2016

	Total accrued pension at pensionable age at 31 March (Bands of £5,000)	Real increase in pension at pensionable age (Bands of £2,500)	Accrued Lump Sum as at age 60 at 31 March 2016 (Bands of £5,000)	Real Increase in Lump Sum at age 60 (Bands of £2,500)	Cash Equivalent Transfer Value (CETV) at 31 March 2016 £'000	Cash Equivalent Transfer Value (CETV) at 31 March 2015 £'000	Real increase in CETV in year £'000
Chief Executive: C Cowan	40-45	0-2.5	125-130	2.5-5	843	793	36
Director of Nursing, AHPs & Midwifery : E Peace	20-25	2.5-5	75-80	5-7.5	503	449	45
Director of Finance: H Robertson (from 31 August 2015)	0-5	0-2.5	0	0	10	0	10
Medical Director: M Roos	30-35	0-2.5	100-105	5-7.5	843	817	11
Director of Public Health: Dr L Wilson	40-45	2.5-5.0	125-130	5-7.5	804	717	153
Non Executive Director: V Anderson (to 25 March 2016)	5-10	0-2.5	25-30	0-2.5	218	195	20
Head of HR: J Nicol	10-15	0-2.5	30-35	2.5-5	184	171	13
						Total	288

Note 1 - V Anderson commenced as Employee Director on 1 May 2014. The remuneration disclosed comprises remuneration for her role as a Non Executive Director and her remuneration for her substantive post as a School Health Nurse.

Note 2 - S Johnston commenced as Non Executive director on 01/01/2017. The remuneration disclosed comprises remuneration for his role as Employee Director and his remuneration for his substantive post as a Dentist. The gross remuneration for his role as Non Executive Director would be in the annual range of £5,000 - £10,000.

Note 3 - F MacKellar commenced as Employee Director on the 1st April 2016. The remuneration disclosed comprises remuneration for her role as Employee Director and her remuneration for her substantive post as a Physiotherapist. The gross remuneration for her role as a Non Executive Director is in the annual range of £5,000 - £10,000.

Note 4 - H Robertson previous continuous service has been identified and brought into 2016/17 calculations.

Additional Disclosure Required

2016/17		2015/16	
Range of staff remuneration	2-182	Range of staff remuneration	2-148
Highest Earning Director's Total Remuneration (£000s)	215-220	Highest Earning Director's Total Remuneration (£000s)	160-165
Median Total Remuneration	£25,018	Median Total Remuneration	£24,297
Ratio	8.77	Ratio	6.66
Commentary			
The values above are based on salaries for full time equivalent pay.			
The median remuneration in 2016/17 is higher due to the re-grading of band 2 posts to band 3 as an agenda for change.			
The ratio has increased due to discretionary points awarded to the Medical Director backdated to 2011, increasing both his salary and the ratio.			

b) STAFF REPORT

1) Higher Paid Employees Remuneration

2015/16 Number		2016/17 Number	
Clinicians			
16	£50,001 to £60,000	17	
7	£60,001 to £70,000	7	
3	£70,001 to £80,000	5	
4	£80,001 to £90,000	3	
2	£90,001 to £100,000	1	
0	£100,001 to £110,000	0	
0	£110,001 to £120,000	1	
5	£120,001 to £130,000	2	
0	£130,001 to £140,000	2	
3	£140,001 to £150,000	1	
1	£150,001 to £160,000	1	
1	£160,001 to £170,000	0	
1	£170,001 to £180,000	1	
0	£180,001 to £190,000	1	
0	£190,001 to £200,000	0	
1	£200,000 and above	2	
Other			
2	£50,001 to £60,000	4	
2	£60,001 to £70,000	3	
2	£70,001 to £80,000	1	
0	£80,001 to £90,000	1	
1	£100,001 to £110,000	1	

2) Staff Costs and Numbers

Staff Costs

2015/16		2016/17				
Total £'000	STAFF COSTS	Executive Board Members £'000	Non Executive Members £'000	Permanent Staff £'000	Other Staff £'000	Total £'000
19,544	Salaries and wages	587	105	18,943	0	19,635
1,577	Social security costs	79	2	1,872	0	1,953
2,474	NHS scheme employers' costs	86	0	2,429	0	2,515
0	Inward secondees					0
1,302	Agency staff	0	0	0	2,253	2,253
24,897	Compensation for loss of office or early retirement	752	107	23,244	2,253	26,356
0		0	0	0	0	0
24,897	TOTAL	752	107	23,244	2,253	26,356

Included in the total Staff Costs above were costs of staff engaged directly on capital projects, charged to capital expenditure for 2016/17 is £497,000 (2015/16 £670,000).

Staff Numbers

540	Whole Time Equivalent (WTE)	5	9	520	13	547
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10	Included in the total staff numbers above were staff engaged directly on capital projects, charged to capital expenditure of:	8
5	Included in the total staff numbers above were disabled staff of:	6

3) Staff composition

	As at 31 March 2016			As at 31 March 2017		
	Male	Female	Total	Male	Female	Total
Executive Directors	1	4	5	1	4	5
Non-Executive Directors and Employee Director	6	3	9	6	3	9
Senior Employees	33	20	53	33	24	57
Other	76	485	561	83	486	569
Total Head Count	116	512	628	123	517	640

4) Sickness absence data

	2015/16	2016/17
Sickness absence data	5%	5%

5) Staff Policies applied during the financial year relating to the employment of disabled persons

- For giving full and fair consideration to applications for employment by the Board made by disabled persons, having a regard to their particular aptitudes and abilities
- For continuing the employment of, and for arranging appropriate training for, employees of the Board who have become disabled persons during the period when they were employed by the Board;

Otherwise for the training, career development and promotion of disabled persons employed by the Board.

The disability policy can be found at the [NHS Orkney website](#).

6) Exit packages

There were no compulsory redundancies in 2016/17 or 2015/16.

2016/17

Exit package cost band	Number of other departures agreed	Cost of exit packages
£25,000- £50,000	1	30
Total exit packages	1	30

2015/16

Exit package cost band	Number of other departures agreed	Cost of exit packages
£50,000- £100,000	2	130
£100,000- £150,000	1	102
Total exit packages	3	232

3. PARLIAMENTARY ACCOUNTABILITY REPORT

LOSSES AND SPECIAL PAYMENTS

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

The write-off of the following losses and special payments has been approved by the board:

	<i>No. of cases</i>	<i>£000</i>
<i>Claims Abandoned</i>	<i>1</i>	<i>1.0</i>
<i>Stores Losses : deterioration</i>	<i>4</i>	<i>2.5</i>
<i>Damage to buildings and fixtures</i>	<i>15</i>	<i>3.5</i>
<i>Total</i>	<i>20</i>	<i>7.0</i>

There were no amounts greater than £250k that were written off in 2016/17 or 2015/16

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

FEES AND CHARGES

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

For each service where the full annual cost is £1 million or more, or (if lower) where the amount of the income and full cost of the service are material to the financial statements, the following information should be provided:

- the financial objective;
- full cost;
- income;
- surplus or deficit; and
- performance against the financial objective.

Signed

Date 26 June 2017

Catherine Cowan
Chief Executive

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

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

Report on the audit of the financial statements

Opinion on financial statements

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

In my opinion the accompanying financial statements:

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

Basis of opinion

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

Responsibilities of the Accountable Officer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

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

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

Other information in the annual report and accounts

The Accountable Officer is responsible for the other information in the annual report and accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I 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 my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on regularity of expenditure and income

Opinion on regularity

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

Responsibilities for regularity

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

Report on other requirements

Opinions on other prescribed matters

I am required by the Auditor General for Scotland to express an opinion on the following matters.

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

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

Matters on which I am required to report by exception

I am required by the Auditor General for Scotland to report to you if, in my opinion:

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

I have nothing to report in respect of these matters.

