

## Trust Board Report

<b>Meeting Date:</b>	24 June 2013
<b>Title:</b>	Financial Summary of Year Ending 31 March 2013
<b>Executive Summary:</b>	The Board are asked to note the contents of the Financial Summary Report based on the Annual Accounts for the year ending 31 March 2013, previously considered and approved by the Audit Committee on the 6 June 2013.
<b>Action Requested:</b>	To note the contents of the Financial Summary Report for the year ending 31 March 2013.
<b>Report of:</b>	Chief Financial Officer
<b>Author: Contact Details:</b>	Kevin Stringer, Chief Financial Officer Tel 01902 695954 Email kevin.stringer@nhs.net
<b>Resource Implications:</b>	None
<b>Public or Private: (with reasons if private)</b>	Public Session
<b>References: (eg from/to other committees)</b>	Audited Annual Accounts
<b>Appendices/ References/ Background Reading</b>	The Board are asked to note the details of this report when formalising the approval of the 2012/13 Accounts.
<b>NHS Constitution: (How it impacts on any decision-making)</b>	In determining this matter, the Board should have regard to the Core principles contained in the Constitution of: <ul style="list-style-type: none"> <li>✚ Equality of treatment and access to services</li> <li>✚ High standards of excellence and professionalism</li> <li>✚ Service user preferences</li> <li>✚ Cross community working</li> <li>✚ Best Value</li> <li>✚ Accountability through local influence and scrutiny</li> </ul>

### Background Details

<b>1</b>	<p>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.</p> <p>The Financial Summary report of the year ended 31 March 2013 was considered by the Audit Committee on 6th June 2013, alongside the Annual Accounts detail. They were subsequently approved. 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.</p>
----------	---



# **Financial summary of year ended 31 March 2013 based upon Audited Draft Annual Accounts Submission**

## 1. Introduction

- NHS organisations have a statutory duty to produce Annual Accounts, an Annual Report and Quality Accounts. 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 2012/13 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 2013 are attached at agenda item no 10.
- 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.

## 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	£7,975k surplus	£8,688k 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	£23,557k	£23,311k	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. This target determines how much more (or less) cash it can spend from that generated by its activities.	£0k	£(5,923)k	Achieved, the Trust underspent against its EFL.
<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 17-27]

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 13]

	2012/13 £000	2011/12 £000
Revenue from patient care activities [Note 3]	351,640	341,869
Other Operating Income [Note 4]	33,277	32,548
Operating Expenses [Note 6]	(368,406)	(356,059)
<b>Operating Surplus</b>	<b>16,511</b>	18,358
Other gains and (losses)	18	(37)
<b>Surplus/ (Deficit) before interest</b>	<b>16,529</b>	18,321
Investment revenue	84	106
Finance costs	(1,555)	(1,792)
<b>Surplus/ (Deficit) for financial year</b>	<b>15,058</b>	16,635
Public dividend capital dividends paid	(8,035)	(7,900)
<b>Retained surplus for the year</b>	<b>7,023</b>	8,735

<b>Reported NHS financial performance position – adjusted retained surplus</b>	<b>2012/13 £000</b>	2011/12 £000
Retained surplus	7,023	8,735
IFRIC 12 Adjustment	0	(89)
Impairments	1,604	329
Adjustments in respect of Donated Asset/Government Grant Reserve Elimination	61	322
<b>Reported NHS financial performance</b>	<b>8,688</b>	<b>9,297</b>

### 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 £7.0m which is as 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:
  - Gain on disposal of assets. This is for cash received for assets that were fully depreciated.
  - Interest earned on short term cash deposits (mainly in the National Loans Fund)
  - Finance costs of finance leases and PFI
  - The dividend paid to the Department of Health. This is 3.5% of average net relevant assets (£8.0m).
- The table below 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.
- 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. These are associated with the implementation of International Reporting Standards and the effect of impairments. Following these adjustments the NHS reported surplus is an improved position of £8.7m against an original forecast of £8.0m. The adjustments relate to removing the impact of impairments and the change in the way donated assets are accounted for.

