

Trust Board Report

Meeting Date:	25 June 2012
Title:	Financial Summary of the year ending 31 March 2012.
Executive Summary:	The Board are asked to note the contents of the Financial Summary Report based on the Annual Accounts for the year ending 31 March 2012, previously considered by the Audit Committee.
Action Requested:	To note the contents of the Financial Summary Report for the year ending 31 March 2012.
Report of:	Chief Financial Officer
Author: Contact Details:	Kevin Stringer, Chief Financial Officer Tel 01902 695954 Email kevin.stringer@nhs.net
Resource Implications:	None
Public or Private: (with reasons if private)	Public
References: (eg from/to other committees)	Audited Annual Accounts.
Appendices/ References/ Background Reading	The Board are asked to note the details of this report when formalising the approval of the 2011/12 Accounts.
NHS Constitution: (How it impacts on any decision-making)	In determining this matter, the Board should have regard to the Core principles contained in the Constitution of: <ul style="list-style-type: none"> ✚ Equality of treatment and access to services ✚ High standards of excellence and professionalism ✚ Service user preferences ✚ Cross community working ✚ Best Value ✚ Accountability through local influence and scrutiny

Background Details

- NHS organisations have a statutory duty to produce annual accounts and an annual report. The annual accounts are the main way in which Trusts discharge their accountability to taxpayers and service users for their stewardship of public money.

The Financial Summary report of the year ended 31 March 2012 was considered by the Audit Committee on 7th June 2012, alongside the Annual Accounts detail. This report gives details of the financial duties the Trust is required to meet, how these were met and how they were reflected in the accounts.



Financial summary of year ended 31 March 2012 based upon draft Annual Accounts Submission

1. Introduction

- NHS organisations have a statutory duty to produce annual accounts and an annual report. The annual accounts are the main way in which Trusts discharge their accountability to taxpayers and service users for their stewardship of public money. The Audit Committee is required to review the Annual Accounts. The Board will then receive the Accounts prior to them being published and presented at the Trust's Annual Public Meeting.
- The accounts have been prepared in accordance with the 2011/12 NHS Trust Manual for Accounts (MFA) issued by the Department of Health. The MFA follows the International Financial Reporting Standards (IFRS) and interpretations to the extent that they are meaningful and appropriate to public entities. The accounts consist of:
 - Four primary statements
 - Statement of Comprehensive Income
 - Statement of Financial Position
 - Statement of Changes in Taxpayers Equity
 - Statement of Cash Flows
 - Notes to the accounts;
 - Directors' Statement of Responsibilities;

Other statements provided in support of the accounts are:-

 - Annual Governance Statement (AGS)
 - The Head of Internal Audit opinion on the effectiveness of the system of Internal Control that has operated within the Trust.
 - The "Going Concern assessment" which provides evidence that the Trust is currently a "Going Concern."
- The Draft Annual Accounts of the Trust for the year to 31 March 2012 are attached at agenda item no 7.
- This report gives details of the financial duties the Trust is required to meet, how these were met and how they are reflected in the accounts. The page references in brackets refer to the pages these appear in the accounts.
- The accounts have been prepared including adjustments for the take on of balances from the PCT as part of TCS. Merger accounting has been used for this as directed by Department of Health guidance.

2. Recommendations

The committee is recommended to note this report

3. Financial Duties

- The Trust is required to meet certain financial duties in order to ensure appropriate management of public funds. The performance of these is shown in the table below.

Financial Duties	Planned position	Actual position	Achieved
<u>Income and Expenditure Break Even</u> The Trust is required to break even on a cumulative basis	£7,500k surplus	£9,297k surplus	Achieved, surplus exceeded plan.
<u>Capital Resource Limit (CRL)</u> The Trust is given a capital resource limit. It is required to keep its capital spend within this limit	£20,240k	£19,857k	Achieved capital spend within CRL
<u>External Finance Limit (EFL)</u> This is a limit on net external cash. The Trust cannot exceed the EFL target which determines how much more (or less) cash it can spend from that generated by its activities.	£(2,609)k	£(5,373)k	Achieved, The Trust underspent its EFL target.
<u>Capital Cost Absorption Rate</u> The Trust is required to absorb the cost of capital at a rate of average net relevant assets	3.5%	3.5%	Achieved

4. Accounting Policies [Pages 20-30]

A series of notes within the Accounts set out the Accounting Policies which have been followed in their compilation. These policies are largely dictated by UK IFRS and the Department of Health's MFA. NHS Trusts cannot amend these policies. Paragraphs may be omitted where they are superfluous or the wording can be expanded to reflect local issues but amendments are not permitted where this has the effect of changing accounting policies.

