

University Hospitals of North Midlands NHS Trust

Annual Accounts for the period

1 April 2016 to 31 March 2017

**Statement of Comprehensive Income for year ended
31 March 2017**

	NOTE	2016-17 £000s	2015-16 £000s
Gross employee benefits	9.1	(458,461)	(432,898)
Other operating costs	7	(311,667)	(288,093)
Revenue from patient care activities	4	602,589	551,904
Other operating revenue	5	136,690	151,013
Operating surplus/(deficit)		<u>(30,849)</u>	<u>(18,074)</u>
Investment revenue	11	50	159
Other gains and (losses)	12	7	(1)
Finance costs	13	(15,518)	(14,888)
Surplus/(deficit) for the financial year		<u>(46,310)</u>	<u>(32,804)</u>
Public dividend capital dividends payable		(3,925)	(4,944)
Retained surplus/(deficit) for the year		<u>(50,235)</u>	<u>(37,748)</u>

Other Comprehensive Income*

Impairments and reversals taken to the revaluation reserve	(98,967)	(15,295)
Net gain/(loss) on revaluation of property, plant & equipment	33,635	52,865
Total comprehensive income for the year	<u>(115,567)</u>	<u>(178)</u>

Financial performance for the year

Retained surplus/(deficit) for the year	(50,235)	(37,748)
IFRIC 12 adjustment (including IFRIC 12 impairments)	9,728	0
Impairments (excluding IFRIC 12 impairments)	12,446	11,281
Adjustments in respect of donated gov't grant asset reserve elimination	288	(469)
Adjusted retained surplus/(deficit)	<u>(27,773)</u>	<u>(26,936)</u>

*Other Comprehensive Income shows other non-cash net gains/(losses) that are not included as either operating revenue or expenditure, and as such does not impact on the financial outturn of the Trust.

The notes on pages 5 to 40 form part of this account.

**Statement of Financial Position as at
31 March 2017**

		31 March 2017	31 March 2016
	NOTE	£000s	£000s
Non-current assets:			
Property, plant and equipment	15	485,018	554,326
Intangible assets	16	20,143	14,755
Other financial assets		0	0
Trade and other receivables	20.1	3,032	2,991
Total non-current assets		508,193	572,072
Current assets:			
Inventories	19	13,298	12,368
Trade and other receivables	20.1	37,817	59,272
Other current assets	21	247	248
Cash and cash equivalents	22	13,566	10,043
Total current assets		64,928	81,931
Total assets		573,121	654,003
Current liabilities			
Trade and other payables	23	(78,454)	(88,373)
Provisions	28	(5,713)	(9,023)
Borrowings	24	(9,500)	(9,498)
DH revenue support loan	24	(12,450)	0
Total current liabilities		(106,117)	(106,894)
Net current assets/(liabilities)		(41,189)	(24,963)
Total assets less current liabilities		467,004	547,109
Non-current liabilities			
Provisions	28	(983)	(1,283)
Borrowings	24	(303,670)	(311,470)
DH revenue support loan	24	(29,362)	(12,450)
Total non-current liabilities		(334,015)	(325,203)
Total assets employed:		132,989	221,906
FINANCED BY:			
Public Dividend Capital		389,225	362,575
Retained earnings		(332,878)	(284,348)
Revaluation reserve		76,642	143,679
Total Taxpayers' Equity:		132,989	221,906

The notes on pages 5 to 40 form part of this account.

The financial statements on pages 1 to 40 were approved by the Board on 26 May 2017 and signed

Chief Executive: 

Date: 31/5/17

Statement of Changes in Taxpayers' Equity
For the year ending 31 March 2017

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Other reserves £000s	Total reserves £000s
Balance at 1 April 2016	362,575	(284,348)	143,679	0	221,906
Changes in taxpayers' equity for 2016-17					
Retained surplus/(deficit) for the year		(50,235)			(50,235)
Net gain / (loss) on revaluation of property, plant, equipment			33,635		33,635
Impairments and reversals			(98,967)		(98,967)
Transfers between reserves		1,705	(1,705)	0	0
Reclassification Adjustments					
Temporary and permanent PDC received - cash*	26,650				26,650
Net recognised revenue/(expense) for the year	26,650	(48,530)	(67,037)	0	(88,917)
Balance at 31 March 2017	389,225	(332,878)	76,642	0	132,989
Balance at 1 April 2015	328,683	(245,636)	105,140	0	188,187
Changes in taxpayers' equity for the year ended 31 March 2016					
Retained surplus/(deficit) for the year		(37,748)			(37,748)
Net gain / (loss) on revaluation of property, plant, equipment			52,865		52,865
Impairments and reversals			(15,295)		(15,295)
Transfers between reserves		(969)	969	0	0
Reclassification Adjustments					
New PDC received - cash*	33,892				33,892
Other movements	0	5	0	0	5
Net recognised revenue/(expense) for the year	33,892	(38,712)	38,539	0	33,719
Balance at 31 March 2016	362,575	(284,348)	143,679	0	221,906

*The increase in Public Dividend Capital of £26.65m (£33.892m) relates to Integrating Hospital Services in Staffordshire (IHSS) funding received as a result of the integration of Mid Staffordshire Foundation Trust on 1 November 2014.

Reconciliation of movement on retained earnings to adjusted deficit

Net recognised revenue/(expense) for the year	(48,530)
Impairments excluded from financial performance	(22,174)
Adjustments in respect of donated gov't grant asset reserve elimination	(288)
Transfer from revaluation reserve in respect of excess depreciation	1,705
Adjusted financial performance (deficit)	(27,773)
Total	(48,530)

Information on reserves

1 Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities. Additional PDC may also be issued to NHS trusts by the Department of Health. A charge, reflecting the cost of capital utilised by the NHS trust, is payable to the Department of Health as the public dividend capital dividend.

2 Income and expenditure reserve

The balance of this reserve is the accumulated surpluses and deficits of the NHS trust.

3 Revaluation Reserve

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse impairments previously recognised in operating expenses, in which case they are recognised in operating income. Subsequent downward movements in asset valuations are charged to the revaluation reserve to the extent that a previous gain was recognised unless the downward movement represents a clear consumption of economic benefit or a reduction in service potential.