## Revenue from Patient Care Activities [Note 4 – page 28] Other Operating Income [Note 5 – page 28]

<u>Revenue from patient care</u>	2012/ 13 £000	2011/ 12 £000
Strategic Health Authorities	480	443
NHS Trusts	510	0
Primary Care Trusts	347,571	338,447
NHS Foundation Trusts	51	20
Department of Health	380	0
Non NHS – Private patients	1,083	1,078
– Overseas visitors	42	39
- Injury cost recovery	1,026	1,339
- Other	497	503
<b>Total</b>	<b>351,640</b>	<b>341,869</b>

<u>Other operating income</u>	2012/ 13 £000	2011/ 12 £000
Education, research and training	16,995	16,772
Receipt of donations for capital acquisitions	120	74
Non patient care services to other bodies	10,429	9,579
Income generation	2,669	2,248
Revenue rental from operating leases	251	168
Other revenue	2,813	3,707
<b>Total</b>	<b>33,277</b>	<b>32,548</b>

### Overview of Income

- The statements show the income specifically from providing patient care services, that is the contracts with PCTs and other commissioners and then separately below that any other income the Trust has received through services provided.
- Revenue from Primary Care Trusts for the provision of patient care has increased by £9.1m (2.7%). This is due primarily to a £6m contract overperformance on Wolverhampton City PCT and South Staffs PCT patient care contracts.
- Income from NHS Trusts is in respect of income for the limbs services provided to South Birmingham Community NHS Trust, previously provided to South Birmingham PCT.
- The 12/13 funding received from the Department of Health was in respect of non recurrent funding for Radiotherapy equipment.
- Other Revenue, in 2011/12 included non recurring funding received of £1.3m in respect of the TCS Transfer Agreement funding the Trust received from the PCT.
- Other operating income increased by £0.7m (2.2%). After adjusting for non recurring funding received from the PCT in 2011/12 this equates to an increase of £2.0m (6.4%). This includes an increase in income from income generation activities of £0.4m mainly for car parking and an increase of £0.6m in Non Patient Care Services to Other Bodies for Drugs Income.

# Operating Expenses [Note 7 – Page 29]

## Overview of Expenditure

<b><u>Operating Expenses</u></b>	<b>2012/ 13 £000</b>	<b>2011/ 12 £000</b>
Services from other NHS bodies	<b>977</b>	996
Purchase of healthcare from non NHS bodies	<b>1,512</b>	1,970
Trust chair and non execs	<b>78</b>	77
Staff Costs	<b>235,976</b>	229,571
Supplies & services clinical	<b>66,472</b>	63,718
Supplies & services general	<b>8,213</b>	8,097
Consultancy services	<b>1,822</b>	3,370
Establishment	<b>3,925</b>	3,922
Transport	<b>2,453</b>	2,065
Premises	<b>17,315</b>	16,259
Impairment of receivables	<b>80</b>	127
Depreciation	<b>15,061</b>	14,122
Amortisation	<b>295</b>	297
Impairments & reversals of PPE	<b>1,604</b>	329
Audit fees & other audit charges	<b>170</b>	180
Clinical negligence	<b>6,072</b>	5,496
Research & development	<b>1,382</b>	993
Education & training	<b>1,074</b>	1,137
Other	<b>3,925</b>	3,333
<b>Total</b>	<b>368,406</b>	356,059

- The statement details the operating expenses of the Trust by expenditure category.
- Overall operating expenses for the Trust increased by £12.3m (3.4%)
- Staff costs have increased by £6.4m (2.8%). Included within this category are all the costs associated with employing staff. The costs have increased due to incremental drift (£3m), and with additional activity/capacity, winter pressures and medical staff associated with 7 day working and A and E pressures. The staff costs are broken down in note 9.1 of the accounts.
- Supplies and Services Clinical have increased by £2.8m (4.3%). This includes drugs expenditure of £29.7m an increase in spend of £1.9m (6%) in year. This is mainly linked to excluded drugs increasing by £1.9m.
- Premises costs have increased by £1m which included an accrual for £0.3m against potential abortive fees, and non recurrent costs for equipment and wayfinding of £0.6m.
- Consultancy costs decreased by £1.5m. In 2011/12 there was a higher level of consultancy associated with specific efficiency projects and the Safehands project.
- The impairment charge is discussed in page 7 of this report.
- Increase in depreciation of £0.9m including £0.5m for accelerated depreciation on the incinerator and Wrekin House.
- Other expenditure includes the provisions for redundancy (see **5** provisions page 10)

