

# Financial summary of year ended 31 March 2011 based upon Annual Accounts Submission

Please refer also to the Finance Board Report  
23 May 2011 agenda item no 8.1 and accounts enclosed



## 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 2010/11 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:-

- Statement on Internal Control (SIC)
- 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 2011 are attached at agenda item no 5.
- 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 Board 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 fund, performance is shown below in the table.

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	£6,500k surplus	£7,964k 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	£21,957k	£21,816k	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	£1,325k	£5,475k	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 13-23]

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 2010 [Page 9]

	2010-11 £000	2009-10 £000
Revenue from patient care activities [Note 3]	279,144	264,077
Other Operating Income [Note 4]	26,879	25,753
Operating Expenses [Note 6]	(289,395)	(280,827)
<b>Operating Surplus</b>	<b>16,628</b>	<b>9,003</b>
Other gains and (losses)	4	(6)
<b>Surplus/ (Deficit) before interest</b>	<b>16,632</b>	<b>8,997</b>
Investment revenue	67	64
Finance costs	(928)	(1,073)
<b>Surplus/ (Deficit) for financial year</b>	<b>15,771</b>	<b>7,988</b>
Public dividend capital dividends paid	(7,407)	(7,108)
<b>Retained surplus for the year</b>	<b>8,364</b>	<b>880</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 £8.4m as reported to the Board in the month 12 finance report. This is an increase of £7.5m for 2009/10. However, the surplus reported to the SHA is the retained surplus adjusted to remove the effect of impairments and any surplus or deficit generated by accounting for PFI schemes under International Financial Reporting Standards. As can be seen in the table shown below bottom left the adjusted surplus is £7.9m compared to £8m in 2009/10.
- It shows cash income plus expenditure on staff, supplies and services as well as non cash expenditure such as depreciation on assets. Movements in each of these items is shown in notes 3, 4 and 6.
- 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
- Further detail is shown on the notes associated with this statement, on pages 4 and 5 of this report.

Reported NHS financial performance position – adjusted retained surplus	2010-11 £000	2009-10 £000
Retained surplus	8,364	880
IFRIC 12 Adjustment	(719)	(1,332)
Impairments	319	7,487
Reported NHS financial performance	7,964	8,039

## Revenue from Patient Care Activities [Note 3 – page 24] Other Operating Income [Note 4 – page 24]

<b><u>Revenue from patient care</u></b>	<b>2010-11 £000</b>	<b>2009-10 £000</b>
Primary Care Trusts	<b>276,376</b>	261,032
Department of Health	<b>8</b>	26
NHS Other	<b>564</b>	1,341
Non NHS – Private patients	<b>727</b>	683
– Overseas visitors	<b>27</b>	20
- Injury cost recovery	<b>1,349</b>	935
- Other	<b>93</b>	40
<b>Total</b>	<b>279,144</b>	<b>264,077</b>

<b><u>Other operating income</u></b>	<b>2010-11 £000</b>	<b>2009-10 £000</b>
Education, research and training	<b>14,648</b>	14,343
Transfers from donated assets	<b>412</b>	354
Non patient care services	<b>8,469</b>	7,991
Revenue rental from operating leases	<b>117</b>	105
Income generation	<b>2,102</b>	2,282
Other revenue	<b>1,131</b>	638
<b>Total</b>	<b>26,879</b>	<b>25,753</b>

### Key movements in income

- Revenue from Primary care Trusts for the provision of patient care has increased by £15m (5.7%) from 2009/10 to 2010/11. This is due to primarily to increases in the commissioned level of activity and contract overperformance particularly in relation to Wolverhampton PCT (£6m), South Staffs (£5m) and Walsall (£3m).
- There was a reduction in NHS Other due to the Trust receiving income of £0.8m in 2009/10 direct from Yorkshire and Humberside SHA for the National Bowel Screening Scheme, where as in 2010/11 this was received through the PCT.
- Other operating income increased by £1.1m (4.3%). This includes increased income to support Education and Training providing services to other NHS bodies and private hospitals such as Pathology tests, and other diagnostic services and supplying drugs to PCTs.