Statement of Comprehensive Income for the Year Ended 31 March 2012 [Page 16]

	2011/12 £000	2010/11 £000 (restated)
Revenue from patient care activities [Note 3]	341,869	279,144
Other Operating Income [Note 4]	32,548	26,696
Operating Expenses [Note 6]	(356,059)	(289,395)
Operating Surplus	18,358	16,445
Other gains and (losses)	(37)	4
Surplus/ (Deficit) before interest	18,321	16,449
Investment revenue	106	67
Finance costs	(1,792)	(928)
Surplus/ (Deficit) for financial year	16,635	15,588
Public dividend capital dividends paid	(7,900)	(7,407)
Retained surplus for the year	8,735	8,181

Reported NHS financial performance position – adjusted retained surplus	2011/12	2010/11
	£000	
Retained surplus	8,735	8,364
IFRIC 12 Adjustment	(89)	(719)
Impairments	329	319
Adjustments in respect of Donated Asset/Government Grant Reserve Elimination	322	0
Reported NHS financial performance	9,297	7,964

Overview of Statement

- This statement along with its associated notes records the income and costs incurred by the Trust during the year.
- This is the equivalent of the profit and loss account in the private sector
- The statement shows a retained surplus of £8.7m which is a £0.2m increase from the figure reported to the Board in the Month 12 finance report.
- The revenue from patient care activities, other operating income and the operating expenses are analysed further in the notes to this statement which are on pages 4 and 5 of this report.
- The other items on the statement include:
 - Gains/ losses on disposal of assets
 - Interest earned on short term deposits
 - Finance costs of finance leases and PFI
 - The dividend paid to the Department of Health. This is 3.5% of average net relevant assets
- The table to the left shows the financial position the used to report on the Trust's performance. As per the technical guidance, the prior period comparatives for the financial performance are taken from prior year accounts and not amended for any prior period restatements as the performance is judged in year and not restated.
- The Trust's financial performance is measured by the Department of Health by the end of year surplus adjusted for the effect of accounting changes associated with the implementation of International Reporting Standards and the effect of impairments. Following these adjustments the NHS reported surplus is £9.3m

Revenue from Patient Care Activities [Note 4 – page 31] Other Operating Income [Note 5 – page 31]

<u>Revenue from patient care</u>	2011/ 12 £000	2010/ 11 £000
Primary Care Trusts	338,447	276,376
Department of Health	0	8
NHS Other	463	564
Non NHS – Private patients	1,078	727
– Overseas visitors	39	27
- Injury cost recovery	1,339	1,349
- Other	503	93
Total	341,869	279,144

<u>Other operating income</u>	2011/ 12 £000	2010/ 11 £000
Education, research and training	16,772	14,648
Receipt of donations for capital acquisitions	74	229
Non patient care services to other bodies	9,579	8,469
Income generation	2,248	2,102
Revenue rental from operating leases	168	117
Other revenue	3,707	1,131
Total	32,548	26,696

Key movements in income

- Revenue from Primary care Trusts for the provision of patient care has increased by £62.1m (18%). This is due primarily to the Transfer of Community Services which has resulted in £53m additional income. The balance is from increased patient activity within the hospital.
- Other operating income increased by £5.9m (21.93%). This includes income from the PCT in respect of the Balance Transfer Agreement (£1.3m) and increased income to support Education and Training received for former community services of £0.6m. The Trust also received an increase of £0.8m to support training and an increase in the income recovered from providing services to other NHS bodies and private hospitals such as Pathology tests and other diagnostic services and supplying drugs to PCT's.
- Within Other Revenue, in addition to the £1.3m received in respect of the Balance transfer Agreement the Trust received £0.6m was in respect of VAT income.