# Statement of Financial Position as at 31 March 2012 [page 14]

	31 March 2013 £000	1 April 2012 £000
<b><u>Non-current assets</u></b>		
Property, plant & equipment	253,588	251,189
Intangible assets	459	746
Trade & Other receivables	2,646	1,916
Non current assets held for sale	800	800
<b>Total non current assets</b>	<b>257,493</b>	254,651
<b><u>Current Assets</u></b>		
Inventories	5,823	5,703
Trade & other receivables	14,362	18,778
Cash & cash equivalents	22,566	15,658
<b>Total Current Assets</b>	<b>42,751</b>	40,139
<b><u>Current Liabilities</u></b>		
Trade & other payables	(33,547)	(34,015)
Borrowings	(3,730)	(3,193)
Provisions	(1,771)	(1,844)
<b>Total Current Liabilities</b>	<b>(39,048)</b>	(39,052)
<b>Assets less current liabilities</b>	<b>261,196</b>	255,738
<b><u>Non Current Liabilities</u></b>		
Provisions for liabilities	(539)	(457)
Borrowings	(7,545)	(8,085)
<b>Total Assets Employed</b>	<b>253,112</b>	247,196

cont.	31 March 2013 £000	1 April 2012 £000
<b><u>Financed by Taxpayers Equity</u></b>		
Public dividend capital	173,082	170,082
Retained earnings	19,623	7,815
Revaluation reserve	60,217	69,109
Other reserve	190	190
<b>Total Taxpayers Equity</b>	<b>253,112</b>	247,196

- The Statement of Financial Position (SOFP) is the equivalent of the Balance Sheet under UK GAAP.
- 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 £5.9m. This is primarily because of:
  - A receipt of £3m Public Dividend Capital funding to support the Combined Heat and Power capital development.
  - An increase in retained earnings of £7.0m through the surplus generated in year, plus a transfer to retained earnings of £4.8m from Revaluation Reserve (see below)
  - Revaluation Reserve reduction of (£8.9m) as follows:
    - Transfer to Retained Earnings for disposed assets ( £4.8m)
    - Impairment charged to revaluation reserve. (£0.9m)
    - Revaluation loss on Buildings (£3.2m)

The revaluation reserve is established for each asset to account for any gain in value for the asset on revaluation/ indexation. When an asset is impaired this is charged initially to the revaluation reserve and then to expenditure once this is used up.

# Property, Plant and Equipment(PPE) and Intangible Assets [Notes 14-16 Pages 36-41]

Property, Plant & Equipment	PPE Assets, £000	Intangible assets £000	<b>Total, £000</b>
Net Book Value (NBV) 1/4/2012	251,189	746	<b>251,935</b>
Additions	23,311	0	<b>23,311</b>
Donations	120	0	<b>120</b>
Disposals/ reclassifications	(260)	8	<b>(252)</b>
Transfer to / from revaluation reserve			
- revaluation loss	(3,199)	0	<b>(3,199)</b>
Impairments Charged to Revaluation Reserve	(908)	0	<b>(908)</b>
Impairments Charged to I&E	(1,604)	0	<b>(1,604)</b>
Depreciation/ amortisation	(15,061)	(295)	<b>(15,356)</b>
<b>Movement 2012/ 13</b>	<b>2,399</b>	<b>(287)</b>	<b>2,112</b>
<b>Asset value 31/3/13</b>	<b>253,588</b>	<b>459</b>	<b>254,047</b>

## 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 36-41] 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 value of fixed assets has increased by £2.1m due to:
  - capital additions of £23.4m
  - Offset by:
    - depreciation of (£15.4m)
    - impairments of (£2.5m)
    - revaluation loss of (£3.1m)
    - disposals of (£0.3m)

## 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 2012/13 the impairment charged to the income and expenditure account was £1,604k and was in respect of the demolition of the Poplars, and revaluation of the Pathology Lab when the asset was brought into use.