Statement of Cash Flows for the Year ended 31 March 2017

	NOTE	2016-17 £000s	2015-16 £000s
Cash Flows from Operating Activities			
Operating surplus/(deficit)		(30,849)	(18,074)
Depreciation and amortisation	7	27,251	25,660
Impairments and reversals	17	22,174	11,281
Donated Assets received credited to revenue but non-cash	5	(421)	(1,108)
Government Granted Assets received credited to revenue but non-cash		0	(82)
(Increase)/Decrease in Inventories		(930)	(1,528)
(Increase)/Decrease in Trade and Other Receivables		22,855	2,950
(Increase)/Decrease in Other Current Assets		1	55
Increase/(Decrease) in Trade and Other Payables		(14,846)	22,201
(Increase)/Decrease in Other Current Liabilities		0	0
Provisions utilised		(561)	(1,377)
Increase/(Decrease) in movement in non cash provisions		(3,049)	(1,334)
Net Cash Inflow/(Outflow) from Operating Activities		21,625	38,644
Cash Flows from Investing Activities			
Interest Received		50	159
(Payments) for Property, Plant and Equipment		(38,504)	(50,162)
(Payments) for Intangible Assets		(4,608)	(7,072)
Proceeds of disposal of assets held for sale (PPE)		0	105
Net Cash Inflow/(Outflow) from Investing Activities		(43,062)	(56,970)
Net Cash Inform / (outflow) before Financing		(21,437)	(18,326)
Cash Flows from Financing Activities			
Gross Temporary and Permanent PDC Received		26,650	33,892
Loans received from DH - New Revenue Support Loans		32,499	12,450
Other Loans Received		175	850
Loans repaid to DH - Working Capital Loans/Revenue Support Loans		(3,137)	0
Other Loans Repaid		(129)	0
Capital Element of Payments in Respect of Finance Leases and On-SoFP PFI and LIFT		(9,759)	(9,335)
Interest paid		(15,518)	(14,878)
PDC Dividend (paid)/refunded		(5,828)	(4,368)
Capital grants and other capital receipts (excluding donated / government granted cash receipts)		7	0
Net Cash Inflow/(Outflow) from Financing Activities		24,960	18,611
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,523	285
Cash and Cash Equivalents (and Bank Overdraft) at Beginning of the Period		10,043	9,758
Cash and Cash Equivalents (and Bank Overdraft) at year end	22	13,566	10,043

NOTES TO THE ACCOUNTS

1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the Department of Health Group Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the DH Group Manual for Accounts 2016-17 issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the trust are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, intangible assets, inventories and certain financial assets and financial liabilities.

Going Concern

International Accounting Standard 1 requires the Board to assess, as part of the accounts preparation process, the Trust's ability to continue as a going concern. Paragraphs 4.89 and 4.90 of the Government Accounting Manual identify that the continuation of the service is sufficient evidence of going concern. The financial statements should be prepared on a going concern basis unless there are plans for, or no realistic alternative other than, the dissolution of the Trust without the transfer of its services to another entity within the public sector. In preparing the financial statements the Board of Directors has considered the Trust's overall financial position against the requirements of IAS1.

The Trust reported a surplus of £3.782m in 2014/15 only after the receipt of £17m of non-recurrent funding. In 2015/16 the Trust reported a deficit of £26.936m and in 2016/17 the Trust has reported a deficit of £27.773m. As at 31 March 2017, the Trust has received cash support for its revenue position of £41.812m over the preceding two years. The Trust's financial plan for 2017/18 and 2018/19 forecasts the delivery of further deficits of £119.078m and £99.801m respectively, necessitating further revenue cash borrowing using the Department of Health's Uncommitted Interim Revenue Support Facility. The planned cash support in 2017/18 has been approved by the Trust Board as part of the overall financial plan for the year. In order for the Trust to access this facility, the Department of Health must approve the Trust's daily cash flow forecast for 13 weeks from the date of each drawdown.

The Directors are seeking additional support from NHS Improvement in 2017/18 of £116.075m. The Financial Plan has been accepted by NHS Improvement for 2017/18 and this plan includes the requirement for £116.075m cash support. NHS Improvement has not, at this point, confirmed this support for the full amount, however in the first 2 months of 2017/18 the Trust has received cash support from NHS Improvement in line with the Financial Plan.

The Trust anticipates that it may take some time before it can achieve financial balance on a sustainable basis. The Board of Directors has carefully considered the principle of "going concern" and the Directors have concluded that there are material uncertainties related to the financial sustainability (profitability and liquidity) of the Trust which may cast significant doubt about the ability of the Trust to continue as a going concern.

Nevertheless, the Directors have concluded that assessing the Trust as a going concern remains appropriate. The Trust has agreed contracts with local commissioners for 2017/18 and services are being commissioned in the same manner in the future as in prior years and there are no discontinued operations. Similarly no decision has been made to transfer services or significantly amend the structure of the organisation at this time. The Board of Directors also has a reasonable expectation that the Trust will have access to adequate resources in the form of support from the Department of Health (NHS Act 2006 s42a) to continue to deliver the full range of mandatory services for the foreseeable future.

Subject to the receipt of the revenue funding within the 2017/18 and 2018/19 financial plan, the Directors consider that this provides sufficient evidence that the Trust will continue as a going concern for the foreseeable future. On this basis, the Trust has adopted the going concern basis for preparing the accounts and has not included the adjustments that would result if it were unable to continue as a going concern. The assessment accords with the statutory guidance contained within the Government Accounting Manual.

1.2 Acquisitions and discontinued operations

Activities are considered to be 'acquired' only if they are taken on from outside the public sector. Activities are considered to be 'discontinued' only if they cease entirely. They are not considered to be 'discontinued' if they transfer from one public sector body to another.

1.3 Movement of assets within the DH Group

"Transfers as part of reorganisation fall to be accounted for by use of absorption accounting in line with the Treasury FReM. The FReM does not require retrospective adoption, so prior year transactions (which have been accounted for under merger accounting) have not been restated. Absorption accounting requires that entities account for their transactions in the period in which they took place, with no restatement of performance required when functions transfer within the public sector. Where assets and liabilities transfer, the gain or loss resulting is recognised in the SOCI, and is disclosed separately from operating costs.

Other transfers of assets and liabilities within the Group are accounted for in line with IAS 20 and similarly give rise to income and expenditure entries."

NOTES TO THE ACCOUNTS

1.4 Charitable Funds

The divergence from the Government Financial Reporting Manual (FReM) that NHS Charitable Funds are not consolidated with NHS Trust's own financial statements has been removed for 2016-17. Under the provisions of IFRS 10 Consolidated Financial Statements, those Charitable Funds that fall under common control with NHS bodies should be consolidated within the entity's financial statements. The Trust has a Charitable Fund, the 'UHNH Charity' that falls under the definition of common control. Common control is defined within IFRS 10 as "the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities". Control is presumed to exist where a parent owns directly or indirectly more than half of the voting power of an entity, including where a body acts as a corporate trustee. The Trustees of the Charitable Fund are all members of the Trust Board. The purpose of an NHS Charity is to assist NHS patients, and HM Treasury view this as the "benefit" link as per the IFRS 10 guidance. The Trust has reviewed the financial statements of the 'UHNH Charity' and it is deemed that the income, expenditure, assets and liabilities of the Charitable Fund are not material. IAS 1 Presentation of Financial Statements states that specific disclosure requirements set out in individual standards or interpretations need not be satisfied if the information is not material. The consolidation of the Charitable Fund would not have a material impact on the financial statements of the Trust and has therefore not been consolidated into the Trust's financial statements.

1.5 Critical accounting judgements and key sources of estimation uncertainty

In the application of the NHS trust's accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates and the estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

1.5.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below) that management has made in the process of applying the NHS trust's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. The Trust's management have made the following judgements in applying accounting policies:

Income recognition

It is the Trust's accounting policy to recognise income when performance occurs. In some instances the income that the Trust receives is not readily attributable to performance or the achievement of certain targets cannot readily be ascertained. The key judgements in relation to income recognition are detailed below at 1.5.2.

Estate Valuation

The Trust's management have elected to have a desk top valuation of the Trust's land and buildings as at 31 March 2017. This option was elected as providing the best assurance that the values are not materially misstated. If the Trust's management had not revalued the estate, at 31 March 2017 the value of Land, Buildings and Dwellings would have been £505,722,000.