Gillian Woolman MA FCA CPFA

Assistant Director

Audit Scotland

4th Floor

102 West Port

Edinburgh EH3 9DN

26 June 2017

**STATEMENT OF CONSOLIDATED COMPREHENSIVE NET EXPENDITURE
FOR THE YEAR ENDED 31 MARCH 2017**

2015/16 £'000	Note	2016/17 £'000
	Clinical Services Costs	
35,802	Hospital and Community 4	57,246
516	Less: Hospital and Community Income 8	17,282
35,286		39,964
12,710	Family Health 5	13,175
394	Less: Family Health Income 8	388
12,316		12,787
47,602	Total Clinical Services Costs	52,751
1,151	Administration Costs 6	1,265
0	Less: Administration Income 8	0
1,151		1,265
3,510	Other Non Clinical Services 7	3,027
810	Less: Other Operating Income 8	907
2,700		2,120
0	Associates and Joint Ventures accounted for on an equity basis	84
51,453	Net Operating Costs	56,220

OTHER COMPREHENSIVE NET EXPENDITURE

2015/16 £'000		2016/17 £'000
(104)	Net (gain) on revaluation of Property Plant and Equipment	(58)
29	Net (gain) on revaluation of Available for Sale Financial Assets	(138)
(75)	Other Comprehensive Expenditure	(196)
51,378	Total Comprehensive Expenditure	56,024

The Notes to the Accounts, numbered 1 to 32, form an integral part of these Accounts.

**SUMMARY OF RESOURCE OUTTURN
FOR THE YEAR ENDED 31 MARCH 2017**

**SUMMARY OF CORE REVENUE
RESOURCE OUTTURN**

2016/17
£'000

Net Operating Costs

Total Non Core Expenditure (see below)
FHS Non Discretionary Allocation
Donated Assets Income
Endowment Net Income
Associates and Joint Ventures accounted for
on an equity basis

56,220
(1,801)
(1,498)
0
8
(84)

Total Core Expenditure

Core Revenue Resource Limit
**Saving/(excess) against Core Revenue
Resource Limit**

52,845
52,934
89

**SUMMARY OF NON CORE REVENUE
RESOURCE OUTTURN**

Depreciation/Amortisation
Annually Managed Expenditure - impairments
Annually Managed Expenditure - Provisions
Annually Managed Expenditure - Depreciation
of Donated Assets

1,214
120
454
13

Total Non Core Expenditure

Non Core Revenue Resource Limit
**Saving/(excess) against Non Core Revenue
Resource Limit**

1,801
1,801
0

SUMMARY RESOURCE OUTTURN

	Resource £'000	Expenditure £'000	Saving/(Excess) £'000
Core	52,934	52,845	89
Non Core	1,801	1,801	0
Total	54,735	54,646	89

**CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2017**

31 March 2016				31 March 2017	
Consolidated £'000	Board £'000		Note	Consolidated £'000	Board £'000
		Non-Current Assets:			
10,840	10,840	Property, plant and equipment	11d	12,490	12,490
95	95	Intangible assets	10	192	192
		Financial assets:			
893	0	Available for sale financial assets	14	1,012	0
20	20	Trade and other receivables	13	10	10
11,848	10,955	Total non-current assets		13,704	12,692
		Current Assets:			
435	435	Inventories	12	544	544
653	616	Financial assets: Trade and other receivables	13	1,626	1,625
425	348	Cash and cash equivalents	15	513	373
0	0	Assets classified as held for sale	11c	0	0
1,513	1,399	Total current assets		2,683	2,542
13,361	12,354	Total assets		16,387	15,234
		Current liabilities			
(264)	(264)	Provisions	17	(381)	(381)
(4,339)	(4,337)	Financial liabilities: Trade and other payables	16	(5,635)	(5,633)
(4,603)	(4,601)	Total current liabilities		(6,016)	(6,014)
8,758	7,753	Non-current assets plus/less net current assets/liabilities		10,371	9,220
		Non-current liabilities			
(758)	(758)	Provisions	17	(1,066)	(1,066)
0	0	Liabilities in associates and joint ventures		(84)	0
(758)	(758)	Total non-current liabilities		(1,150)	(1,066)
8,000	6,995	Assets less liabilities		9,221	8,154
		Taxpayers' Equity			
6,401	6,401	General fund	SOCTE	7,532	7,532
594	594	Revaluation reserve	SOCTE	622	622
0	0	Other reserves – associates and joint ventures		(84)	0
1,005	0	Funds held on Trust	SOCTE	1,151	0
8,000	6,995	Total taxpayers' equity		9,221	8,154

The Notes to the Accounts, numbered 1 to 32, form an integral part of these Accounts.

Adopted by the board on 26 June 2017

.....Director of FinanceChief Executive

STATEMENT OF CONSOLIDATED CASHFLOWS

FOR THE YEAR ENDED 31 MARCH 2017

2015/16		2016/17	
£'000		£'000	£'000
	Cash flows from operating activities		
(51,453)	Net operating cost	(56,136)	
1,156	Adjustments for non-cash transactions	1,349	
229	(Increase) / decrease in trade and other receivables	(964)	
9	(Increase) / decrease in inventories	(109)	
(567)	Increase / (decrease) in trade and other payables	1,975	
(132)	Increase / (decrease) in provisions	425	
(50,758)	Net cash outflow from operating activities	32	(53,460)
	Cash flows from investing activities		
(2,353)	Purchase of property, plant and equipment	(3,629)	
(23)	Purchase of intangible assets	(137)	
(97)	Investment Additions	(24)	
112	Proceeds of disposal of property, plant and equipment	(0)	
101	Receipts from sale of investments	44	
(2,260)	Net cash outflow from investing activities	32	(3,746)
	Cash flows from financing activities		
53,037	Funding	57,245	
(1,012)	Movement in general fund working capital	49	
52,025	Cash drawn down	57,294	
52,025	Net Financing	32	57,294
(982)	Net Increase / (decrease) in cash and cash equivalents in the period		88
1,407	Cash and cash equivalents at the beginning of the period		425
425	Cash and cash equivalents at the end of the period		513
	Reconciliation of net cash flow to movement in net debt/cash		
(982)	Increase/(decrease) in cash in year		88
1,407	Net debt/cash at 1 April		425
425	Net debt/cash at 31 March		513

The Notes to the Accounts, numbered 1 to 32, form an integral part of these Accounts.

STATEMENT OF CONSOLIDATED CHANGES IN TAXPAYERS' EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

Note	General Fund £'000	Revaluation Reserve £'000	Other reserve – associates and joint ventures £'000	Funds Held on Trust £'000	Total Reserves £'000
Balance at 31 March 2016	6,401	594	0	1,005	8,000
Prior year adjustments for changes in accounting policy and material errors	0	0	0	0	0
Restated balance at 1 April 2016	6,401	594	0	1,005	8,000
Changes in taxpayers' equity for 2016-17					
Net gain/(loss) on revaluation/indexation of property, plant and equipment	0	58	0	0	58
Net gain/(loss) on revaluation of available for sale financial assets	0	0	0	138	138
Impairment of property, plant and equipment	0	(120)	0	0	(120)
Revaluation and impairments taken to operating Costs	0	120	0	0	120
Transfers between reserves	30	(30)	0	0	0
Net operating cost for the year	(56,144)		(84)	8	(56,220)
Total recognised income and expense for 2016-17	(56,114)	28	(84)	146	(56,024)
Funding:					
Drawn down	57,294	0	0	0	57,294
Movement in General Fund (Creditor) / Debtor	(49)	0	0	0	(49)
Balance at 31 March 2017	7,532	622	(84)	1,151	9,221

FOR THE YEAR ENDED 31 MARCH 2016

Balance at 31 March 2015	4,817	528	0	1,007	6,352
Prior year adjustments for changes in accounting policy and material errors	0	(11)	0	0	(11)
Restated balance at 1 April 2015	4,817	517	0	1,007	6,341
Changes in taxpayers' equity for 2015-16					
Net gain/(loss) on revaluation/indexation of property, plant and equipment	0	104	0	0	104
Net gain/(loss) on revaluation of available for sale financial assets	0	0	0	(29)	(29)
Transfers between reserves	27	(27)	0	0	0
Net operating cost for the year	(51,480)	0	0	27	(51,453)
Total recognised income and expense for 2015-16	(51,453)	77	0	(2)	(51,378)
Funding:					
Drawn down	52,025	0	0	0	52,025
Movement in General Fund (Creditor) / Debtor	1,012	0	0	0	1,012
Balance at 31 March 2016	6,401	594	0	1,005	8,000

The Notes to the Accounts, numbered 1 to 32, form an integral part of these Accounts.