## Trade & Other Receivables [Note 21 – Page 43] Inventories [Note 20 – Page 43]

Trade & Other Receivables	31 March 2013, £000	31 March 2012, £000
<b><u>Current</u></b>		
NHS Receivables - revenue	<b>10,310</b>	14,036
Non NHS Receivables - revenue	<b>1,366</b>	1,584
Provision for impairment of debtors	<b>(344)</b>	(394)
Prepayments & Accrued Income	<b>1,490</b>	1,479
VAT	<b>528</b>	490
Other Receivables	<b>1,012</b>	1,583
<b>Sub Total Current</b>	<b>14,362</b>	18,778
<b><u>Non Current</u></b>		
Provision for impairment of debtors	<b>(715)</b>	(585)
Current part of PFI and other PPP arrangements prepayments and accrued income	<b>1,809</b>	1,310
Other receivables	<b>1,552</b>	1,191
<b>Sub total:non current</b>	<b>2,646</b>	1,916
<b>Total trade and other</b>	<b>17,008</b>	20,694
<b><u>Inventories</u></b>		
	<b>31 March 2013, £000</b>	31 March 2012, £000
Drugs	<b>1,952</b>	1,591
Clinical Consumables	<b>3,648</b>	3,853
Energy	<b>139</b>	162
Other	<b>84</b>	97
<b>Total</b>	<b>5,823</b>	5,703

### 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 decreased by £3.7m (17%).
- There has been a decrease of £3.7m in NHS receivables. This is due to the settlement of year end activity overperformance debt late in the year by PCTs, prior to year end.
- The decrease in Non NHS debt is due mainly to a reduction in Private Patient debt of £0.1m and a reduction in Other debt of £0.2m. The Other debt category consists of money owed by Impregilio, Synergy and Wolverhampton City Council.
- Prepayments and Accruals have remained at the same level as 2011/12.
- The deferred asset of £1.8m for 2012/13 relates to MRI equipment within the PFI scheme, where the equipment has not yet been installed. This is an increase of £0.5m from 2011/12. The plan is to install the 2<sup>nd</sup> MRI scanner in September 2013.

### Overview of Inventories

- The value of inventories (stock) held by the Trust has increased in total by £0.1m, an increase of 2.1%. This was a result of an increase in pharmacy stock of £0.4m, whilst all other stock decreased.

## Trade & Other Payables [Note 24 – Page 46]

<b>Trade &amp; Other Payables</b>	<b>31 March 2013, £000</b>	31 March 2012, £000
<b><u>Current</u></b>		
NHS Payables	<b>2,019</b>	3,262
Non NHS trade payables - revenue	<b>6,558</b>	6,447
Non NHS trade payables - capital	<b>5,760</b>	3,664
Accruals and deferred income	<b>10,694</b>	17,812
Social security costs	<b>2,310</b>	0
VAT	<b>223</b>	11
Tax	<b>2,554</b>	0
Other	<b>3,159</b>	2,839
<b>Total Current</b>	<b>33,547</b>	34,015

### 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 decreased by £0.5m (1.3%) during the financial year.
- There was an increase in trade payables of £1m due mainly to an increase in invoices received at year end, particularly for capital.
- Deferred income remains at the same level as 2011/12 of £2.7m (see note 27 in the accounts). This was mainly the Safehands deferral.
- Accruals decreased by £7m to a level of £8m. This was partly offset by the increase in payables (see above).
- There are no social security or tax payables in 2011/ 12 as the payments in respect of March salaries were paid in month. In 2012/13 these were not paid the due date in April 2013.