The Trust obtains valuations for its land, buildings and dwellings from a qualified independent valuer. These valuations are performed at a point in time and take into account conditions and circumstances relevant to that date. In future years, conditions may change resulting in uplifts or impairments being required to the value of land, buildings and dwellings. The valuation has been completed based on the depreciated replacement cost and the remaining useful economic life of the assets.

PFI Assets

The Trust's PFI scheme is deemed under International Financial Reporting Standards to be classed as on Statement of Financial Position on the basis that the asset is under the control of the Trust and all risks and rewards sit with the Trust. This is deemed to be a critical judgement that impacts on the financial statements.

The Trust's PFI assets have been valued using the modern equivalent asset method at depreciated replacement cost excluding VAT. By excluding VAT the Trust is accurately reflecting the depreciated replacement cost as a replacement asset would also be funded by PFI and, by the nature of the contract, have VAT recovered. As this valuation is a similar methodology as in previous years, albeit with different assumptions regarding VAT a prior year adjustment has not been included.

Operating leases/finance leases

The Trust has two buildings which are leased to a third party. The Trust has deemed that this is an operating lease where the risks and rewards of the asset remain with the Trust and as such are recognised on the Trust's Statement of Financial Position as assets. This is deemed to be a critical judgement as if the transaction was deemed to be a finance lease the assets would not be reflected in the Statement of Financial Position and the property, plant and equipment balance would be £14,001,581 lower if these assets were not included.

NOTES TO THE ACCOUNTS

Notes to the Accounts - 1. Accounting Policies (Continued)

1.5.2 Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income recognition

In 2008-09 the requirement to account for patient care spells that were in progress but not complete as at 31 March was introduced. The value put on this activity is estimated using an average tariff, rather than the specific tariff relevant for each patient. The total value of the accrual for patient care is £4,938,000 and therefore a change of 1% between the average tariff applied and the actual tariff due would affect income assumptions by £49,380.

In 2013-14 the Payment by Results (PbR) rules regarding maternity pathways changed. The key element of this change is that the Commissioners make one payment per pregnancy covering the whole of the maternity pathway at the point at which the woman first presents for treatment. As providers of the treatment, the Trust defers the element of income which has been received in advance of the care being provided. The Trust estimates the income to be deferred based on the number of weeks of maternity care remaining for the patients who have attended the Trust. The Trust estimates the average antenatal phase for each patient and calculates the proportion of the antenatal phase which has not been completed by 31 March 2017 based on the average antenatal phase. The Trust then defers this element of income. The total value of income deferred is £3,189,000 and therefore a change of 1% to the value deferred would affect the income assumptions by £31,890.

Valuation of liabilities

As at 31 March 2017 the Trust recognised £31,328,000 of accruals and deferred income within trade and payables liability. The Trust's management has made the best estimate of the value of the liability based on information available at the reporting date. The value of these accruals may differ from the values estimated and since the value is high a difference of only 1% between the estimate and actual value would result in a change to the Trust's expenditure of £313,000. However, since none of the accruals are individually material and the Trust has provided at the most likely value (rather than with a bias towards a more or less favourable outcome) it is unlikely that the difference between actual and estimated values would be significant.

The Trust has obtained professional advice where applicable for the value that should be recognised in respect of provisions and contingent liabilities. The value of these liabilities is uncertain and values are likely to differ from those estimated. A difference of 1% between the estimated provision and actual value would result in a change to the Trust's position of £104,000. However, the Trust has provided at what it estimates the likely value would be based on information available.

Valuation of assets

As at 31 March 2017 the Trust recognised trade and receivables assets of £40,849,000. The Trust reviews and provides where necessary for income invoices more than 180 days past the due date, for RTA accruals at the prescribed rate of 21.99% and individually for any other debts which Trust management has reason to believe the Trust may not receive. The Trust's management considers that this is a reasonable estimate of the value of asset.

PFI

The Trust uses appropriate estimations to allocate the annual unitary payment into the relevant component parts. The Trust obtained professional advice at the beginning of the PFI contract to review and allocate the payments appropriately as set out in note 30.

1.6 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable. The main source of revenue for the trust is from commissioners for healthcare services. Revenue relating to patient care spells that are part-completed at the year end are apportioned across the financial years on the basis of length of stay at the end of the reporting period compared to expected total length of stay.

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

The NHS trust receives income under the NHS Injury Cost Recovery Scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid e.g. by an insurer. The NHS trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts.

1.7 Employee Benefits

Short-term employee benefits

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

NOTES TO THE ACCOUNTS

Retirement benefit costs

Past and present employees are covered by the provisions of the NHS Pension Schemes. These schemes are unfunded, defined benefit schemes that cover NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. The schemes are not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the schemes are accounted for as though they were defined contribution schemes: the cost to the NHS body of participating in a scheme is taken as equal to the contributions payable to the scheme for the accounting period. In line with the Governments auto enrolment pension roll out, from 1st April 2013 the Trust also offered the NEST pension scheme to employees who may not be eligible to join the NHS Pension Scheme. The NEST pension scheme is a defined contribution scheme.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time the NHS trust commits itself to the retirement, regardless of the method of payment.

1.8 Other expenses

Other operating expenses are recognised when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.

1.9 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

- 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 will be supplied to the NHS trust;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably; and either
- the item cost at least £5,000; or
- Collectively, a number of items have a total cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control.

Where a large asset, for example a building, includes a number of components with significantly different asset lives, the components are treated as separate assets and depreciated over their own useful economic lives.

Valuation

All property, plant and equipment are measured initially at cost, representing the cost 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. Assets that are held for their service potential and are in use are measured subsequently at their current value in existing use. Assets that were most recently held for their service potential but are surplus are measured at fair value where there are no restrictions preventing access to the market at the reporting date.

Land and buildings are stated in the Statement of Financial Position (SOFP) at their revalued amounts, being the fair value at the date of revaluation less any impairment. Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Current values in existing use are determined as follows:

- Land and non-specialised buildings – market value for existing use,
- Specialised buildings – depreciated replacement cost (DRC).

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees and, where capitalised in accordance with IAS 23, borrowing costs. Assets are revalued and depreciation commences when they are brought into use.

All land and buildings are restated to current value using professional valuations in accordance with IAS16 at least every five years, with desk top revaluations carried out annually. The last full asset valuations were undertaken in 2016 as at the prospective valuation date at 1st April 2016 and a desk top valuation at 31 March 2017.

Valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual.

The property valuations are carried out primarily on the basis of (DRC) for specialised operational property (e.g. NHS patient treatment facilities) and Existing Use Value (EUUV) for non-specialised operational property. The value of land for existing use purposes is assessed at EUUV. For non-operational land including surplus land, the valuations are carried out at Market Value.

The Department of Health has adopted the Modern Equivalent Asset (MEA) approach for its DRC valuations rather than the previous identical replacement method. The MEA approach used to value the property will normally be based on the cost of a modern equivalent asset that has the same service potential as the existing asset and then adjusted to take account of obsolescence. In the past, functional obsolescence has not been reflected in asset valuations for the NHS.

NOTES TO THE ACCOUNTS

Functional obsolescence examines a building's design or specification and whether it may no longer fulfil the function for which it was originally designed or whether it may be much more basic than the MEA. The asset will still be capable of use but at a lower level of efficiency than the MEA, or may be capable of modification to bring it up to a current specification. Other common causes of functional obsolescence include advances in technology or legislative change. The obsolescence adjustment will reflect either the cost of upgrading, or if this is not possible, the financial consequences of the reduced efficiency compared with the modern equivalent.