NOTES TO THE ACCOUNTS

NOTE 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), IFRIC Interpretations and the Companies Act 2006 to the extent that they are meaningful and appropriate to the public sector. They have been applied consistently in dealing with items considered material in relation to the accounts.

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

Disclosure of New Accounting Standards

(a) New standards in 2016/17:

The following new standards, amendments and interpretations became effective in 2016/17 for the first time:

- IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations: Change in methods of disposal (amendment);
- IFRS 7 - Financial Instruments: Disclosures: Servicing Contracts (amendment);
- IFRS 7 - Financial Instruments: Disclosures: Offsetting Financial Assets and Financial Liabilities to condensed interim financial statements (amendment);
- IFRS 11 – Accounting for acquisitions of interests in joint operations (amendment);
- IFRS 10, IFRS 12, IAS 28 - Investment entities: applying the Consolidation Exception (amendment)
- IAS 1 – Disclosure Initiative (amendment);
- IAS 16 and IAS 38 - Clarification of acceptable methods of depreciation and amortisation (amendment);
- IAS 16 and IAS 41 - Bearer Plants (amendment);
- IAS 19 - Employee Benefits - Discount rate: regional market issue (amendment);
- IAS 27 – Equity Method in Separate Financial Statements (amendment); and
- IAS 34 - Interim Financial Reporting: Disclosure of information "elsewhere in the interim financial report" (amendment).

The impact on the financial statements as a result of the above is expected to be minimal.

(b) Standards amendments and interpretation adopted early this year:

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

(c) Standards issued but not yet effective:

The following standards have been issued but are not yet effective:

- IFRS 9 – Financial instruments (new);
- IFRS 10 and IAS 28 – Sale or contribution of Assets between an investor and its associates or joint (amendment);
- IFRS 14 – Regulatory Deferral Accounts (new);
- IFRS 15 – Revenue from Contracts with Customers (IAS 18 replacement – revenue recognition);
- IFRS 16 – Leases (IAS 17 replacement);
- IFRS 17 Insurance Contracts (new).
- IAS 7 - Disclosure Initiative (issued in January 2016) (amendment); and
- IAS 12 - Recognition of Deferred Tax Assets for Unrealised Losses (issued on 19 January 2016) (amendment).

IFRS 16 will be effective from financial year 2020/21 and will require most leased buildings, plant and equipment to be included as an asset with a corresponding liability on the Balance Sheet.

The impact on the financial statements as a result of the above is expected to be minimal.

2. Basis of Consolidation

Consolidation

In accordance with IAS 27 – Consolidated and Separate Financial Statements, the Financial Statements consolidate the Orkney Health Board Endowment Funds.

NHS Endowment Funds were established by the NHS (Scotland) Act 1978. The legal framework under which charities operate in Scotland is the Charities and Trustee Investment (Scotland) Act 2005. Under the 1978 Act Endowment

Trustees are also members of the NHS Board. The Board members (who are also Trustees) are appointed by Scottish Ministers.

The Orkney Health Board Endowment Funds is a Registered Charity with the Office of the Charity Regulator of Scotland (OSCR) and is required to prepare and submit Audited Financial Statements to OSCR on an annual basis. The basis of consolidation used is Merger Accounting. Any intragroup transactions between the Board and the Endowment Fund have been eliminated on consolidation.

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

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

Note 32 to the Annual Accounts, details how these consolidated Financial Statements have been calculated.

3. Prior Year Adjustments

There were no prior year adjustments.

4. Going Concern

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

5. Accounting Convention

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

6. Funding

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

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

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

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

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

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

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

7. Property, plant and equipment

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

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

7.1 Recognition

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

All assets falling into the following categories are capitalised:

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

- 2) In cases where a new hospital would face an exceptional write off of items of equipment costing individually less than £5,000, NHS Orkney has the option to capitalise initial revenue equipment costs with a standard life of 10 years
- 3) Assets of lesser value may be capitalised where they form part of a group of similar assets purchased at approximately the same time and cost over £20,000 in total, or where they are part of the initial costs of equipping a new development and total over £20,000.

7.2 Measurement

Valuation:

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

All assets are measured subsequently at fair value as follows:

- Specialised NHS Land, buildings, equipment, installations and fittings are stated at depreciated replacement cost, as a proxy for fair value as specified in the FReM.
- Non specialised land and buildings, such as offices, are stated at fair value.
- Valuations of all land and building assets are reassessed by valuers under a 5-year programme of professional valuations and adjusted in intervening years to take account of movements in prices since the latest valuation. The valuations are carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Scottish Government.
- Non specialised equipment, installations and fittings are valued at fair value. NHS Bodies value such assets using the most appropriate valuation methodology available (for example, appropriate indices). A depreciated historical cost basis as a proxy for fair value in respect of such assets which have short useful lives or low values (or both).
- Assets under construction are valued at current cost. This is calculated by the expenditure incurred to which an appropriate index is applied to arrive at current value. These are also subject to impairment review.

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

- Specialised operational assets are valued on a modified replacement cost basis to take account of modern substitute building materials and locality factors only.
- Subsequent expenditure is capitalised into an asset's carrying value when it is probable the future economic benefits associated with the item will flow to NHS Orkney and the cost can be measured reliably. Where subsequent expenditure does not meet these criteria the expenditure is charged to the Statement of Consolidated Comprehensive Net Expenditure. If part of an asset is replaced, then the part it replaces is de-recognised, regardless of whether or not it has been depreciated separately.
- Revaluations and Impairment: increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in the Statement of Consolidated Comprehensive Net Expenditure, in which case they are recognised as income. Movements on revaluation are considered for individual assets rather than groups or land/buildings together.
- Permanent decreases in asset values and impairments are charged gross to the Statement of Consolidated Comprehensive Net Expenditure. Any related balance on the revaluation reserve is transferred to the General Fund.
- Gains and losses on revaluation are reported in the Statement of Consolidated Comprehensive Net Expenditure.

7.3 Depreciation

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

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

- 1) Freehold land is considered to have an infinite life and is not depreciated.
- 2) Assets in the course of construction and residual interests in off-balance sheet PFI contract assets are not depreciated until the asset is brought into use or reverts to NHS Orkney, respectively.
- 3) Property, Plant and Equipment which has been reclassified as 'Held for Sale' ceases to be depreciated upon the reclassification.
- 4) Buildings, installations and fittings are depreciated on current value over the estimated remaining life of the asset, as advised by the appointed valuer. They are assessed in the context of the maximum useful lives for building elements.
- 5) Equipment is depreciated over the estimated life of the asset.

Depreciation is charged on a straight line basis.

The following asset lives have been used:

Asset Category/Component	Useful Life (years)
Office, short life medical and IT Equipment	5
Vehicles and soft furnishings	7
Mainframe IT installations	8
Medium life medical equipment	10
Engineering plant and long life medical equipment	15
Building Structure	15 - 50
Building Engineering	15
External Plant	15

8. Intangible Assets

8.1 Recognition

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of NHS Orkney'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, NHS Orkney 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 NHS Orkney's activities for more than one year and they have a cost of at least £5,000.

The main classes of intangible assets recognised are:

Software:

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

Software licences:

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

8.2 Measurement

Valuation:

- Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management.
- Subsequently intangible assets are measured at fair value. Where an active (homogeneous) market exists, intangible assets are carried at fair value. Where no active market exists, the intangible asset is revalued, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the intangible asset is valued using depreciated replacement cost. These measures are a proxy for fair value.