Operating Expenses [Note 7 – Page 32]

<u>Operating Expenses</u>	2011/ 12 £000	2010/ 11 £000
Services from other NHS bodies	996	1,690
Purchase of healthcare from non NHS bodies	1,970	2,058
Trust chair and non execs	77	75
Staff Costs	229,571	184,212
Supplies & services clinical	63,718	57,058
Supplies & services general	8,097	6,303
Consultancy services	3,370	1,499
Establishment	3,922	2,699
Transport	2,065	1,704
Premises	16,259	10,147
Impairment of receivables	127	273
Depreciation	14,122	12,596
Amortisation	297	235
Impairments & reversals of PPE	329	319
Audit fees & other audit charges	180	182
Clinical negligence	5,496	3,535
Research & development	993	688
Education & training	1,137	918
Other	3,333	3,204
Total	356,059	289,395

Key movements in expenditure

- An overall increase in expenses of £67.5 m (23%), with £49.9m relating to TCS,
- There has been a reduction in the cost of services from other NHS bodies of £0.7m. In 2010/11 the Trust were purchasing these services from the PCT; following the TCS transfer these are now provided internally by the Trust.
- Staff costs increase of £46.2m of which £38m relates to staff transferred under TCS.
- Increase in clinical supplies and services of £6.6m. This is due to increased spend on consumables associated with additional activity plus the additional spend associated with the TCS transfer.
- The premises costs in 2011/12 included £4.3m in respect of the costs of community premises currently being leased from Wolverhampton City PCT for the provision of community services.
- Consultancy costs increased by £1.6m (excluding the impact of TCS) and this was due to work on Safehands and Newtons projects.
- Increase in depreciation of £1.6m. This is due to 6% indexation and various assets being brought into use in year . There was also an increase in short life equipment purchases due to Pathology slippage.
- Clinical Negligence increase of £1.9m is mainly as a result of TCS but also an increase in premiums

Statement of Financial Position as at 31 March 2012 [page 17]

	31 March 2012	1 April 2011	31 March 2011 (restated)		31 March 2012	1 April 2011	31 March 2011 (restated)
	£000	£000	£000	cont.	£000	£000	£000
<u>Non-current assets</u>				<u>Financed by Taxpayers Equity</u>			
Property, plant & equipment	251,189	243,900	243,180	Public dividend capital	170,082	170,082	170,082
Intangible assets	746	779	779	Retained earnings	7,815	(2,831)	(3,468)
Trade & Other receivables	1,916	556	556	Revaluation reserve	69,109	68,947	68,947
Non current assets held for sale	800	800	800	Other reserve	190	190	190
Total non current assets	254,651	246,035	245,315	Total Taxpayers Equity	247,196	236,388	235,751
<u>Current Assets</u>							
Inventories	5,703	5,064	4,744				
Trade & other receivables	18,778	16,427	15,529	<ul style="list-style-type: none"> • The Statement of Financial Position (SOFP) is the equivalent of the Balance Sheet under UK GAAP. • The published accounts for 31 March 2011 have been restated for the technical changes in accounting treatment of donated assets (as reported previously to the audit committee). The adjusted position is shown here. This has then been updated for the take on of TCS balances. This position is shown in the column marked 1 April 2011. • Analysis of each line of the statement is shown in the associated notes. These are shown in pages 7 to 10 of this report. • The taxpayers equity has increased by £10.8m. This is primarily because of: <ul style="list-style-type: none"> – A net gain from revaluation of £2.1m – An increase in retained earnings £8.7m through the surplus generated in year. 			
Cash & cash equivalents	15,658	11,778	11,786				
Total Current Assets	40,139	33,279	32,059				
<u>Current Liabilities</u>							
Trade & other payables	(34,015)	(31,238)	(29,935)				
Borrowings	(3,193)	(1,726)	(2,076)				
Provisions	(1,844)	(2,076)	(1,726)				
Total Current Liabilities	(39,052)	(35,040)	(33,737)				
Assets less current liabilities	255,738	244,274	243,637				
<u>Non Current Liabilities</u>							
Provisions for liabilities	(457)	(497)	(497)				
Borrowings	(8,085)	(7,389)	(7,389)				
Total Assets Employed	247,196	236,388	235,751				

Property, Plant and Equipment(PPE) and Intangible Assets [Notes 14-16 Pages 38-42]

Property, Plant & Equipment	PPE Assets, £000	Intangible assets £000	Total, £000
Nbv 1/4/2011	243,180	779	243,959
Merger adjustment	720	0	720
Nbv 1/4/2011 restated	243,900	779	244,679
Additions	19,836	66	19,902
Donations	74	0	74
Disposals/ reclassifications	(243)	198	(45)
Transfer to / from revaluation reserve			
- revaluation gains	2,435	0	2,435
Impairments trfd to Revaluation Reserve	(362)	0	(362)
Impairments trfd to I&E	(329)	0	(329)
Depreciation/ amortisation	(14,122)	(297)	(14,419)
Movement 2011/ 12	7,289	(33)	7,256
Asset value 31/3/12	251,189	746	251,935