## Borrowings [Note 26 – Page 46]

### Provisions for Liabilities & Charges [Note 30 – Page 48]

<b><u>Borrowings</u></b>	Current		Non Current	
	<b>31 March 2013, £000</b>	31 March 2012, £000	<b>31 March 2013, £000</b>	31 March 2012, £000
Loans From Department of Health	<b>0</b>	0	<b>0</b>	0
PFI liability	<b>1,721</b>	1,728	<b>7,545</b>	8,035
Finance lease liabilities	<b>50</b>	116	<b>0</b>	50
<b>Total</b>	<b>1,771</b>	1,844	<b>7,545</b>	8,085

<b><u>Provisions for Liabilities &amp; Charges</u></b>	Legal Claims, £000	Other, £000	Total, £000
As at 1 April 2012	909	2,741	3,650
Arising during year	459	2,818	3,277
Utilised during year	(353)	(1,854)	(2,207)
Reversed unused	(92)	(370)	(462)
Unwinding of discount	11	0	11
<b>As at 31 March 2012</b>	<b>934</b>	<b>3,335</b>	<b>4,269</b>

- The Trust Borrowings include the PFI liability for the radiology scheme and 3 finance leases, which will be discharged by 31/03/32 and 01/03/14 respectively.
- 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 provision for clinical negligence claims. As at 31 March 2012 £43.8m was provided for by the NHS Litigation Authority (NHSLA).
- The “Other” Provisions includes provisions for the potential repayment of income received from the PCT in respect of ‘Reablement’, totalling £0.5m, provisions for redundancy due to restructuring of Dental and Cytology services of £0.9m and a provision for untaken annual leave of £0.7m.

# Statement of Cash Flows

[Page 16]

	2012/ 13 £000	2011/ 12 £000
<b>Cash flow from operating activities</b>		
Operating surplus	16,511	18,358
Depreciation and Amortisation	15,356	14,419
Impairments and reversals	1,604	329
Interest paid	(1,544)	(1,786)
Dividends paid	(8,120)	(7,900)
Release of PFI / deferred credit	499	1,310
(Increase)/ Decrease in inventories	(120)	(639)
(Increase)/ Decrease in trade and other receivables	3,771	(3,711)
Increase/ (Decrease) in trade and other payables	(2,338)	2,712
Provisions utilised	(2,207)	(656)
Increase/ (Decrease) in provisions	2,815	2,068
<b>Net Cash Inflow/ (Outflow) from operating activities</b>	<b>26,227</b>	24,504
<b>Cash flows from investing activities</b>		
Interest received	84	106
(Payments) for property, plant and equipment	(20,577)	(19,253)
Proceeds from sale of property, plant and equipment	8	8
(Payments) for intangible assets	0	(66)
<b>Net cash (outflow) from investing activities</b>	<b>(20,475)</b>	(19,205)
<b>Cash flows from financing activities</b>		
Public Dividend Capital Received	3,000	0
Capital grants and other capital receipts	0	74
Capital element of finance leases and PFI	(1,844)	(1,503)
<b>Net cash (outflow) from financing</b>	<b>(1,156)</b>	(1,429)
<b>Net increase/ (decrease) in cash &amp; cash equivalents</b>	<b>6,908</b>	3,870

Cont.	2012/ 13 £000	2011/ 12 £000
Net increase/ (decrease) in cash equivalents	6,908	3,870
Cash at beginning of financial year	15,658	11,786
Opening Balance adjustment – TCS transactions	0	2
<b>Cash at end of financial year</b>	<b>22,566</b>	<b>15,658</b>

- The statement demonstrates how the cash generated by the Trust's surplus has been used either by changes to working capital 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, and also by a movement in the Trust's Balance Sheet position of £1.9m generated mainly by a reduction in Receivables.
- The cash generated has been partly utilised in the purchase of Property, Plant and Equipment.
- The cash balance, at £22,566, was £3m higher than that planned. This level of cash balance was agreed with the Department of Health in March 2013 as the Trust was underspending EFL target which is allowed..