



Financial summary of year ended 31 March 2017 based upon 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 with 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 2016/17 Department of Health Group Accounting Manual (GAM). The GAM 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, namely:
 - Statement of Comprehensive Income (ie, I & E)
 - Statement of Financial Position (ie, Balance Sheet)
 - 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 Annual Accounts of the Trust for the year to 31 March 2017 are provided as a separate agenda item.
- 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 page numbers and references within the Accounts.

2. Recommendations

The Committee is asked to note the contents of 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	TDA Plan position	Actual position	Achieved
<u>Income and Expenditure Break Even</u> The Trust is required to break even on a cumulative basis.	£7,082k	£8,542k TDA adjusted surplus	Achieved.
<u>Capital Resource Limit (CRL)</u> The Trust is given a capital resource limit and is required to keep its capital spend within this limit, so it can underspend against CRL but not overspend.	£22,263k	£21,817k	Achieved as 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.	£4,638k	£4,626k	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 31-41]

- A series of notes within the Accounts set out the Accounting Policies which have been followed when completing the Accounts. These policies are largely dictated by UK IFRS and the Department of Health’s GAM. NHS Trusts cannot amend these Policies. Areas may be omitted where they are superfluous, additionally wording can be expanded to reflect local issues, which is subsequently agreed with the external auditors prior to submission of the Accounts to the DH. However, amendments are not permitted where this has the effect of changing Accounting Policies.

Statement of Comprehensive Income, (SoCI), for the Year Ended 31 March 2017 [page 26]

	2016/17 £000	2015/16 £000
Revenue from patient care activities [Note 4]	442,957	428,983
Other Operating Income [Note 5]	93,071	80,422
Operating Expenses [Note 7]	(538,251)	(498,394)
Operating Surplus	(2,223)	11,011
Other gains and (losses)	44	41
Surplus/ (Deficit) before interest	(2,179)	11,052
Investment revenue	39	99
Finance costs	(1,615)	(1,667)
Surplus/ (Deficit) for financial year	(3,755)	9,484
Public dividend capital dividends paid	(9,467)	(12,298)
Retained surplus/(deficit)	(13,222)	(2,814)

Reported NHS financial performance position – adjusted retained surplus	2016/17 £000	2015/16 £000
Retained surplus	13,222	(2,814)
IFRIC 12 Adjustment	0	0
Impairments	22,547	3,101
Adjustments in respect of Donated Asset/Government Grant Reserve Elimination	(783)	(134)
Reported NHS financial performance	8,542	153

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 Income and Expenditure/Profit and Loss Account in the private sector.
- The Statement shows a Retained Deficit of £13.2m. Included within the 2016/17 figure is £22.5m, representing an in year impairment due to the revaluation of land and buildings under an MEA alternative site method. This figure is removed along with the impact of donated assets to arrive at an adjusted control total of £8,542k surplus. The Trust's financial performance is measured by the NHSI at this adjusted surplus level.
- As per Accounting Guidance, the prior period comparatives for the financial performance are taken from prior year accounts and have not been amended.
- 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: £44k for 2016/17, being cash received upon disposal of assets, over and above the net book valuation of the assets as per the Trust Asset Register
 - Investment revenue: Interest earned on short term cash deposits.
 - Finance costs are incurred on finance leases and Private Finance Initiatives, (PFI)
 - The Dividend paid to the Department of Health. This is 3.5% of average net relevant assets. Compared to 15/16 the figure has significantly reduced due to the impact of the MEA alternative site revaluation.

Revenue from Patient Care Activities [Note 4 – page 42] Other Operating Income [Note 5 – page 43]

Revenue from patient care	2016/17 £000	2015/16 £000
NHS Trusts	2,313	3,689
NHS England	99,864	91,620
Clinical Commissioning Groups	325,300	316,256
NHS Foundation Trusts	567	912
Department of Health	0	0
NHS Other (including Public Health England and Prop Co)	12	2,117
Additional Income for delivery of healthcare	0	2,500
Non NHS – Local Authorities	9,970	9,435
Non NHS – Private patients	1,123	768
– Overseas visitors	90	70
- Injury cost recovery	1,254	1,010
- Other	2,464	606
Total	442,957	428,983
Other operating income	2016/17 £000	2015/16 £000
Education, research and training	47,444	47,403
Receipt of donations/ grants for capital acquisitions	984	336
Support from DH For mergers	7,000	11,000
Non patient care services to other bodies	10,528	10,546
Sustainability & Transformation Funding Income	11,628	0
Income generation	4,974	4,314
Revenue rental from operating leases	379	383
Other revenue	10,134	6,440
Total	93,071	80,422