Overview

- PPE assets include: Land, Buildings, Dwellings, Assets under Construction, Plant and Machinery, Transport, Equipment, IT and Furniture and Fittings.
- Intangible assets include software licences, trademarks, patents and research development expenditure.
- Two separate tables [Notes 14 & 15 – Pages 38-41] show the changes in value of these assets by category from their value at the beginning of the year, taking account of additional purchases, donations, disposals, revaluations and amortisation / depreciation to arrive at the new total value for the year end.
- The merger adjustment of £0.7m is for the transfer of equipment from Wolverhampton City PCT as part of the TCS process.
- The value of fixed assets has increased because of:
 - capital additions of £20.1m
 - revaluation gain of £2.4m
 offset by:
 - depreciation of £14.4m
 - impairments of £0.7m.

Impairments

- Asset held on the balance sheet are revalued regularly in line with the policy for revaluation. Where this results in an increased value, the value of the asset on the balance sheet is increase with a corresponding increase in the revaluation reserve for that asset. Where the revaluation shows that the value of the asset should be reduced this results in a loss or impairment.
- Where there is an impairment, this loss is initially offset against the value in the revaluation reserve for the asset. If the balance in the revaluation reserve for this asset is not sufficient to cover the full loss the balance is charged to the income and expenditure account.
- In 2011/12 the impairment charged to the income and expenditure account was £329k.

Trade & Other Receivables [Note 21 – Page 44] Inventories [Note 20 – Page 44]

Trade & Other Receivables	31 March 2012, £000	31 March 2011, £000
<u>Current</u>		
NHS Receivables - revenue	14,036	12,216
Non NHS Receivables - revenue	1,584	693
Provision for impairment of debtors	(394)	(287)
Prepayments & Accrued Income	1,479	954
VAT	490	560
Other Receivables	1,583	1,393
Sub Total Current	18,778	15,529
<u>Non Current</u>		
Provision for impairment of debtors	(585)	(583)
Current part of PFI and other PPP arrangements prepayments and accrued income	1,310	0
Other receivables	1,191	1,139
Sub total:non current	1,916	556
Total trade and other	20,694	16,085

<u>Inventories</u>	31 March 2012, £000	1 April 2011, £000	31 March 2011, £000
Drugs	1,591	0	1,622
Consumables	3,853	320	2,917
Energy	162	0	103
Other	97	0	102
Total	5,703	320	4,744

Overview of Receivables

- Total trade and other receivables represent the money owed to the Trust but as yet not received. These are broken down between Current (those due within one year) and Non-Current (those due after more than one year).
- Total receivables has increased by £4.6m (28.7%)
- There has been an increase of £1.8m in NHS receivables. This is due to invoices being raised in respect of end of year settlement of patient activity over-performance to PCT's where settlement has been agreed latterly in the year. This has reduced significantly in month 1.
- The increase in non NHS debt is due mainly to debts associated with Wolverhampton City Council and Compton Hospice which were settled by May.
- Prepayments have increased due to £0.2m for Interpreting costs and £0.1m for IT licenses and support.
- A deferred asset of £1.3m has been included in 2011/12 for the MRI included as part of the PFI scheme. This is to reflect that this equipment has not yet been installed.

Overview of Inventories

- The value of inventories (stock) held by the Trust has increased in total by £959k, an increase of 20.2%. £0.5m of this increase was in respect of Cardiac stock whilst £0.3m was in respect of Pharmacy. These increases were as a result of the stock cabinets being filled as part of the materials management project.

Trade & Other Payables [Note 24 – Page 47]

Trade & Other Payables	31 March 2012, £000	31 March 2011, £000
<u>Current</u>		
NHS Payables	3,262	3,652
Non NHS trade payables - revenue	6,447	5,728
Non NHS trade payables - capital	3,664	3,575
Accruals and deferred income	17,812	11,418
Social security costs	0	1,772
VAT	11	81
Tax	0	1,369
Other	2,839	2,340
Total Current	34,015	29,935

Overview of Payables

- Trade & other payables represent the money owed by the Trust but as yet unpaid. Again these are analysed between current and non current and between NHS and non NHS with additional analysis showing tax and social security payments still to be made.
- There were no Non Current Payables.
- Current payables increased by £4m (13.6%) during the financial year. A main contribution to this increase was a £6.4m increase in accruals and deferred income. Deferred income decreased by £1.2m in year (see note 26 in the accounts) but accruals increased by £7m. This was mainly due to the number of accruals for goods or services received where an invoice had not yet been received, both revenue and in particular capital.
- There are no social security or tax payables in 2011/ 12 as the March payments were paid in month, whereas in 2010/11 the Trust did not pay these until the due date in April.