Revaluation and impairment:

- Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse an impairment previously recognised in the Statement of Consolidated Comprehensive Net Expenditure, in which case they are recognised in income.
- Permanent decreases in asset values and impairments are charged gross to the Statement of Consolidated Comprehensive Net Expenditure. Any related balance on the revaluation reserve is transferred to the General Fund.
- Temporary decreases in asset values or impairments are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to the Statement of Comprehensive Net Expenditure.

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

8.3 Amortisation

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

Amortisation is charged to the Statement of Consolidated Comprehensive Net Expenditure on each main class of intangible asset as follows:

- 1) Software. Amortised over their expected useful life

- 2) Software licences. Amortised over the shorter term of the licence and their useful economic lives.
- 3) Other intangible assets. Amortised over their expected useful life.
- 4) Intangible assets which has been reclassified as 'Held for Sale' ceases to be amortised upon the reclassification.

Amortisation is charged on a straight line basis.

The following asset lives have been used:

<u>Asset Category/Component</u>	<u>Useful Life</u>
Software	5

9. Non-current assets held for sale

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

- the asset is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales
- the sale must be highly probable ie
 - management are committed to a plan to sell the asset
 - an active programme has begun to find a buyer and complete the sale
 - the asset is being actively marketed at a reasonable price
 - the sale is expected to be completed within 12 months of the date of classification as 'Held for Sale'
 - the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made to it.

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

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

10. Donated Assets

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

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

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

12. Leasing

Operating leases

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

Leases of land and buildings

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

13. Impairment of non-financial assets

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

14. General Fund Receivables and Payables

Where NHS Orkney has a positive net cash book balance at the year end, a corresponding creditor is created and the general fund debited with the same amount to indicate that this cash is repayable to the Scottish Government. Where

NHS Orkney 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 Scottish Government.

15. Inventories

Inventories are valued at the lower of cost and net realisable value. Taking into account the high turnover of NHS inventories, the use of average purchase price is deemed to represent current cost.

16. Losses and Special Payments

Operating expenditure includes certain losses which would have been made good through insurance cover had the NHS not been bearing its own risks. Had the NHS provided insurance cover, the insurance premiums would have been included as normal revenue expenditure.

17. Employee Benefits

Short-term Employee Benefits

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

Pension Costs

NHS Orkney 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. NHS Orkney 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 Consolidated Comprehensive Net Expenditure represents NHS Orkney's employer contributions payable to the scheme in respect of the year. The contributions deducted from employees are reflected in the gross salaries charged and are similarly remitted to Exchequer. The pension cost is assessed every five years by the Government Actuary and determines the rate of contributions required. The most recent actuarial valuation is published by the Scottish Public Pensions Agency and is available on their website.

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

18. Clinical and Medical Negligence Costs

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

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

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

19. Related Party Transactions

Material related party transactions are disclosed in the note 29 in line with the requirements of IAS 24. Transactions with other NHS bodies for the commissioning of health care are summarised in Note 4.

20. Value Added Tax

Most of the activities of the Board are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of non-current assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

21. NPD Schemes

NHS Orkney has a Non Profit Distributing (NPD) scheme which is agreed with the Scottish Government for completion in 2018/19.

22. Provisions

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

23. Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the Board's control) are not recognised as assets, but are disclosed in note 19 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 19, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- Possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- Present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

24. Corresponding Amounts

Corresponding amounts are shown for the primary statements and notes to the financial statements. Where the corresponding amounts are not directly comparable with the amount to be shown in respect of the current financial year, IAS 1 'Presentation of Financial Statements', requires that they should be adjusted and the basis for adjustment disclosed in a note to the financial statements.

25. Financial Instruments

Financial assets

Classification

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

(a) Loans and receivables

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

(b) Available-for-sale financial assets

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

Recognition and measurement

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

(a) Loans and receivables

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

(b) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognised in equity in other reserves. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the Statement of Consolidated Comprehensive Net Expenditure. Dividends on available-for-sale equity instruments are recognised in the Statement of Consolidated Comprehensive Net Expenditure when the Board's right to receive payments is established.

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

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

Financial Liabilities

Classification

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

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

Recognition and measurement

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

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

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

26. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments. This has been identified as the senior management of the Board.

Operating segments are unlikely to directly relate to the analysis of expenditure shown in notes 4 to 7 for Hospital & Community, Family Health and Other Service and Administration Costs, the basis of which relates to Scottish Government funding streams and the classification of which varies depending on Scottish Government reporting requirements.

27. Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, cash balances held with the Government Banking Service, balances held in commercial banks and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Where the Government Banking Service is using Citi and Royal Bank of Scotland Group to provide the banking services, funds held in these accounts should not be classed as commercial bank balances.

28. Foreign exchange

The functional and presentational currencies of the Board are sterling.

A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

29. Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Board has no beneficial interest in them.

However, they are disclosed in note 31 to the accounts in accordance with the requirements of HM Treasury's Financial Reporting Manual.

30. Key sources of judgement and estimation uncertainty

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

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

- Estimates: Assumptions regarding estimated impairment
- Estimates: Assumptions underlying the likelihood and outcome of material provisions.
- Estimates: Assumptions around fixed asset lives.
- Estimates: Actuarial assumptions in respect of post-employment benefits.
- Judgment: Whether substantially all the significant risks and rewards of ownership of financial assets and lease assets are transferred to other entities.

NHS ORKNEY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31 MARCH 2017

2. Staff Costs

Total staff costs for the year to 31 March 2017 were £26.356m (2016: £24.897m). Further detail and analysis of staff costs can be found in the Remuneration and Staff Report, forming part of the Accountability Report.

3. Other Operating Costs

2015/16 £'000		2016/17 £'000	Note
	Expenditure Not Paid In Cash		
1,094	Depreciation	1,175	11
39	Amortisation	40	10
23	Depreciation Donated Assets	13	11b
0	Reversal of impairments on PPE charged to SOCNE	120	11a
0	Impairments on PPE charged to SOCNE	0	11
0	Loss/(Profit) on disposal of property, plant and equipment	1	
1,156	Total Expenditure Not Paid In Cash	1,349	CFS

Statutory Audit

70	External auditor's remuneration and expenses	71
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4. Hospital and Community Health Services (HCH)

2015/16 £'000		2016/17 £'000	Note
	BY PROVIDER		
26,482	Treatment in Board area of NHS Scotland Patients	30,142	
6,531	Other NHS Scotland Bodies	7,224	
31	Health Bodies outside Scotland	33	
1	Primary care bodies	0	
330	Private sector	435	
	Community Care		
3	Support Finance	4	
2,263	Resource Transfer	2,380	
	Contribution of Health Board to Integration Joint Board	16,840	
73	Contributions to Voluntary Bodies and Charities	74	
35,714	Total NHS Scotland Patients	57,132	
88	Treatment of UK residents based outside Scotland	114	
35,802	Total Hospital & Community Health Service	57,246	SOCNE

5. Family Health Service Expenditure (FHS)

2015/16 Total £'000		Unified Budget £'000	Non Disc £'000	2016/17 Total £'000	Note
5,357	Primary Medical Services	5,596	0	5,596	
4,273	Pharmaceutical Services	3,882	548	4,430	
2,805	General Dental Services	1,922	934	2,856	
275	General Ophthalmic Services	0	293	293	
12,710	Total	11,400	1,775	13,175	SOCNE

6. Administration Costs

2015/16 £'000		2016/17 £'000	Note
723	Board members' remuneration	859	
85	Administration of Board Meetings and Committees	91	
226	Corporate Governance and Statutory Reporting	202	
74	Health Planning, Commissioning and Performance Reporting	40	
20	Treasury Management and Financial Planning	21	
23	Public Relations	52	
1,151	Total administration costs	1,265	SOCNE

7. Other Non Clinical Services

2015/16 £'000		2016/17 £'000	Note
69	Compensation payments - Clinical	76	
22	Compensation payments - Other	12	
27	Pension enhancement & redundancy	29	
2	Patients' Travel Attending Hospitals	4	
2,514	Patients' Travel Highlands and Islands scheme	2,084	
691	Health Promotion	677	
117	Public Health	60	
3	Emergency Planning	1	
65	Endowment Expenditure	84	
3,510	Total Other Non Clinical Services	3,027	SOCNE

Pension enhancement and redundancy values includes Payment in Lieu of Notice in addition to redundancy.