The Trust's PFI assets have been valued using the modern equivalent asset method at depreciated replacement cost excluding VAT. By excluding VAT the Trust is accurately reflecting the depreciated replacement cost as a replacement asset would also be funded by PFI and, by the nature of the contract, have VAT recovered. As this valuation is a similar methodology as in previous years, albeit with different assumptions regarding VAT a prior year adjustment has not been included.

The MEA approach incorporates the Building Cost Information Service Index to determine an increase or decrease in building costs which impact on the asset valuation.

Additional alternative Open Market Value figures have only been supplied for operational assets scheduled for imminent closure and subsequent disposal.

The carrying values of PPE are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

The Trust's land and building valuation was carried out by the Trust's current valuer DVS, on a MEA "Optimised Alternative Site" method valuation, and applied on 1st April 2016.

The valuation has been undertaken having regard to IFRS as applied to the UK public sector and in accordance with HM Treasury guidance. The Trust has valued its land and buildings at fair value - non-specialised assets at existing use value and specialised operation assets at depreciated replacement cost.

IT equipment, transport equipment, furniture and fittings, and plant and machinery that are held for operational use are valued at depreciated historic cost where these assets have short useful economic lives or low values or both, as this is not considered to be materially different from current value in existing use.

An increase arising on revaluation is taken to the revaluation reserve except when it reverses an impairment for the same asset previously recognised in expenditure, in which case it is credited to expenditure to the extent of the decrease previously charged there. A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit should be taken to expenditure. Gains and losses recognised in the revaluation reserve are reported as other comprehensive income in the Statement of Comprehensive Income.

Subsequent expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Where subsequent expenditure restores the asset to its original specification, the expenditure is capitalised and any existing carrying value of the item replaced is written-out and charged to operating expenses.

1.10 Intangible assets

Recognition

Intangible assets are non-monetary assets without physical substance, which are capable of sale separately from the rest of the trust's business or which arise from contractual or other legal rights. They are recognised only when it is probable that future economic benefits will flow to, or service potential be provided to, the trust; where the cost of the asset can be measured reliably, and where the cost is at least £5000.

Intangible assets acquired separately are initially recognised at cost. Software that is integral to the operation of hardware, for example an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software that is not integral to the operation of hardware, for example application software, is capitalised as an intangible asset. Expenditure on research is not capitalised: it is recognised as an operating expense in the period in which it is incurred. Internally-generated assets are recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use;
- the intention to complete the intangible asset and use it;
- the ability to sell or use the intangible asset;
- how the intangible asset will generate probable future economic benefits or service potential;
- the availability of adequate technical, financial and other resources to complete the intangible asset and sell or use it; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

Measurement

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the criteria above are initially met. Where no internally-generated intangible asset can be recognised, the expenditure is recognised in the period in which it is incurred.

Following initial recognition, intangible assets are carried at current value in existing use by reference to an active market, or, where no active market exists, at the lower of amortised replacement cost (modern equivalent assets basis) and value in use where the asset is income generating. Internally-developed software is held at historic cost to reflect the opposing effects of increases in development costs and technological advances.

The useful economic life of a software asset is determined by the duration of the licensing agreement

NOTES TO THE ACCOUNTS

1.11 Depreciation, amortisation and impairments

Freehold land, assets under construction or development, and assets held for sale are not depreciated/amortised.

Otherwise, depreciation or amortisation is charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, on a straight line basis over their estimated useful lives. The estimated useful life of an asset is the period over which the NHS trust expects to obtain economic benefits or service potential from the asset. This is specific to the NHS trust and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over the shorter of the lease term and the estimated useful lives.

At each financial year-end, the NHS trust checks whether there is any indication that its property, plant and equipment or intangible non-current assets have suffered an impairment loss. If there is indication of such an impairment, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are tested for impairment annually at the financial year end.

A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit are taken to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

1.12 Donated assets

Donated non-current assets are capitalised at current value in existing use, if they will be held for their service potential, or otherwise at value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are treated in the same way as for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

1.13 Government grants

Government grant funded assets are capitalised at current value in existing use, if they will be held for their service potential, or otherwise at fair value on receipt, with a matching credit to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

1.14 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Fair value is open market value including alternative uses.

The profit or loss arising on disposal of an asset is the difference between the sale proceeds and the carrying amount and is recognised in the Statement of Comprehensive Income. On disposal, the balance for the asset on the revaluation reserve is transferred to retained earnings.

Property, plant and equipment that is to be scrapped or demolished does not qualify for recognition as held for sale. Instead, it is retained as an operational asset and its economic life is adjusted. The asset is de-recognised when it is scrapped or demolished.

1.15 Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

The trust as lessee

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in calculating the trust's surplus/deficit.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated and individually assessed as to whether they are operating or finance leases.

The NHS trust as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the NHS trust's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the trust's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

NOTES TO THE ACCOUNTS

1.16 Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The NHS trust therefore recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

- a) Payment for the fair value of services received;
- b) Payment for the PFI asset, including finance costs; and
- c) Payment for the replacement of components of the asset during the contract 'lifecycle replacement'.

Services received

The fair value of services received in the year is recorded under the relevant expenditure headings within 'operating expenses'

PFI Asset

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value or, if lower, at the present value of the minimum lease payments, in accordance with the principles of IAS 17. Subsequently, the assets are measured at current value in existing use.

PFI liability

A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the initial value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to 'Finance Costs' within the Statement of Comprehensive Income.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. In accordance with IAS 17, this amount is not included in the minimum lease payments, but is instead treated as contingent rent and is expensed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is presented as a contingent finance cost in the Statement of Comprehensive Income.

Lifecycle replacement

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the NHS trust's criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value.

The element of the annual unitary payment allocated to lifecycle replacement is pre-determined for each year of the contract from the operator's planned programme of lifecycle replacement. Where the lifecycle component is provided earlier or later than expected, a short-term accrual or prepayment is recognised respectively.

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a 'free' asset and a deferred income balance is recognised. The deferred income is released to operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

Assets contributed by the NHS trust to the operator for use in the scheme

Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the NHS trust's Statement of Financial Position.

Other assets contributed by the NHS trust to the operator

Assets contributed (e.g. cash payments, surplus property) by the NHS trust to the operator before the asset is brought into use, which are intended to defray the operator's capital costs, are recognised initially as prepayments during the construction phase of the contract. Subsequently, when the asset is made available to the NHS trust, the prepayment is treated as an initial payment towards the finance lease liability and is set against the carrying value of the liability.

1.17 Inventories

Inventories are valued at the lower of cost and net realisable value using the first-in first-out cost formula. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks.

NOTES TO THE ACCOUNTS

1.18 Cash and cash equivalents

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and that form an integral part of the NHS trust's cash management.

1.19 Provisions

Provisions are recognised when the NHS trust has a present legal or constructive obligation as a result of a past event, it is probable that the NHS trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rates.

Post employment provisions are discounted using HM Treasury's pension discount rate of positive 0.24% (2015-16: positive 1.37%) in real terms. All other provisions are subject to three separate discount rates according to the expected timing of cashflows from the Statement of Financial Position date:

- A short term rate of negative 2.70% (2015-16: negative 1.55%) for expected cash flows up to and including 5 years
- A medium term rate of negative 1.95% (2015-16: negative 1.00%) for expected cash flows over 5 years up to and including 10 years
- A long term rate of negative 0.80% (2015-16: negative 0.80%) for expected cash flows over 10 years.