Borrowings [Note 25 – Page 47]

Provisions for Liabilities & Charges [Note 29 – Page 49]

<u>Borrowings</u>	Current		Non Current	
	31 March 2012, £000	31 March 2011, £000	31 March 2012, £000	31 March 2011, £000
Loans From Department of Health	0	0	0	0
PFI liability	1,728	1,948	8,035	7,182
Finance lease liabilities	116	128	50	207
Total	1,844	2,076	8,085	7,389

<u>Provisions for Liabilities & Charges</u>	Legal Claims, £000	Other, £000	Total, £000
As at 1 April 2011	925	1,298	2,223
Arising during year	505	1,768	2,273
Utilised during year	(394)	(262)	(656)
Reversed unused	(142)	(63)	(205)
Unwinding of discount	15	0	15
As at 31 March 2012	909	2,741	3,650

- The Trust borrowings include the PFI liability for the radiology scheme which will be fully settled by 31/03/32, and 3 finance leases which will all be discharged by 01/03/14.
- Provisions are defined as a liability of uncertain timing or amount. To recognise a provision three criteria must be met:
 - The Trust has a present obligation (legal or constructive) as a result of a past event
 - It is probable that a transfer of economic benefits will be required to settle the obligation
 - A reliable estimate can be made of the amount of the obligation
- NHS Trusts pay an annual premium to the NHSLA to participate in the Clinical Negligence Scheme for Trusts. The NHSLA then takes responsibility for settling all clinical negligence claims. This means Trusts do not have to make any provisions for clinical negligence claims. As at 31 March 2012 £43.8m was provided by NHSLA
- The “Other” provisions includes provisions for the potential repayment of income received from the PCT in respect of ‘Referral To Treatment’ and ‘Reablement’, totalling £1.6m.

Statement of Cash Flows

[Page 19]

	2011/ 12 £000	2010/ 11 £000
Cash flow from operating activities		
Operating surplus	18,358	16,445
Depreciation and Amortisation	14,419	12,831
Impairments and reversals	329	319
Interest paid	(1,786)	(911)
Dividends paid	(7,900)	(7,407)
Release of PFI / deferred credit	1,310	0
(Increase)/ Decrease in inventories	(639)	(168)
(Increase)/ Decrease in trade and other receivables	(3,711)	(2,655)
Increase/ (Decrease) in trade and other payables	2,712	5,211
Provisions utilised	(656)	(367)
Increase/ (Decrease) in provisions	2,068	471
Net Cash Inflow/ (Outflow) from operating activities	24,504	23,769
Cash flows from investing activities		
Interest received	106	67
(Payments) for property, plant and equipment	(19,253)	(19,570)
Proceeds from sale of property, plant and equipment	8	4
(Payments) for intangible assets	(66)	(120)
Net cash (outflow) from investing activities	(19,205)	(19,619)
Cash flows from financing activities		
Loans repaid to DH	0	0
Capital grants and other capital receipts	74	0
Capital element of finance leases and PFI	(1,503)	(1,947)
Net cash (outflow) from financing	(1,429)	(1,947)
Net increase/ (decrease) in cash & cash equivalents	3,870	2,203

Cont.	2011/ 12 £000	2010/ 11 £000
Net increase/ (decrease) in cash equivalents	3,870	2,203
Cash at beginning of financial year	11,786	9583
Opening Balance adjustment – TCS transactions	2	
Cash at end of financial year	15,658	11,786

- The statement demonstrates how the cash generated by the Trust's surplus has been used either by changes to balance sheet items or through an increase in the Trust's cash balance.
- The statement of cash flow links the Trust's operating surplus to the movement in the cash position of the Trust.
- The statement shows that additional cash was generated in year through the surplus made by the Trust, this partly being utilised in the purchase of Property, Plant and Equipment. There was very little change in the cash position due to balance sheet movements (£0.2m)
- The cash balance, at £15,658, was in line with estimates agreed with the SHA linked to the External finance Limit (EFL).