8. Operating Income

2015/16 £'000		2016/17 £'000	Note
	Hospital and Community Health Services Income		
	NHSScotland Bodies		
376	Boards	312	
88	NHS Non-Scottish Bodies	114	
	Non NHS		
26	Private Patients	39	
25	Compensation Income	(23)	
1	Other Hospital and Community Health Services income	0	
	Income for services commissioned by Integration Joint Board	16,840	
516	Total Hospital and Community Health Services Income	17,282	SOCNE
	Family Health Service Income		
141	Unified	111	
	Non Discretionary		
253	General Dental Services	277	
394	Total Family Health Services Income	388	SOCNE
	Other Operating Income		
118	NHS Scotland Bodies	153	
50	SGHSCD	0	
0	Contributions in respect of clinical and medical negligence claims	0	
23	Profit on disposal of non current assets	1	
92	Endowment Income	92	
527	Other	661	
810	Total Other Operating Income	907	SOCNE

1,720	Total Income	18,577
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582	Of the above, the amount derived from NHS bodies is	465
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9. Analysis of Capital Expenditure

2015/16 £'000		2016/17 £'000	Note
	EXPENDITURE		
23	Acquisition of Intangible Assets	137	10
2,630	Acquisition of Property, plant and equipment	2,901	11
2,653	Gross Capital Expenditure	3,038	
	INCOME		
19	Net book value of disposal of Property, plant and equipment	1	11a
93	Value of disposal of Non-Current Assets held for sale	0	11c
112	Capital Income	1	

2,541	Net Capital Expenditure	3,037
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SUMMARY OF CAPITAL RESOURCE OUTTURN

2,541	Core capital expenditure included above	3,037
2,688	Core Capital Resource Limit	3,037
147	Saving/(excess) against Core Capital Resource Limit	0
2,541	Total Capital Expenditure	3,037
2,688	Total Capital Resource Limit	3,037

147	Saving/(excess) against Total Capital Resource Limit	0
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10. Intangible Assets

Movements in 2016/17	Software Licences £'000	Assets Under Development £'000	Total £'000
Cost or Valuation:			
As at 1st April 2016	911	0	911
Additions	126	11	137
Transfers	11	(11)	0
At 31st March 2017	1,048	0	1,048
Amortisation			
As at 1st April 2016	816	0	816
Provided during the year	40	0	40
At 31st March 2017	856	0	856
Net Book Value at 1st April 2016	95	0	95
Net Book Value at 31 March 2017 B.S	192	0	192

Movements in 2015/16	Software Licences £'000
Cost or Valuation:	
As at 1st April 2015	888
Additions	23
At 31st March 2016	911
Amortisation	
As at 1st April 2015	777
Provided during the year	39
At 31st March 2016	816
Net Book Value at 1st April 2015	111
Net Book Value at 31 March 2016 B.S	95

11(a). Property, Plant and Equipment – Purchased Assets

Current Year Purchased Assets

Movements in 2016/17	Land (including underlying buildings) £'000	Buildings (excluding dwellings) £'000	Dwellings £'000	Transport Equipment £'000	Plant & Machinery £'000	Information Technology £'000	Furniture & Fittings £'000	Assets Under Construction £'000	Total £'000
Cost or valuation									
At 1 April 2016	1,836	4,190	486	426	6,222	3,047	203	3,188	19,598
Additions	0	23	0	52	153	215	5	2,453	2,901
Completions	0	915	0	0	101	15	0	(1,031)	0
Revaluation	0	64	3	0	0	0	0	0	67
Impairment	0	(120)	0	0	0	0	0	0	(120)
Disposals	0	0	0	(35)	(140)	0	0	0	(175)
At 31 March 2017	1,836	5,072	489	443	6,336	3,277	208	4,610	22,271
Depreciation									
At 1 April 2016	0	698	72	301	4,919	2,629	168	0	8,787
Provided during the year	0	656	29	48	315	120	7	0	1,175
Revaluation	0	8	1	0	0	0	0	0	9
Disposals	0	0	0	(34)	(140)	0	0	0	(174)
At 31 March 2017	0	1,362	102	315	5,094	2,749	175	0	9,797
Net book value at 1 April 2016	1,836	3,492	414	125	1,303	418	35	3,188	10,811
Net book value at 31 March 2017 BS	1,836	3,710	387	128	1,242	528	33	4,610	12,474

Open Market Value of Land in Land and Dwellings Included Above	1,836	387
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Asset financing:

Owned	1,836	3,710	387	128	1,242	528	33	4,610	12,474
Net book value at 31 March 2017	1,836	3,710	387	128	1,242	528	33	4,610	12,474

Prior year Purchased Assets

Movements in 2015/16	Land (including underlying buildings) £'000	Buildings (excluding dwellings) £'000	Dwellings £'000	Transport Equipment £'000	Plant & Machinery £'000	Information Technology £'000	Furniture & Fittings £'000	Assets Under Construction £'000	Total £'000
Cost or valuation									
At 1 April 2015	1,836	4,103	481	364	5,956	2,839	203	1,152	16,934
Additions	0	0	0	62	231	70	0	2,267	2,630
Completions	0	0	0	0	35	196	0	(231)	0
Revaluation	0	109	5	0	0	0	0	0	114
Disposals	0	(22)	0	0	0	(58)	0	0	(80)
At 31 March 2016	1,836	4,190	486	426	6,222	3,047	203	3,188	19,598
Depreciation									
At 1 April 2015	0	111	42	263	4,561	2,606	161	0	7,744
Provided during the year	0	581	29	38	358	81	7	0	1,094
Revaluation	0	9	1	0	0	0	0	0	10
Disposals	0	(3)	0	0	0	(58)	0	0	(61)
At 31 March 2016	0	698	72	301	4,919	2,629	168	0	8,787
Net book value at 1 April 2015	1,836	3,992	439	101	1,395	233	42	1,152	9,190
Net book value at 31 March 2016 BS	1,836	3,492	414	125	1,303	418	35	3,188	10,811

Open Market Value of Land in Land and Dwellings Included Above	1,836	414
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Asset financing:

Owned	1,836	3,492	414	125	1,303	418	35	3,188	10,811
Net book value at 31 March 2016	1,836	3,492	414	125	1,303	418	35	3,188	10,811

11(b). Property, Plant and Equipment (Donated Assets)

Movements in 2016/17	Buildings (excluding dwellings) £'000	Plant & Machinery £'000	Information Technology £'000	Total £'000
Cost or valuation				
At 1 April 2016	16	209	48	273
At 31 March 2017	16	209	48	273
Depreciation				
At 1 April 2016	5	199	40	244
Provided during the year	4	5	4	13
At 31 March 2017	9	204	44	257
Net book value at 1 April 2016	11	10	8	29
Net book value at 31 March 2017 BS	7	5	4	16

Asset financing:

Owned	7	5	4	16
Net Book Value at 31 March 2017	7	5	4	16

Movements in 2015/16	Buildings (excluding dwellings) £'000	Plant & Machinery £'000	Information Technology £'000	Total £'000
Cost or valuation				
At 1 April 2015	16	209	48	273
At 31 March 2016	16	209	48	273
Depreciation				
At 1 April 2015	0	186	35	221
Provided during the year	5	13	5	23
At 31 March 2016	5	199	40	244
Net book value at 1 April 2015	16	23	13	52
Net book value at 31 March 2016 BS	11	10	8	29

Asset financing:

Owned	11	10	8	29
Net Book Value at 31 March 2016	11	10	8	29

11(c). Assets Held for Sale

The following assets related to NHS Orkney was presented as held for sale following the approval by NHS Orkney Board:

Brinian House, Rousay

The completion date for the sale was 24 March 2016.