All percentages are in real terms.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursements will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the NHS trust has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

1.20 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the trust pays an annual contribution to the NHSLA, which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the NHS trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the trust is disclosed at Note 28.

1.21 Non-clinical risk pooling

The NHS trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the NHS trust pays an annual contribution to the NHS Litigation Authority and, in return, receives assistance with the costs of claims arising. The annual membership contributions, and any excesses payable in respect of particular claims are charged to operating expenses as and when they become due.

1.22 Carbon Reduction Commitment Scheme (CRC)

CRC and similar allowances are accounted for as government grant funded intangible assets if they are not expected to be realised within twelve months, and otherwise as other current assets. They are valued at open market value. As the NHS trust makes emissions, a provision is recognised with an offsetting transfer from deferred income. The provision is settled on surrender of the allowances. The asset, provision and deferred income amounts are valued at fair value at the end of the reporting period.

1.23 Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the NHS trust, or a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured sufficiently reliably. A contingent liability is disclosed unless the possibility of a payment is remote.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the NHS trust. A contingent asset is disclosed where an inflow of economic benefits is probable.

Where the time value of money is material, contingencies are disclosed at their present value.

1.24 Financial assets

Financial assets are recognised when the NHS trust becomes party to the financial instrument contract or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are classified into the following categories: financial assets at fair value through profit and loss; held to maturity investments; available for sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

NOTES TO THE ACCOUNTS

Notes to the Accounts - 1. Accounting Policies (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the initial fair value of the financial asset.

At the end of the reporting period, the NHS trust assesses whether any financial assets, other than those held at 'fair value through profit and loss' are impaired. Financial assets are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that have an impact on the estimated future cash flows of the asset.

For financial assets carried at amortised cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. The loss is recognised in expenditure and the carrying amount of the asset is reduced through a provision for impairment of receivables.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through expenditure to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

1.25 Financial liabilities

Financial liabilities are recognised on the statement of financial position when the NHS trust becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

Loans from the Department of Health are recognised at historic cost. Otherwise, financial liabilities are initially recognised at fair value.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are subsequently measured at the higher of:

- The amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- The premium received (or imputed) for entering into the guarantee less cumulative amortisation.

Financial liabilities at fair value through profit and loss

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial liabilities at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the NHS trust's surplus/deficit. The net gain or loss incorporates any interest payable on the financial liability.

Other financial liabilities

After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method, except for loans from Department of Health, which are carried at historic cost. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

1.26 Value Added Tax

Most of the activities of the trust 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 fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

1.27 Foreign currencies

The NHS trust's functional and presentational currency is sterling. Transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the spot exchange rate on 31 March. Resulting exchange gains and losses for either of these are recognised in the trust's surplus/deficit in the period in which they arise.

NOTES TO THE ACCOUNTS

1.28 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the trust has no beneficial interest in them. Details of third party assets are given in Note 38 to the accounts.

1.29 Public Dividend Capital (PDC) and PDC dividend

Public dividend capital represents taxpayers' equity in the NHS trust. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the trust. PDC is recorded at the value received. As PDC is issued under legislation rather than under contract, it is not treated as an equity financial instrument.

An annual charge, reflecting the cost of capital utilised by the trust, is payable to the Department of Health as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities (except for donated assets and cash balances with the Government Banking Service). The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets.

In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the "pre-audit" version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts.

1.30 Losses and Special Payments

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled.

Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had the NHS trust not been bearing its own risks (with insurance premiums then being included as normal revenue expenditure).

1.31 Subsidiaries

Material entities over which the NHS trust has the power to exercise control are classified as subsidiaries and are consolidated. The NHS trust has control when it is exposed to or has rights to variable returns through its power over another entity. The income and expenses; gains and losses; assets, liabilities and reserves; and cash flows of the subsidiary are consolidated in full into the appropriate financial statement lines. Appropriate adjustments are made on consolidation where the subsidiary's accounting policies are not aligned with the NHS trust or where the subsidiary's accounting date is not co-terminus.

Subsidiaries that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'.

From 2013-14, the Trust is required under IFRS10 to consolidate the results of 'UHM Charity' Charitable Funds over which it considers it has the power to exercise control in accordance with IFRS10 requirements. The Trust however deems that the income, expenditure, assets and liabilities of the Charitable Fund are not material to the Trust's financial statements and in line with IAS1, which states that specific disclosure requirements set out in individual standards or interpretations need not be satisfied if the information is not material, the Trust has not consolidated the Charitable Fund.

1.32 Accounting Standards that have been issued but have not yet been adopted

The HM Treasury FReM does not require the following Standards and Interpretations to be applied in 2016-17. These standards are still subject to HM Treasury FReM interpretation, with IFRS 9 and IFRS 15 being for implementation in 2018-19, and the government implementation date for IFRS 16 still subject to HM Treasury consideration.

- IFRS 9 Financial Instruments – Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted
- IFRS 15 Revenue from Contracts with Customers - Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted
- IFRS 16 Leases – Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the FReM: early adoption is not therefore permitted.

2. Operating segments

IFRS 8 requires reporting entities to separate out the financial performance of each segment of the business, on the basis reported to the Chief Operating Decision Maker (CODM). The Trust considers that the Trust Board is the CODM of the organisation. The Trust Board receives financial performance data for the Trust as one 'healthcare' segment and makes decisions on this basis.

	Healthcare Per SOCI		Healthcare Reported to Trust Board		Healthcare Variance	
	2016-17 £000s	2015-16 £000s	2016-17 £000s	2015-16 £000s	2016-17 £000s	2015-16 £000s
Income	<u>739,336</u>	<u>701,885</u>	<u>738,604</u>	<u>701,885</u>	<u>732</u>	<u>0</u>
Pay costs	(458,461)	(432,898)	(458,181)	(432,898)	(280)	0
Non pay costs	<u>(308,648)</u>	<u>(295,923)</u>	<u>(308,196)</u>	<u>(295,923)</u>	<u>(452)</u>	<u>0</u>
Reported breakeven performance	<u>(27,773)</u>	<u>(26,936)</u>	<u>(27,773)</u>	<u>(26,936)</u>	<u>0</u>	<u>0</u>
Net Assets:						
Segment net assets	<u>132,989</u>	<u>221,906</u>	<u>132,989</u>	<u>221,906</u>	<u>0</u>	<u>0</u>

The financial performance of the Trust is reported to Board on a breakeven basis. A reconciliation of the Trust's breakeven performance to the retained surplus/(deficit) reported in the Statement of Comprehensive Income is presented at note 37.

Since all the business of the Trust is deemed to be one 'healthcare' segment there is no difference between the financial performance of this segment and the financial performance of the Trust. The variances above are in relation to income and depreciation in respect of government granted and donated assets which is not included in the figures for income and expenditure.

3. Income generation activities

The Trust undertakes income generation activities with an aim of achieving profit, which is then used in patient care. The following provides details of income generation activities whose full cost exceeded £1m or was otherwise material.