## Operating Expenses [Note 6 – Page 25] Management Costs [Note 8.4 – Page 26]

<u>Operating Expenses</u>	2010-11 £000	2009-10 £000
Services from other NHS bodies	1,690	2,737
Purchase of healthcare from non NHS bodies	2,058	2,305
Trust chair and non execs	75	67
Staff Costs	184,212	172,302
Supplies & services clinical	57,058	51,448
Supplies & services general	6,303	5,419
Consultancy services	1,499	2,789
Establishment	2,699	3,279
Transport	1,704	1,568
Premises	10,147	9,487
Impairment of receivables	273	31
Depreciation	12,596	14,236
Amortisation	235	191
Impairments & reversals of PPE	319	7,487
Audit fees & other audit charges	182	185
Clionical negligence	3,535	3,323
Research & development	688	436
Education & training	918	803
Other	3,204	2,734
<b>Total</b>	<b>289,395</b>	<b>280,827</b>

<u>Management Costs</u>	2010-11 £000	2009-10 £000
Management costs, £000	11,566	11,490
Revenue, £000	306,023	289,830
Management costs as percentage of revenue.	3.8%	4%

### Key movements in expenditure

- An overall increase in expenses of £8.5 m (3%).
- Staff costs increase of £11.9m, with £4m attributable to pay award and the remainder due to increased staffing levels for approved business cases and service developments. Additionally an increase in nursing average salary, circa 6% due to incremental drift which particularly affects nursing following the skill mix review in 2007/08.
- Increase in clinical supplies and services of £5.6m. This is due to increased spend on consumables associated with additional activity approved business cases and service developments.
- Decrease in depreciation of £1.6m. This movement is for depreciation on buildings and is due to certain buildings within the Trust being impaired to zero.
- Reduction in impairment charge to I&E of £7.1m (see page 7 for details).

### Management Costs

- Trust management costs increased by £76k (0.7%).
- Percentage management cost decreased from 4% to 3.8%.

## Statement of Financial Position as at 31 March 2011 [page 10]

	31 March 2011 £000	31 March 2010 £000
<b><u>Non-current assets</u></b>		
Property, plant & equipment	243,180	224,620
Intangible assets	779	889
Trade & Other receivables	556	882
<b>Total non current assets</b>	<b>244,515</b>	<b>226,391</b>
<b><u>Current Assets</u></b>		
Inventories	4,744	4,576
Trade & other receivables	15,529	12,458
Cash & cash equivalents	11,786	9,583
Non current assets held for sale	800	800
<b>Total Current Assets</b>	<b>32,859</b>	<b>27,507</b>
<b><u>Current Liabilities</u></b>		
Trade & other payables	(29,935)	(24,348)
Borrowings	(2,076)	(2,095)
<b>Provisions</b>	<b>(1,726)</b>	<b>(1,544)</b>
<b>Net current assets/ (liabilities)</b>	<b>(878)</b>	<b>(480)</b>
<b>Assets less current liabilities</b>	<b>243,637</b>	<b>225,911</b>
<b><u>Non Current Liabilities</u></b>		
Provisions for liabilities	(497)	(558)
Borrowings	(7,389)	(7,339)
<b>Total Assets Employed</b>	<b>235,751</b>	<b>218,014</b>

cont.	31 March 2011 £000	31 March 2010 £000
<b><u>Financed by Taxpayers Equity</u></b>		
Public dividend capital	170,082	170,082
Retained earnings	(5,299)	(13,663)
Revaluation reserve	68,883	59,931
Donated asset reserve	1,895	2,014
Other reserve	190	190
<b>Total Taxpayers Equity</b>	<b>235,751</b>	<b>218,014</b>

- The Statement of Financial Position is the equivalent of the former 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 £17.7m. This is primarily because of:-
  - An increase in the value of the estate resulting in an increase in the revaluation reserve of £9.5m
  - An increase in retained earnings £8.4m through the surplus generated in year