Movements in 2016/17	Property, Plant & Equipment £'000
At 1 April 2016	0
As at 31 March 2017 BS	0

Movements in 2015/16	Property, Plant & Equipment £'000
At 1 April 2015	93
Disposals for non-current assets held for sale	(93)
As at 31 March 2016 BS	0

11(d). Property, Plant and Equipment Disclosures

2015/16 £'000		2016/17 £'000	Note
	Net book value of property, plant and equipment at 31 March		
10,811	Purchased	12,474	11a
29	Donated	16	11b
10,840	Total	12,490	BS

1,836	Net book value related to land valued at open market value at 31 March	1,836
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414	Net book value related to buildings valued at open market value at 31 March	387
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12. Inventories

2015/16 £'000		2016/17 £'000
435	Raw Materials and Consumables	544
435	Total Inventories BS	544

13. Trade and Other Receivables

Consolidated 2015/16 £'000	Board 2015/16 £'000		Consolidated 2016/17 £'000	Board 2016/17 £'000	Note
		Receivables due within one year			
		NHS Scotland			
0	0	SGHSCD	0	0	
81	81	Boards	120	120	
81	81	Total NHS Scotland Receivables	120	120	
22	22	NHS Non-Scottish Bodies	25	25	
73	73	VAT recoverable	160	160	
228	228	Prepayments	968	968	
60	60	Other Receivables	162	162	
25	25	Reimbursement of provisions	0	0	
127	127	Other Public Sector Bodies	190	190	
37	0	Endowments consolidation	1	0	
653	616	Total Receivables due within one year	1,626	1,625	B S
		Receivables due after more than one year			
		NHS Scotland			
20	20	Prepayments	10	10	
20	20	Total Receivables due after more than one year	10	10	B S
673	636	TOTAL RECEIVABLES	1,636	1,635	
8	8	The total receivables figure above includes a provision for impairments of :	88	88	
		WGA Classification			
81	81	NHS Scotland	120	120	
0	0	Central Government Bodies	160	160	
9	9	Whole of Government Bodies	211	211	
22	22	Balances with NHS Bodies in England and Wales	25	25	
561	524	Balances with bodies external to Government	1,120	1,119	
673	636	Total	1,636	1,635	

2015/16 £'000	2015/16 £'000	Movements on the provision for impairment of receivables are as follows:	2016/17 £'000	2016/17 £'000
12	12	At 1 April	8	8
0	0	Provision for impairment	87	87
0	0	Receivables written off during the year as uncollectible	(7)	(7)
(4)	(4)	Unused amounts reversed	0	0
8	8	At 31 March	88	88

As of 31 March 2017, receivables with a carrying value of £87,500 (2016: £0) were impaired and provided for. The amount of the provision was £88,421 (2016: £7,999). The aging of these receivables is as follows:

2015/16 £'000		2016/17 £'000
0	3 to 6 months past due	87
8	Over 6 months past due	1
8		88

The receivables assessed as individually impaired overseas patients and it was assessed that not all of the receivable balance may be recovered.

Receivables that are less than three months past their due date are not considered impaired. As at 31 March 2017, receivables with a carrying value of £1,635,000 (2016: £644,000) were past their due date but not impaired. The aging of receivables which are past due but not impaired is as follows:

Consolidated 2015/16	Board 2015/16		Consolidated 2016/17	Board 2016/17
646	609	Up to 3 months past due	1,724	1,724
20	20	3 to 6 months past due	89	89
7	7	Over 6 months past due	11	11
673	636		1,824	1,824

The receivables assessed as past due but not impaired were mainly NHS Scotland Health Boards, Local Authorities and Universities and there is no history of default from these customers recently.

Concentration of credit risk is limited due to customer base being large and unrelated/government bodies. Due to this, management believe that there is no future credit risk provision required in excess of the normal provision for doubtful receivables.

All carrying amounts of receivables are denominated in pounds sterling and the carrying value of both short term and long term receivables is approximate to their fair value.

14. Available for Sale Financial Assets

2015/16 £'000		2016/17 £'000	Note
63	Government securities	67	
830	Other	945	
893	TOTAL	1,012	B S
937	At 1 April	893	
97	Additions	24	
(112)	Disposals	(43)	
(29)	Revaluation surplus/(deficit) transferred to equity	138	
893	At 31 March	1,012	
893	Non-current	1,012	B S
893	At 31 March	1,012	
0	The carrying value includes an impairment provision of	0	

All the transactions relate to the endowment funds.

15. Cash and Cash Equivalents

2015/16 £'000		2016/17 £'000	Note
1,407	Balance at 1 April	425	
(982)	Net change in cash and cash equivalent balances	88	
425	Balance at 31 March	513	B S
425	Total Cash – Cash Flow Statement	513	

324	Government Banking Service	337
24	Commercial banks and cash in hand	36
77	Endowment cash	140
425	Balance at 31 March	513

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

16. Trade and Other Payables

Consolidated 2015/16 £'000	Board 2015/16 £'000		Consolidated 2016/17 £'000	Board 2016/17 £'000	Note
		Payables due within one year			
		NHS Scotland			
0	0	SGHSCD	4	4	
979	979	Boards	1,896	1,896	
979	979	Total NHS Scotland Payables	1,900	1,900	
8	8	NHS Non-Scottish Bodies	8	8	
324	324	Amounts Payable to General Fund	373	373	
601	601	FHS Practitioners	531	531	
748	748	Trade Payables	928	928	
694	694	Accruals	879	879	
455	455	Income tax and social security	501	501	
352	352	Superannuation	356	356	
106	106	Holiday Pay Accrual	97	97	
69	69	Other Public Sector Bodies	60	60	
1	1	Other payables	0	0	
2	0	Endowments Consolidation	2	0	
4,339	4,337	Total Payables due within one year	5,635	5,633	B S
4,339	4,337	TOTAL PAYABLES	5,635	5,633	

WGA Classification

979	979	NHS Scotland	1,896	1,896
868	868	Central Government Bodies	859	859
69	69	Whole of Government Bodies	68	68
8	8	Balances with NHS Bodies in England and Wales	8	8
2,415	2,413	Balances with bodies external to Government	2,804	2,802
4,339	4,337	Total	5,635	5,633

All carrying amounts of payables are denominated in pounds sterling

17. Provisions

Movements in 2016/17	Pensions and similar obligations £'000	Clinical & Medical Legal Claims against NHS Board £'000	Participation in CNORIS £'000	Other £'000	Total £'000
At 1 April 2016	357	50	497	118	1,022
Arising during the year	42	0	650	79	771
Utilised during the year	(33)	0	(41)	0	(74)
Unwinding of Discount	0	0	(1)	0	(1)
Reversed unutilised	0	(50)	(103)	(118)	(271)
At 31 March 2017	366	0	1,002	79	1,447

Analysis of expected timing of discounted flows to 31 March 2017

	Pensions and similar obligations £'000	Clinical & Medical Legal Claims against NHS Board £'000	Participation in CNORIS £'000	Other £'000	Total £'000	Note
Payable in one year	28	0	274	79	381	B S
Payable between 2 - 5 years	338	0	593	0	931	
Payable between 6 - 10 years	0	0	28	0	28	
Thereafter	0	0	107	0	107	
At 31 March 2017	366	0	1,002	79	1,447	

Movements in 2015/16	Pensions and similar obligations £'000	Clinical & Medical Legal Claims against NHS Board £'000	Participation in CNORIS £'000	Other £'000	Total £'000
At 1 April 2015	413	0	485	256	1154
Arising during the year	0	50	147	37	234
Utilised during the year	(54)	0	(46)	0	(100)
Unwinding of Discount	0	0	(1)	0	(1)
Reversed unutilised	(2)	0	(88)	(175)	(265)
At 31 March 2016	357	50	497	118	1,022

Analysis of expected timing of discounted flows to 31 March 2016

	Pensions and similar obligations £'000	Clinical & Medical Legal Claims against NHS Board £'000	Participation in CNORIS £'000	Other £'000	Total £'000	Note
Payable in one year	33	50	144	37	264	B S
Payable between 2 - 5 years	324	0	196	81	601	
Payable between 6 - 10 years	0	0	18	0	18	
Thereafter	0	0	139	0	139	
At 31 March 2016	357	50	497	118	1,022	

Pensions and similar Obligations

The board meets the additional costs of benefits beyond the normal National Health Service Superannuation Scheme for Scotland benefits in respect of employees who retire early by paying the required amounts annually to the National Health Service Superannuation Scheme for Scotland over the period between early departure and normal retirement date. The Board provides for this in full when the early retirement programme becomes binding by establishing a provision for the estimated payments discounted by the Treasury discount rate of 0.24% in real terms. The Board expects expenditure to be charged to this provision for a period of up to 38 years.