Summary Table - aggregate of all schemes	2016-17 £000s	2015-16 £000s
Income	<u>3,567</u>	<u>3,402</u>
Full cost	<u>(2,670)</u>	<u>(2,261)</u>
Surplus/(deficit)	<u>897</u>	<u>1,141</u>

4. Revenue from patient care activities

	2016-17 £000s	2015-16 £000s
NHS Trusts	418	288
NHS England	193,180	185,683
Clinical Commissioning Groups	389,578	347,407
Foundation Trusts	16	338
NHS Other - Public Health England	7,764	7,443
Non-NHS:		
Private patients	1,618	1,314
Overseas patients (non-reciprocal)	264	471
Injury costs recovery	3,377	2,643
Other Non-NHS patient care income	6,374	6,317
Total Revenue from patient care activities	602,589	551,904

Other non NHS revenue mainly relates to income received from NHS bodies within Wales which are classified as non NHS as such bodies are outside NHS England.

5. Other operating revenue

	2016-17 £000s	2015-16 £000s
Recoveries in respect of employee benefits	677	636
Education, training and research	32,624	33,911
Charitable and other contributions to revenue expenditure -non- NHS	238	167
Receipt of charitable donations for capital acquisitions	452	1,190
Support from DH for mergers	63,275	68,019
Non-patient care services to other bodies	23,657	33,108
Sustainability & Transformation Fund Income	8,883	0
Income generation (Other fees and charges)	3,870	3,339
Rental revenue from operating leases	1,301	1,135
Other revenue	1,713	9,508
Total Other Operating Revenue	136,690	151,013
Total operating revenue	739,279	702,917

Support from DH for mergers relates to additional income received as transitional support for the Mid Staffordshire NHS Foundation Trust integration.

6. Overseas Visitors Disclosure

	2016-17 £000s	2015-16 £000s
Income recognised during 2016-17 (invoiced amounts and accruals)	264	471
Cash payments received in-year (re receivables at 31 March 2016)	23	52
Cash payments received in-year (iro invoices issued 2016-17)	120	230
Amounts added to provision for impairment of receivables (re receivables at 31 March 2016)	184	1
Amounts added to provision for impairment of receivables (iro invoices issued 2016-17)	37	58
Amounts written off in-year (irrespective of year of recognition)	8	0

7. Operating expenses

	2016-17 £000s	2015-16 £000s
Services from other NHS Trusts	11,050	12,276
Services from CCGs/NHS England	0	814
Services from other NHS bodies	527	1,180
Services from NHS Foundation Trusts	1,680	5,130
Total Services from NHS bodies*	13,257	19,400
Purchase of healthcare from non-NHS bodies	6,849	3,503
Purchase of Social Care	1,611	1,005
Trust Chair and Non-executive Directors	89	90
Supplies and services - clinical	142,499	135,455
Supplies and services - general	7,733	7,219
Consultancy services	5,768	1,095
Establishment	4,732	4,900
Transport	3,649	2,902
Service charges - ON-SOFP PFIs and other service concession arrangements	31,813	30,759
Business rates paid to local authorities	4,358	4,006
Premises	21,846	21,316
Hospitality	85	98
Insurance	54	51
Legal Fees	26	392
Impairments and Reversals of Receivables	(1,619)	2,286
Inventories write down	47	8
Depreciation	23,474	22,600
Amortisation	3,777	3,060
Impairments and reversals of property, plant and equipment	20,431	11,281
Impairments and reversals of intangible assets	1,743	0
Internal Audit Fees	165	157
Audit fees	133	159
Other auditor's remuneration	45	5
Clinical negligence	16,085	11,632
Research and development (excluding staff costs)	0	0
Education and Training	1,865	1,893
Other	1,152	2,821
Total Operating expenses (excluding employee benefits)	311,667	288,093

Other operating expenses include all expenditure not covered under any other operating expense headings.

Employee Benefits

Employee benefits excluding Board members	456,852	431,288
Board members	1,609	1,610
Total Employee Benefits	458,461	432,898
Total Operating Expenses	770,128	720,991

*Services from NHS bodies does not include expenditure which falls into a category below

8. Operating Leases

8.1. University Hospitals of North Midlands NHS Trust as lessee

	Buildings £000s	Other £000s	2016-17 Total £000s	2015-16 £000s
Payments recognised as an expense				
Minimum lease payments			4,376	3,439
Total			<u>4,376</u>	<u>3,439</u>
Payable:				
No later than one year	3,500	694	4,194	4,314
Between one and five years	9,296	619	9,915	13,622
After five years	0	0	0	0
Total	<u>12,796</u>	<u>1,313</u>	<u>14,109</u>	<u>17,936</u>

The Trust leases various medical and office equipment assets under operating leases. The terms of these leases are standard equipment leases for between 5 and 7 years. The Trust does not sub-let these assets.

8.2. University Hospitals of North Midlands NHS Trust as lessor

	2016-17 £000s	2015-16 £000s
Recognised as revenue		
Rental revenue	1,301	1,135
Total	<u>1,301</u>	<u>1,135</u>
Receivable:		
No later than one year	440	379
Between one and five years	973	844
After five years	426	337
Total	<u>1,839</u>	<u>1,560</u>

The Trust receives rental income from commercial retail outlets within the Hospital reception areas and from rental of buildings owned by the Trust.

9. Employee benefits

9.1. Employee benefits

	2016-17 Total £000s	2015-16 Total £000s
Employee Benefits - Gross Expenditure		
Salaries and wages	385,250	371,171
Social security costs	33,445	24,861
Employer Contributions to NHS BSA - Pensions Division	41,382	38,505
Other pension costs	0	0
Termination benefits	425	189
Total employee benefits	460,502	434,726
Employee costs capitalised	2,041	1,828
Gross Employee Benefits excluding capitalised costs	458,461	432,898

9.2. Retirements due to ill-health

	2016-17 Number	2015-16 Number
Number of persons retired early on ill health grounds	6	3
	£000s	£000s
Total additional pensions liabilities accrued in the year	259	143

9.3 Pension costs

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Details of the benefits payable and rules of the Schemes can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. Both are unfunded defined benefit schemes that cover NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. They are not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, each scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in each scheme is taken as equal to the contributions payable to that scheme for the accounting period.

In order that the defined benefit obligations recognised in the financial statements do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that "the period between formal valuations shall be four years, with approximate assessments in intervening years". An outline of these follows:

a) Accounting valuation

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2017, is based on valuation data as 31 March 2016, updated to 31 March 2017 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

The latest assessment of the liabilities of the scheme is contained in the scheme actuary report, which forms part of the annual NHS Pension Scheme (England and Wales) Pension Accounts. These accounts can be viewed on the NHS Pensions website and are published annually. Copies can also be obtained from The Stationery Office.

b) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the schemes (taking into account their recent demographic experience), and to recommend contribution rates payable by employees and employers.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The next actuarial valuation is to be carried out as at 31 March 2016. This will set the employer contribution rate payable from April 2019 and will consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the Scheme changes by more than 2% of pay. Subject to this 'employer cost cap' assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health after consultation with the relevant stakeholders.