Overview of Income

- The first statement shows the income from providing patient care services, these are the contracts with the Clinical Commissioning Groups, NHS England and Local Authorities and other commissioners. The second table details any other operating income the Trust has received.
- Total income of £536m has increased by circa £26.7m,(5%). £11.6m of this increase is due to the Trust receiving Sustainability and Transformation funding (STF). 2016/17 is the first year of STF funding. STF funding has been allocated to the Trust following approval from NHSi, NHS England, DH and HM treasury for delivery of quarterly milestones for agreed I&E control totals, access standards and performance targets.
- The tariff increase of 1.1% for 16/17 provided a c. £5m increase in income year on year. The remainder of the increase in revenue from patient care is due to full year affect of repatriated services in relation to the Cannock Hospital acquisition and general increases in activity.
- In 2016/17 the Trust continued to receive support from the Department of Health for the MSFT transfer, to the value of £7m.
- The Finance and Performance Committee Month 12 Finance Report provided detail of Income.

Operating Expenses [Note 7 – Page 43]

<u>Operating Expenses</u>	2016/17 £000	2015/16 £000
Services from other NHS bodies	3,835	3,814
Purchase of healthcare from non NHS bodies	1,227	1,623
Trust chair and non execs	92	95
Staff Costs	317, 441	301,356
Supplies & services clinical	105,082	101,052
Supplies & services general	10,170	9,725
Consultancy services	1,254	424
Establishment	7,228	6,336
Transport	403	632
Premises	20,040	20,126
Impairment of receivables	402	343
Inventories write down	10	0
Depreciation	14,536	15,690
Amortisation	319	223
Impairments & reversals of PPE	22,547	3,101
Audit fees & other audit charges	171	171
Clinical negligence	7,292	6,290
Research & development	22,577	23,799
Education & training	1,487	1,461
Other	2,138	2,133
Total	538,251	498,394

Overview of Expenditure

- The statement details the operating expenses of the Trust by expenditure category.
- Overall operating expenses for the Trust increased by circa £40m,(8%). The main reasons for this is the increased costs associated with:-
 - Staff costs have increased by circa £16m (5%). Average staff numbers for have increased by 191 wte (3%). The pay award included was based on the 1% pay settlement.
 - Impairments have increased by £19.5m due to the 2016/17 impairment of £22.5m. This represents an in year impairment due to the revaluation of land and buildings under an MEA alternative site method.
- The remainder of the expenditure increase of £4.5m was almost entirely on Supplies and Services – Clinical, which includes drugs spend.
- The Finance & Performance Committee Month 12 Finance Report provided details on expenditure by Division.

Statement of Financial Position as at 31 March 2017 [page 27]

	31 March 2017 £000	31 March 2016 £000
<u>Non-current assets</u>		
Property, plant & equipment	306,710	395,710
Intangible assets	979	813
Trade & Other receivables	624	826
Non current assets held for sale	800	800
Total non current assets	309,113	398,149
<u>Current Assets</u>		
Inventories	6,337	6,981
Trade & other receivables	33,157	22,524
Cash & cash equivalents	14,180	16,927
Total Current Assets	53,674	46,432
<u>Current Liabilities</u>		
Trade & other payables	(52,211)	(51,457)
Provisions	(5,463)	(3,254)
Borrowings	(2,123)	(1,912)
Total Current Liabilities	(59,797)	(56,623)
Assets less current liabilities	302,990	387,958
<u>Non Current Liabilities</u>		
Provisions for liabilities	(594)	(631)
Borrowings	(6,037)	(5,343)
Total Assets Employed	296,359	381,984

cont.	31 March 2017 £000	31 March 2016 £000
<u>Financed by Taxpayers Equity</u>		
Public dividend capital	231,398	229,568
Retained earnings	14,314	26,906
Revaluation reserve	50,457	125,320
Other reserve	190	190
Total Taxpayers Equity	296,359	381,984

- 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 within the full Annual Accounts with summary detail included in this report at pages 7 to 10.
- The financing under Taxpayers Equity has decreased by £85.6m. The decrease is explained by the inclusion of the in year deficit of £13.2m, new PDC of £1.8m and a revaluation reserve decrease of £74.2m relating to the MEA alternative site valuation.
- 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.