# Property, Plant and Equipment(PPE) and Intangible Assets [Notes 14-16 Pages 30-32]

<u>Property, Plant &amp; Equipment</u>	PPE Assets, £000	Intangible Assets £000	Total, £000
Net Book Value 1/4/2010	224,620	889	<b>225,509</b>
Additions	21,696	120	<b>21,816</b>
Donations	229		<b>229</b>
Disposals/ reclassifications	(6)	5	<b>(1)</b>
Transfer to / from revaluation reserve			
- revaluation gains	11,140	0	<b>11,140</b>
- revaluation losses *	(1,584)	0	<b>(1,584)</b>
Impairments transferred to I&E	(319)	0	<b>(319)</b>
Depreciation/ amortisation	(12,596)	(235)	<b>(12,831)</b>
<b>Movement 2010/ 11</b>	<b>18,560</b>	<b>(110)</b>	<b>18,450</b>
Asset value 31/3/11	<b>243,180</b>	<b>779</b>	<b>243,959</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 15 & 16 – Pages 21-22] 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 £18.5m during the year. This is due to capital additions of £21.8m and a revaluation gain of £11.1m offset by net depreciation of £12.4m and impairments of £1.8m.

The revaluation gain relates to an increase in the value of buildings only, as advised by DTZ our Estate valuers. DTZ did not consider that the land value had increased in year.

\* The womens unit accounted for £981k of this total.

## 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 increased 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 2010/11 the impairment charged to the income and expenditure account was £319k.

## Trade & Other Receivables [Note 19 – Page 33] Stock and Work in Progress [Note 18 – page 33]

<b><u>Trade &amp; Other Receivables</u></b>	<b>31 March 2011, £000</b>	<b>31 March 2010, £000</b>
<b><u>Current</u></b>		
NHS Receivables - revenues	<b>12,216</b>	8,106
Non NHS Receivables - revenue	<b>693</b>	1,054
Provision for impairment of debtors	<b>(287)</b>	(637)
Prepayments & Accrued Income	<b>954</b>	2,160
VAT	<b>560</b>	445
Other Receivables	<b>1,393</b>	1,420
<b>Sub Total Current</b>	<b>15,529</b>	<b>12,548</b>
<b><u>Non Current</u></b>		
Provision for impairment of debtors	<b>(583)</b>	(64)
Prepayments and accrued income	<b>0</b>	126
Other receivables	<b>1,139</b>	820
<b>Sub total:non current</b>	<b>556</b>	<b>882</b>
<b>Total trade and other</b>	<b>16,085</b>	<b>13,430</b>

### 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 £2.6m (19.8%).
- There has been a significant increase of £4m in NHS receivables. This is due to the high levels of overperformance against patient activity contracts, in the main for Wolverhampton and South Staffs PCTs. This was primarily caused by HCS workload difficulties providing significant delays in agreeing patient activity. Agreement has been reached for these two PCTs at year end and settlement made in late May early June.
- The significant decrease in Prepayments relates to the reallocation of the PFI deferred asset (£1.4m) to Non Current Assets.

<b><u>Stock &amp; Work in progress</u></b>	<b>31 March 2011, £000</b>	<b>31 March 2010, £000</b>
Drugs	<b>1,621</b>	1,563
Consumables	<b>2,917</b>	2,827
Energy	<b>103</b>	84
Other	<b>103</b>	102
<b>Total</b>	<b>4,744</b>	<b>4,576</b>



## Trade & Other Payables [Note 22 – Page 35]

<b><u>Trade &amp; Other Payables</u></b>	<b>31 March 2011 £000</b>	<b>31 March 2010 £000</b>
<b><u>Current</u></b>		
NHS Payables	<b>3,652</b>	2,082
Non NHS trade payables - revenue	<b>5,728</b>	4,898
Non NHS trade payables - capital	<b>3,575</b>	3,167
Accruals and deferred income	<b>11,418</b>	10,190
Social security costs	<b>1,772</b>	1,711
VAT	<b>81</b>	60
Tax	<b>1,369</b>	1
Other	<b>2,340</b>	2,239
<b>Total Current</b>	<b>29,935</b>	<b>24,348</b>