Clinical and Medical Legal Claims against NHS Board

The Board holds a provision to meet costs of all outstanding and potential clinical and medical negligence claims. All Legal claims notified to the Board are processed by the Scottish NHS Central Legal Office who decides upon risk liability and likely outcome of each case. The provision contains sums for settlement awards, legal expenses and third party costs. Clinical and medical negligence cases can be extremely complex. It is expected expenditure will be charged to this provision for a period of up to 10 years.

Other

The Board had made a provision relating to two care home packages for former Orkney residents, where there is ongoing discussion with Council of ordinary residence about funding liability for these packages. This was reversed unutilised in 2016/17. A new provision for payment to HMRC of uncollected income tax was made in 2016/17. It is expected to be resolved in 2017/18.

Clinical Negligence and Other Risks Indemnity Scheme (CNORIS)

2015/16 £'000		2016/17 £'000	Note
50	Provision recognising individual claims against the NHS Board as at 31 March	0	17
(25)	Associated CNORIS receivable at 31 March	0	13
497	Provision recognising the NHS Board's liability from participating in the scheme at 31 March	1,002	17
522	Net Total Provision relating to CNORIS at 31 March	1,002	

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

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

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

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

Further information on the scheme can be found at <https://clo.scot.nhs.uk/our-services/cnoris.aspx>.

18. Movement on working capital balances

2015/16		2016/17			Note
Net Movement £'000		Opening Balances £'000	Closing Balances £'000	Net Movement £'000	
	INVENTORIES				
9	Balance Sheet	435	544		12
9	Net Decrease/(Increase)			(109)	
	TRADE AND OTHER RECEIVABLES				
281	Due within one year	616	1,625		13
(16)	Due after more than one year	20	10		13
		636	1,635		
265	Net Decrease/(Increase)			(999)	
	TRADE AND OTHER PAYABLES				
(1,302)	Due within one year	4,337	5,633		16
(277)	Less: Property, Plant & Equipment (Capital) included in above	(555)	173		
1,012	Less: General Fund Creditor included in above	(324)	(373)		16
		3,458	5,433		
(567)	Net (Decrease)/Increase			1,975	
	PROVISIONS				
(132)	Balance Sheet	1,022	1,447		17
(132)	Net (Decrease)/Increase			425	
(425)	NET MOVEMENT (Decrease)/Increase			1,292	CFS

19. Contingent Liabilities

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

2015/16 £'000	Nature	2016/17 £'000
50	Clinical and medical compensation payments	0
50	TOTAL CONTINGENT LIABILITIES	0

25	Clinical and medical compensation payments	0
25	TOTAL CONTINGENT ASSETS	0

20. Events after the end of the reporting year

There are no events after 31 March 2017 with a material effect on the accounts.

21. Capital Commitments

The board has the following capital commitments which have not been included for in the annual accounts.

2015/16		2016/17
Property, plant and equipment: £'000		Property, plant and equipment: £'000
	Contracted	
680	New Hospital	68,394
140	Eday surgery and nurses	0
820	Total	68,394
	Authorised but not Contracted	
0	Eday new health centre	0
370	New hospital professional fees	0
370	Total	0

22. Commitments under leases

2015/16 £'000	Operating Leases	2016/17 £'000
	Obligations under operating leases comprise:	
	Land	
14	Not later than one year	14
14	Later than one year, not later than 2 years	14
42	Later than two year, not later than five years	42
14	Later than five years	0
	Buildings	
126	Not later than one year	117
109	Later than one year, not later than 2 years	103
308	Later than two year, not later than five years	308
102	Later than five years	0
	Other	
6	Not later than one year	4
2	Later than one year, not later than 2 years	2
2	Later than two year, not later than five years	0

Amounts charged to Operating Costs in the year were:

12	Hire of equipment (including vehicles)	12
134	Other operating leases	131
146	Total	143

There are no finance leases within NHS Orkney.

23. Commitments under PFI contracts – off balance sheet

There are no PFI contracts on or off balance sheet.

24. Pension Costs

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

NHS Orkney 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.

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 Orkney is unable to identify its share of the underlying assets and liabilities of the scheme.

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

The NHS 2015 scheme is a Career Average Revalued Earnings (CARE) scheme. Most staff who were previously a member of either NHS 1995 or NHS 2008 joined automatically on 1 April 2015. A further group of members, who were approaching retirement when the NHS 2015 scheme was set up, are also joining automatically at a date dependent on their age.

2015/16 £'000		2016/17 £'000
2,744	Pension cost charge for the year	2,799
27	Additional Costs arising from early retirement	29
357	Provisions/Liabilities/Pre-payments included in the Balance Sheet	366

25. Prior year adjustments

There were no prior year adjustments.

26. Restated Primary Statements

There are no adjustments to the primary statements as a result of prior year adjustments.

27(a). Financial Instruments by Category

Financial Assets	Consolidated			Board	
	Loans and Receivables £'000	Available for Sale £'000	Total £'000	Loans and Receivables £'000	Note
2016/17					
At 31 March 2017					
Assets per balance sheet					
Investments	0	1,012	1,012	0	14
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	378	0	378	377	13
Cash and cash equivalents	513	0	513	373	15
	891	1,012	1,903	750	

	Consolidated			Board	
	Loans and Receivables £'000	Available for Sale £'000	Total £'000	Loans and Receivables £'000	Note
2015/16					
At 31 March 2016					
Assets per balance sheet					
Investments	0	893	893	0	14
Trade and other receivables excluding prepayments, reimbursements of provisions and VAT recoverable.	246	0	246	209	13
Cash and cash equivalents	425	0	425	348	15
	671	893	1,564	557	

Financial Liabilities	Consolidated		Board	
		Other financial liabilities £'000	Other financial liabilities £'000	Note
2016/17				
At 31 March 2017				
Liabilities per balance sheet				
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation		2,878	2,876	16
		2,878	2,876	

	Consolidated		Board	
		Other financial liabilities £'000	Other financial liabilities £'000	Note
2015/16				
At 31 March 2016				
Liabilities per balance sheet				
Trade and other payables excluding statutory liabilities (VAT and income tax and social security), deferred income and superannuation		2,553	2,551	16
		2,553	2,551	

27(b). Financial Instruments – Financial Risk Factor

Exposure to Risk

The NHS Board's activities expose it to a variety of financial risks:-

- i. Credit risk - the possibility that other parties might fail to pay amounts due.
- ii. Liquidity risk - the possibility that the NHS Board might not have funds available to meet its commitments to make payments.
- iii. Market risk - the possibility that financial loss might arise as a result of changes in such measures as interest rates, stock market movements or foreign exchange rates and because of the largely non-trading nature of its activities and the way in which government departments are financed, the NHS Board is not exposed to the degree of financial risk faced by business entities.

i) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and other institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and other institutions, only independently rated parties with a minimum rating of 'A' are accepted.

Customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings in accordance with parameters set by the NHS Board.

The utilisation of credit limits is regularly monitored and no credit limits were exceeded during the reporting period and no losses are expected from non-performance by any counterparties in relation to deposits.

ii) Liquidity risk

The Scottish Parliament makes provision for the use of resources by the NHS Board for revenue and capital purposes in a Budget Act for each financial year. Resources and accruing resources may be used only for the purposes specified and up to the amounts specified in the Budget Act. The Act also specifies an overall cash authorisation to operate for the financial year. The NHS Board is not therefore exposed to significant liquidity risks.

The trade and other payables excluding statutory liabilities as at the 31 March 2017 was £2.876m (31 March 2016 was £2.551m).

iii) Market risk

The NHS Board has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the NHS Board in undertaking its activities.