Property, Plant and Equipment(PPE) and Intangible Assets [Notes 15 – 16 pages 47-51]

Property, Plant & Equipment, (PPE)	PPE Assets, £000	Intangible Assets £000	Total £000
Net Book Value (NBV) 1/4/2016	395,710	813	396,523
Transfers from other organisations MSFT and NHSPS)	0	0	0
Additions	21,825	1	21,826
Donations	984	0	984
Disposals/ reclassifications	(492)	484	(8)
Revaluation Movement	(74,234)	0	(74,234)
Impairments Charged to SOCI	(22,547)	0	(22,547)
Depreciation/ amortisation	(14,536)	(319)	(14,855)
Movement 2016/17	(89,000)	166	(88,834)
Asset value 31/3/17	306,710	979	307,698

Overview

- Property, Plant and Equipment, (PPE), assets include:- Land; Buildings; Dwellings; Assets under Construction; Plant and Machinery; Transport; Equipment; IT; and Furniture and Fittings.
- Intangible assets include:- software licences.
- Two separate tables [Notes 15.1 & 16.1] 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.
- A full revaluation of Land and Buildings was undertaken at 1st April 2016 and again at 31st March 2017 by GVA Grimley Limited. Overall, this resulted in a decrease in PPE valuation of (£96.78m), impacting the Revaluation Reserve (£74.23m) and I&E Impairment (£22.55m). The in year valuations were calculated using an MEA alternative Site valuation method.
- In summary the value of fixed assets has decreased by £89m due to :-
 - Capital Additions £23m
 - MEA Alternative Site Valuation (£97m)
 - In Year Depreciation (£15m)

Impairments

- Assets held on the balance sheet are revalued regularly in line with Accounting Policy. 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 held for that asset. If the balance in the Reserve is not sufficient to cover the full loss the balance is charged to the SoCI.

Trade & Other Receivables [Note 20 – page 53]

Inventories [Note 19 – page 53]

	31 March 2017, £000	31 March 2016, £000
<u>Current</u>		
NHS Receivables – revenue	20,976	13,633
Non NHS Receivables – revenue	3,449	3,409
Provision for impairment of debtors	(836)	(776)
Prepayments & Accrued Income	7,760	4,137
VAT	1,240	1,541
Other Receivables	714	580
Sub Total Current	33,303	22,524
<u>Non Current</u>		
Provision for impairment of debtors	(788)	(562)
Current part of PFI and other PPP prepayments and accrued income	105	0
Other receivables	1,307	1,388
Sub total:non current	624	826
Total trade and other	33,927	23,350

<u>Inventories</u>	31 March 2017, £000	31 March 2016, £000
Drugs	2,051	2,358
Clinical Consumables	4,034	4,416
Energy	129	99
Other	123	108
Total	6,337	6,981

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), and between NHS and non NHS.
- Total Receivables has increased by circa £10.6m (45%), year on year.
- Within Current Prepayments and Accrued Income in 2016/17, £3.7m relates to PDC dividend prepaid to DH
- The Non Current Assets opening balance included the deferred balance of £1m in relation to MRI equipment within the PFI scheme where the equipment was previously not installed.

Overview of Inventories

- The value of Inventories, (ie, stock), held by the Trust has decreased in total by £0.7m, 9%, being drugs and clinical increases, noted in the Month 12 Finance & Performance Committee report detail.