Other Pension Schemes

In line with the Governments auto enrolment pension roll out, from 1st April 2013 the Trust offered the NEST pension scheme to employees who may not be eligible to join the NHS Pension Scheme. The NEST scheme is a defined contribution scheme. The Trust (employers) contributions to this scheme during 2016/17 were £22,327

10. Better Payment Practice Code**10.1. Measure of compliance**

	2016-17 Number	2016-17 £000s	2015-16 Number	2015-16 £000s
Non-NHS Payables				
Total Non-NHS Trade Invoices Paid in the Year	154,781	385,988	193,158	295,181
Total Non-NHS Trade Invoices Paid Within Target	<u>134,607</u>	<u>345,092</u>	<u>166,380</u>	<u>248,452</u>
Percentage of NHS Trade Invoices Paid Within Target	<u>86.97%</u>	<u>89.40%</u>	<u>86.14%</u>	<u>84.17%</u>
NHS Payables				
Total NHS Trade Invoices Paid in the Year	3,674	41,369	3,626	44,247
Total NHS Trade Invoices Paid Within Target	<u>2,215</u>	<u>26,623</u>	<u>2,172</u>	<u>31,351</u>
Percentage of NHS Trade Invoices Paid Within Target	<u>60.29%</u>	<u>64.36%</u>	<u>59.90%</u>	<u>70.85%</u>

The Better Payment Practice Code requires the NHS body to aim to pay all valid invoices by the due date or within 30 days of receipt of a valid invoice, whichever is later.

10.2. The Late Payment of Commercial Debts (Interest) Act 1998

	2016-17 £000s	2015-16 £000s
Compensation paid to cover debt recovery costs under this legislation	<u>2</u>	<u>4</u>
Total	<u>2</u>	<u>4</u>

11. Investment Revenue

	2016-17 £000s	2015-16 £000s
Interest revenue		
Bank interest	50	152
Other financial assets	<u>0</u>	<u>7</u>
Subtotal	<u>50</u>	<u>159</u>
Total investment revenue	<u>50</u>	<u>159</u>

12. Other Gains and Losses

	2016-17 £000s	2015-16 £000s
Gain/(Loss) on disposal of assets other than by sale (PPE)	0	(1)
Gain/(Loss) on disposal of assets other than by sale (intangibles)	<u>7</u>	<u>0</u>
Total	<u>7</u>	<u>(1)</u>

13. Finance Costs

	2016-17 £000s	2015-16 £000s
Interest		
Interest on loans and overdrafts	586	9
Interest on obligations under finance leases	180	133
Interest on obligations under PFI contracts:		
- main finance cost	8,834	8,525
- contingent finance cost	<u>5,918</u>	<u>6,221</u>
Total interest expense	<u>15,518</u>	<u>14,888</u>
Total	<u>15,518</u>	<u>14,888</u>

14. Other auditor remuneration

	2016-17 £000s	2015-16 £000s
Other auditor remuneration paid to the external auditor:		
Other non-audit services	<u>12</u>	<u>5</u>
Total	<u>12</u>	<u>5</u>

15.1. Property, plant and equipment

2016-17

Cost or valuation:

	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April 2016	38,710	437,442	2,150	12,312	122,422	752	23,084	9,108	645,980
Additions of Assets Under Construction				1,609					1,609
Additions Purchased	0	28,897	0		11,163	0	1,840	389	42,289
Additions - Non Cash Donations (i.e. physical assets)	0	153	0	0	234	0	19	15	421
Additions - Purchases from Cash Donations & Government Grants	0	4	0	0	21	0	0	0	25
Additions Leased (including PFI/LIFT)	0	0	0		1,966	0		0	1,966
Reclassifications	0	9,071	0	(12,976)	(1,307)	0	(1,082)	0	(6,294)
Disposals other than for sale	0	0	0	(62)	(1,076)	(10)	(15)	0	(1,163)
Revaluation	0	28,312	0	25	(583)	0	(60)	0	28,337
Impairments/reversals charged to operating expenses	(2,462)	(18,838)	0	0	0	0	0	0	(21,943)
Downward valuation charged to reserves	(17,013)	(86,527)	(195)	0	0	0	0	0	(103,735)
At 31 March 2017	19,235	398,514	1,955	908	132,840	742	23,786	9,512	587,492

Depreciation

At 1 April 2016	0	14	0	0	70,176	751	15,339	5,374	91,654
Reclassifications	0	490	0	0	(474)	0	(16)	0	0
Disposals other than for sale	0	0	0	0	(1,051)	(10)	(15)	0	(1,076)
Revaluation	0	(5,298)	0	0	0	0	0	0	(5,298)
Downward valuation charged to reserves	0	(4,735)	(33)	0	0	0	0	0	(4,768)
Impairments/reversals charged to operating expenses	0	(1,143)	0	0	(334)	0	(35)	0	(1,512)
Charged During the Year	0	10,672	33	0	9,911	1	2,237	620	23,474
At 31 March 2017	0	0	0	0	76,228	742	17,510	5,994	102,474
Net Book Value at 31 March 2017	19,235	398,514	1,955	908	54,612	0	6,276	3,518	485,018

Asset financing:

Owned - Purchased	19,235	200,484	0	908	37,591	0	6,219	3,504	267,941
Owned - Donated	0	2,433	0	0	4,199	0	23	14	6,669
Owned - Government Granted	0	408	0	0	239	0	27	0	674
Held on finance lease	0	0	1,955	0	1,333	0	0	0	3,288
On-SOFP PFI contracts	0	195,189	0	0	11,250	0	7	0	206,446
Total at 31 March 2017	19,235	398,514	1,955	908	54,612	0	6,276	3,518	485,018

Included within the land value is £5,675,000 (£5,075,000 in 2015/16) relating to land at the Royal Infirmary site which has been identified as a surplus asset. There are restrictions on this site which would prevent access to the market at the reporting date and as a result the land has been valued at market value through applying an adaptation of IAS16, rather than being valued at fair value under IFRS13.

Revaluation Reserve Balance for Property, Plant & Equipment

	Land	Buildings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
At 1 April 2016	17,173	124,129	1,311	0	979	0	18	67	143,677
Movements	(17,013)	(49,887)	(162)	25	(6)	0	8	0	(67,035)
At 31 March 2017	<u>160</u>	<u>74,242</u>	<u>1,149</u>	<u>25</u>	<u>973</u>	<u>0</u>	<u>26</u>	<u>67</u>	<u>76,642</u>

Additions to Assets Under Construction in 2016-17

Land	0
Buildings excl Dwellings	0
Dwellings	0
Plant & Machinery	1,609
Balance as at YTD	<u>1,609</u>

15.2. Property, plant and equipment prior-year

2015-16

	Land	Buildings excluding dwellings	Dwellings	Assets under construction & payments on account	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost or valuation:									
At 1 April 2015	37,025	385,283	1,962	10,033	113,726	752	21,108	8,428	578,317
Additions of Assets Under Construction				2,045					2,045
Additions Purchased	0	32,528	0		11,356	0	2,895	680	47,459
Additions - Non Cash Donations (i.e. Physical Assets)	0	893	0	0	215	0	0	0	1,108
Additions - Purchases from Cash Donations & Government Grants	0	0	0	57	0	0	25	0	82
Additions Leased (including PFI/LIFT)	0	0	0	0	0	0	0	0	0
Reclassifications	0	3,307	0		(957)	0	(944)	0	2,558
Disposals other than for sale	0	0	0	1,152	(279)	0	0	0	(279)
Revaluation	1,685	45,512	188	0	0	0	0	0	47,385
Impairment/reversals charged to reserves	0	(12,445)	0	0	(1,639)	0	0	0	(14,084)
Impairments/reversals charged to operating expenses	0	(17,636)	0	(975)	0	0	0	0	(18,611)
At 31 March 2016	38,710	437,442	2,150	12,312	122,422	752	23,084	9,108	645,980