### 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 to show tax and social security payments still to be made.
- There were no Non Current Payables.
- Current payables increased by £5.6m (22.9%) during the financial year.
- Increases included:-
  - £1.6m increase in the balance owed to Birmingham East and North PCT in respect of underperformance on Specialised Services Patient Activity Contracts
  - £1.4m for March Tax and NI due for settlement by mid April
  - £1.5m of deferred income (income received in year but applicable to a scheme taking place in 2011/ 12) for the Safe Hands project which is now underway

## Borrowings [Note 23 – Page 35] Provisions for Liabilities & Charges [Note 28 – Page 38]

<b><u>Borrowings</u></b>	Current		Non Current	
	<b>31 March 2011 £000</b>	31 March 2010 £000	<b>31 March 2011 £000</b>	31 March 2010 £000
	PFI liability	<b>1,948</b>	1,798	<b>7,182</b>
Finance lease liabilities	<b>128</b>	297	<b>207</b>	335
<b>Total</b>	<b>2,076</b>	<b>2,095</b>	<b>7,389</b>	<b>7,339</b>

<b><u>Provisions for Liabilities &amp; Charges</u></b>	Legal Claims, £000	Other, £000	Total, £000
As at 1 April 2010	941	1,161	2,102
Arising during year	337	500	837
Utilised during year	(321)	(46)	(367)
Reversed unused	(49)	(317)	(366)
Unwinding of discount	17	0	17
<b>As at 31 March 2011</b>	<b>925</b>	<b>1,298</b>	<b>2,223</b>

- The Trust borrowings include the PFI liability for the radiology scheme which will be fully settled by 31/03/32, and 5 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

The Trust Provisions include personal injury benefits, employee claims and annual leave.

- 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. However, the claims recognised in the books of the NHSLA on behalf of the Trust are disclosed in a footnote to the provisions table. As at 31 March 2011 £37.1m was provided by NHSLA .

## Statement of Cash Flows [Page 12]

	2010-11 £000	2009-10 £000
<b>Cash flow from operating activities</b>		
Operating surplus	16,628	9,003
Depreciation and Amortisation	12,831	14,427
Impairments and reversals	319	7,487
Transfer from donated asset reserve	(412)	(354)
Interest paid	(911)	(1,059)
Dividends paid	(7,407)	(7,108)
(Increase)/ Decrease in inventories	(168)	(631)
(Increase)/ Decrease in trade and other receivables	(2,655)	(1,897)
Increase/ (Decrease) in trade and other payables	5,211	2,228
Increase/ (Decrease) in provisions	104	(1,293)
<b>Net Cash Inflow/ (Outflow) from operating activities</b>	<b>23,540</b>	<b>20,803</b>
<b>Cash flows from investing activities</b>		
Interest received	67	64
(Payments) for property, plant and equipment	(19,570)	(21,810)
Proceeds from sale of property, plant and equipment	4	2
(Payments) for intangible assets	(120)	(487)
<b>Net cash (outflow) from investing activities</b>	<b>(19,619)</b>	<b>(22,231)</b>
<b>Cash flows from financing activities</b>		
Loans repaid to DH	0	(4,400)
Other Capital Receipts	229	0
Capital element of finance leases and PFI	(1,947)	(1,945)
<b>Net cash (outflow) from financing</b>	<b>(1,718)</b>	<b>(6,345)</b>
<b>Net increase/ (decrease) in cash &amp; cash equivalents</b>	<b>2,203</b>	<b>(7,773)</b>

Cont.	2010-11 £000	2009-10 £000
Net increase/ (decrease) in cash equivalents	2,203	(7,773)
Cash at beginning of financial year	9,583	17,356
<b>Cash at end of financial year</b>	<b>11,786</b>	<b>9,583</b>

- 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.
- Significant movement in working balances are explained previously in this report.
- The cash balance, at £11,786k, was in line with estimates agreed with the SHA linked to the External Finance Limit (EFL).