The NHS Board has no significant interest bearing assets or liabilities and as such income and expenditure cash flows are substantially independent of changes in market interest rates.

The NHS Board is not exposed to foreign currency risk or price risk.

28. Derivative Financial Instruments

NHS Orkney does not have any derivative financial instruments.

29. Related Party Transactions

Dr Andrew Trevett, Non Executive Director of the Board, is a General Medical Practitioner at the Stromness Practice which provided Primary Medical Services to the Board. Payments to this practice in 2016/17 to 31 December 2016 when Dr Trevett ceased to be a board member totalled £411,360. At 31 March 2017 the Board owed Stromness Surgery £0.

Dr Trevett is a director of Orkney Hyperbaric Trust, NHS Orkney invoiced £3,405 in year which has been paid in full.

Jeremy Richardson is chair of Age Concern Orkney and Gillian Skuse is a director of Age Concern Orkney. In year NHS Orkney has invoiced Age Concern Orkney £699 which has been paid in full.

The directors of the Board are also Trustees of Orkney Health Board Endowments Fund. At 31 March 2017 there were outstanding debts of £23 due to NHS Orkney and £100 due to by NHS Orkney.

Integrated Joint Board expenditure in 2016/17 was £16,924 million (2015/16: £12,000).

30. Segment Information

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

	Hospital Services	Pharmacy & Drugs Costs	Orkney Health & Care	External Commissioning	Estates & Facilities	Support Services
	£'000	£'000	£'000	£'000	£'000	£'000
2016/17 Net operating cost	11,807	5,819	17,229	10,032	3,130	4,809

2015/16 Net operating cost	10,644	5,267	15,746	9,658	2,944	4,762
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	Dental, Ophthalmic - NCL and Pharmacy NCL	Annually Managed Expenditure	Depreciation	Total
	£'000	£'000	£'000	£'000
2016/17 Net operating cost	1,517	587	1,214	56,144

2015/16 Net operating cost	1,442	(107)	1,122	51,478
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31. Third Party Assets

Third Party Assets managed by the Board consist of balances on Patients' Private Funds Accounts. There were no third party assets held in 2016/17 or 2015/16.

32(a). Consolidated Statement of Comprehensive Net Expenditure

The Health and Social Care Integration Joint Board was established on 6 February 2016 and had incurred £24,000 of expenditure at 31 March 2016. As this is an immaterial amount the IJB accounts were not consolidated into NHS Orkney's accounts in 2015/16.

2015/16		2016/17				
Group £'000		Board £'000	Endowments £'000	Intra Group Adjustment £'000	Integration Joint Board £'000	Consolidated £'000
	Clinical Services Costs					
35,802	Hospital and Community	57,235	0	11	0	57,246
516	Less: Hospital and Community Income	17,282	0	0	0	17,282
35,286		39,953	0	11	0	39,964
12,710	Family Health	13,175	0	0	0	13,175
394	Less: Family Health Income	388	0	0	0	388
12,316		12,787	0	0	0	12,787
47,602	Total Clinical Services Costs	52,740	0	11	0	52,751
1,151	Administration Costs	1,265	0	0	0	1,265
1,151		1,265	0	0	0	1,265
3,510	Other Non Clinical Services	2,954	84	(11)	0	3,027
810	Less: Other Operating Income	815	92	0	0	907
2,700		2,139	(8)	(11)	0	2,120
	Associates and joint ventures accounted for on equity basis	0	0	0	84	84
51,453	Net Operating Costs	56,144	(8)	0	84	56,220

32(b). Consolidated Group Balance Sheet

2015/16		2016/17				
Group £'000		Note	Board £'000	Endowment £'000	Integration Joint Board £'000	Group £'000
	Non-current assets:					
10,840	Property, plant and equipment	11	12,490	0	0	12,490
95	Intangible assets	10	192	0	0	192
	Financial assets:					
893	Available for sale financial assets	14	0	1,012	0	1,012
20	Trade and other receivables	13	10	0	0	10
11,848	Total non-current assets		12,692	1,012	0	13,704
	Current Assets:					
435	Inventories	12	544	0	0	544
	Financial assets:					
653	Trade and other receivables	13	1,625	1	0	1,626
425	Cash and cash equivalents	15	373	140	0	513
0	Assets classified as held for sale	11c	0	0	0	0
1,513	Total current assets		2,542	141	0	2,683
13,361	Total assets		15,234	1,153	0	16,387
(264)	Provisions	17	(381)	0	0	(381)
	Financial liabilities:					
(4,339)	Trade and other payables	16	(5,633)	(3)	0	(5,636)
(4,603)	Total current liabilities		(6,014)	(3)	0	(6,017)
8,758	Non-current assets plus/less net current assets/liabilities		9,220	1,150	0	10,370
	Non-current liabilities					
(758)	Provisions	17	(1,066)	0	0	(1,066)
0	Liabilities in associates and joint ventures		0	0	(84)	(84)
(758)	Total non-current liabilities		(1,066)	0	(84)	(1,150)
8,000	Assets less liabilities		8,154	1,150	(84)	9,220
	Taxpayers' Equity					
6,401	General fund	SOCTE	7,532	0	0	7,532
594	Revaluation reserve	SOCTE	622	0	0	622
0	Other reserves – joint venture	SOCTE	0	0	(84)	(84)
1,005	Funds Held on Trust	SOCTE	0	1,150	0	1,150
8,000	Total taxpayers' equity		8,154	1,150	(84)	9,220

32(c). Consolidated Statement of Cash Flows

2015/16		
Board £'000	Endowment £'000	Group £'000
(51,480)	27	(51,453)
1,156	0	1,156
265	(36)	229
9	0	9
(567)	0	(567)
(132)	0	(132)
(50,749)	(9)	(50,758)
(2,353)	0	(2,353)
(23)	0	(23)
0	(97)	(97)
112	0	112
0	101	101
(2,264)	4	(2,260)
53,037	0	53,037
(1,012)	0	(1,012)
52,025	0	52,025
52,025	0	52,025
(988)	6	(982)
1,336	71	1,407
348	77	425
(988)	6	(982)
1,336	71	1,407
348	77	425

Cash flows from operating activities

Net operating cost	
Adjustments for non-cash transactions (Increase) / decrease in trade and other receivables	
(Increase) / decrease in inventories	
Increase / (decrease) in trade and other payables	
Increase / (decrease) in provisions	

Net cash outflow from operating activities**Cash flows from investing activities**

Purchase of property, plant and equipment	
Purchase of intangible assets	
Investment Additions	
Proceeds of disposal of property, plant and equipment	
Receipts from sale of investments	

Net cash outflow from investing activities**Cash flows from financing activities**

Funding	
Movement in general fund working capital	
Cash drawn down	

Net Financing**Net Increase / (decrease) in cash and cash equivalents in the period**
Cash and cash equivalents at the beginning of the period**Cash and cash equivalents at the end of the period****Reconciliation of net cash flow to movement in net debt/cash**

Increase/(decrease) in cash in year	
Net debt/cash at 1 April	

Net debt/cash at 31 March

2016/17		
Board £'000	Endowment £'000	Group £'000
(56,144)	8	(56,136)
1,349	0	1,349
(999)	35	(964)
(109)	0	(109)
1,975	0	1,975
425	0	425
(53,503)	43	(53,460)
(3,629)	0	(3,629)
(137)	0	(137)
0	(24)	(24)
0	0	0
0	44	44
(3,766)	20	(3,746)
57,245	0	57,245
49	0	49
57,294	0	57,294
57,294	0	57,294
25	63	88
348	77	425
373	140	513
25	63	88
348	77	425
373	140	513



Orkney Health Board

DIRECTION BY THE SCOTTISH MINISTERS

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

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 (FRM) which is in force for the year for which the statement of accounts are prepared.

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.

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.

This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 30 December 2002 is hereby revoked.

A handwritten signature in black ink, appearing to be 'M. B.', written over a horizontal line.

Signed by the authority of the Scottish Ministers

Dated: 10/02/06