Trade & Other Payables [Note 23 – page 55]

Trade & Other Payables	31 March 17, £000	31 March 16, £000
<u>Current</u>		
NHS Payables	7,948	9,477
NHS accruals and deferred income	1,440	0
Non NHS trade payables - revenue	10,031	11,739
Non NHS trade payables - capital	7,476	4,750
Accruals and deferred income	20,893	20,960
Social security costs	3	25
VAT	32	151
Tax	0	21
Other	4,534	4,334
Total Current	52,357	51,457

Overview of Payables

- Trade & Other Payables represent the money owed by the Trust but as yet unpaid. 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 have increased by £0.9m from 2015/16, in various areas, main items noted below.
- There has been a decrease in NHS payables of £1.5m. As a result of NHS Supply Chain being reclassified as non NHS in line with the Agreement of Balances exercise. This decrease has been offset by the NHS Accrual of £1.4m to reflect the Trust's understanding of outstanding invoices.
- Capital payables have increased by £2.7m as a result of the majority of the capital programme expenditure happening in the latter stages of 2016/17

Borrowings [Note 24 – page 55] Provisions for Liabilities & Charges [Note 27 – page 56]

<u>Borrowings</u>	Current		Non Current	
	31 March 2017, £000	31 March 2016, £000	31 March 2017, £000	31 March 2016, £000
Loans From Department of Health	0	0	0	0
PFI liability	1,920	1,897	4,289	5,328
Finance lease liabilities	203	15	1,748	15
Total	2,123	1,912	6,037	5,343

<u>Provisions for Liabilities & Charges</u>	Legal Claims, £000	Other, £000	Total, £000
As at 1 April 2016	965	2,920	3,885
Arising during year	285	4,459	4,744
Utilised during year	(261)	(1,862)	(2,123)
Reversed unused	(135)	(316)	(451)
Transfer from other bodies	0	0	0
Unwinding of discount	2	0	2
As at 31 March 2017	856	5,201	6,057

Overview of Borrowings and Liabilities & Charges

- The Trust Borrowings include the PFI liability for the radiology scheme which will be discharged by 31/03/32 and finance leases. Finance leases in year have increased due to the purchase of a linear accelerator.
- 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; and
 - a reliable estimate can be made of the amount of the obligation.
- The “Other” Provisions includes provisions for:- the potential non recovery of patient related NHS income circa £4.5m; HR issues £0.5m; Contract agreement £0.1m and provision for Frozen Holiday Pay £0.1m.
- 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 2017 £136m was provided for by the NHS Litigation Authority (NHSLA).

Statement of Cash Flows

[page 30]

	2016/17 £000	2015/16 £000
Cash flow from operating activities		
Operating surplus	(2,223)	11,011
Depreciation and Amortisation	14,855	15,913
Impairments and reversals	3,101	3,101
Release of PFI/ Deferred Credit	22,547	(785)
(Increase)/ Decrease in inventories	640	(690)
(Increase)/ Decrease in trade and other receivables	(7,085)	(442)
Increase/ (Decrease) in trade and other payables	(1,972)	2,851
Increase / (Decrease) in Other Current Liabilities	0	0
Provisions utilised	(2,123)	(2,227)
Increase/ (Decrease) in provisions	4,293	(366)
Net Cash Inflow/ (Outflow) from operating activities	28,812	28,366
Cash flows from investing activities		
Interest received	39	99
(Payments) for property, plant and equipment	(17,167)	(41,049)
Proceeds from sale of property, plant and equipment	52	67
(Payments) for intangible assets	(1)	91
Net cash (outflow) from investing activities	(17,077)	(40,883)
Cash flows from financing activities		
Public Dividend Capital Received less Repaid	1,830	4,316
Interest paid	(1,613)	(1,657)
Capital element of finance leases and PFI	(1,887)	(1,887)
Dividends paid	(12,812)	(12,926)
Net cash (outflow) from financing	(14,482)	(12,154)
Net increase/ (decrease) in cash & cash equivalents	(2,747)	(24,671)

Continued	2016/17 £000	2015/16 £000
Net increase/ (decrease) in cash equivalents	(2,747)	(24,671)
Cash at beginning of financial year	16,927	41,598
Cash at end of financial year	14,180	16,927

Overview of Cash Flow Statement

- The Statement demonstrates how the cash generated by the Trust's surplus has been used either by changes to working capital or investment in the estate.
- The Finance and Performance Committee Month 12 Finance Report included details on the Cash Flow.