Depreciation

At 1 April 2015	0	1	0	0	62,067	745	13,217	4,790	80,820
Disposals other than for sale	0	0	0	0	(167)	0	0	0	(167)
Revaluation	0	(5,446)	(34)	0	0	0	0	0	(5,480)
Impairment/reversals charged to reserves	0	(3,316)	0	0	0	0	0	0	(3,316)
Impairments/reversals charged to operating expenses	0	(1,877)	0	0	(926)	0	0	0	(2,803)
Charged During the Year	0	10,652	34	0	9,202	6	2,122	584	22,600
At 31 March 2016	0	14	0	0	70,176	751	15,339	5,374	91,654
Net Book Value at 31 March 2016	38,710	437,428	2,150	12,312	52,246	1	7,745	3,734	554,326

Asset financing:

Owned - Purchased	38,710	221,574	0	12,255	34,132	1	7,678	3,734	318,084
Owned - Donated	0	3,012	0	0	4,587	0	15	0	7,614
Owned - Government Granted	0	419	0	57	254	0	43	0	773
Held on finance lease	0	0	2,150	0	765	0	0	0	2,915
On-SOFP PFI contracts	0	212,423	0	0	12,508	0	9	0	224,940
Total at 31 March 2016	38,710	437,428	2,150	12,312	52,246	1	7,745	3,734	554,326

15.3. (cont). Property, plant and equipment

The UHNM Charity donated £0.421m of assets to the Trust in 2016-17 in respect of assets acquired in the financial year and £0.032m in respect of Government Granted assets

Valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual. The valuation information in 2016/17 was carried out by a qualified independent from the District Valuation Service.

As set out in the accounting policies the Department of Health has adopted the Modern Equivalent Asset (MEA) approach for its DRC valuations rather than the previous identical replacement method. The MEA approach used to value the property will normally be based on the cost of a modern equivalent asset that has the same service potential as the existing asset and then adjusted to take account of obsolescence. In the past, functional obsolescence has not been reflected in asset valuations for the NHS.

Functional obsolescence examines a building's design or specification and whether it may no longer fulfil the function for which it was originally designed or whether it may be much more basic than the MEA. The asset will still be capable of use but at a lower level of efficiency than the MEA, or may be capable of modification to bring it up to a current specification. Other common causes of functional obsolescence include advances in technology or legislative change. The obsolescence adjustment will reflect either the cost of upgrading, or if this is not possible, the financial consequences of the reduced efficiency compared with the modern equivalent.

The MEA approach incorporates the Building Cost Information Service Index to determine an increase or decrease in building costs which impact on the asset valuation. The Trust's land and building valuation was carried out by the Trust's current valuer DVS, on a MEA "Optimised Alternative Site" method valuation, and applied on 1st April 2016, which was on a full basis and included inspections of all of the Trust's assets.

The valuation has been undertaken having regard to IFRS as applied to the UK public sector and in accordance with HM Treasury guidance.

The impact of the valuation at 1 April 2016 on the carrying value was:

Land reduction in the value of £19,475,000. Of this £17,013,000 was charged to the revaluation reserve and £2,462,000 to operating expenses.

PFI buildings reduction in value of £23,564,000. Of this £12,216,000 was charged to the revaluation reserve and £11,348,000 to operating expenses.

Non-PFI buildings reduction in value of £44,158,000. Of this £38,716,000 was charged to the revaluation reserve and £5,442,000 to operating expenses.

The entries are reflected within the PPE note.

Overall this resulted in a reduction in the revaluation reserve of £50,932,000 in respect of buildings and £17,013,000 in respect of land.

An impairment charge of £19,252,000 was made to the Statement of Comprehensive Income

The Trust also had an Interim Valuation at 31 March 2017 based upon desktop updates of the valuations and incorporation of the valuation effect of capital schemes completed within the financial year 2016/17. Major capital schemes where there was a very material valuation effect, such as at County Hospital, were inspected for the purposes of the Valuation. The remainder of the capital expenditure was incorporated into the valuations from the desk only.

The value of land, buildings and dwelling assets provided by the valuer at 31 March 2017 was £419,703,702 and is reflected in the note above.

The useful economic life of an asset is determined individually for each asset, but generally falls within the following range:

	Min Life Years	Max Life Years
Buildings	15	80
Dwellings	20	80
Plant & Machinery	5	15
Transport Equipment	4	7
Information Technology	3	15
Furniture & Fittings	5	10

Where a building is scheduled for demolition the remaining asset life will be reduced to the period remaining before demolition.

The Trust leases two buildings which are used for medical education to Keele University. The following values within the property, plant and equipment and expense disclosures relate to these buildings:

	2016-17 £000	2015-16 £000
Gross carrying amount	14,128	13,630
Additions	9	0
Depreciation in period	(391)	(396)
Revaluation/(impairment)	256	894
Net Book Value	<u>14,002</u>	<u>14,128</u>

16. Intangible non-current assets**16.1. Intangible non-current assets**

	Information & technology	Total
2016-17		
	£000's	£000's
At 1 April 2016	26,610	26,610
Additions of Assets Under Construction	0	0
Additions Purchased	4,608	4,608
Additions - Purchases from Cash Donations and Government Grants	6	6
Reclassifications	6,294	6,294
Impairments/reversals charged to operating expenses	(3,337)	(3,337)
At 31 March 2017	34,181	34,181
Amortisation		
At 1 April 2016	11,855	11,855
Impairments/reversals charged to operating expenses	(1,594)	(1,594)
Charged During the Year	3,777	3,777
At 31 March 2017	14,038	14,038
Net Book Value at 31 March 2017	20,143	20,143
Asset Financing: Net book value at 31 March 2017 comprises:		
Purchased	20,121	20,121
Government Granted	22	22
Total at 31 March 2017	20,143	20,143

Revaluation reserve balance for intangible non-current assets

	£000's	£000's
At 1 April 2016	1	1
Movements (specify)	0	0
At 31 March 2017	1	1

Information and technology assets are the only category of intangible asset held by the Trust. These assets have not been revalued as historic cost is deemed to be a reasonable proxy for fair value. The useful economic life the asset is determined by the duration the asset will be used by the Trust.

16.2. Intangible non-current assets prior year

	Computer Licenses £000's	Total £000's
2015-16		
Cost or valuation:		
At 1 April 2015	22,096	22,096
Additions - purchased	7,072	7,072
Reclassifications	(2,558)	(2,558)
At 31 March 2016	26,610	26,610
Amortisation		
At 1 April 2015	8,795	8,795
Charged during the year	3,060	3,060
At 31 March 2016	11,855	11,855
Net book value at 31 March 2016	14,755	14,755
Net book value at 31 March 2016 comprises:		
Purchased	14,731	14,731
Government Granted	24	24
Total at 31 March 2016	14,755	14,755

17. Analysis of impairments and reversals recognised in 2016-17

	2016-17
	Total
	£000s
Property, Plant and Equipment impairments and reversals taken to SoCI	
Unforeseen obsolescence	217
Loss as a result of catastrophe	0
Other	0
Changes in market price	20,214
Total charged to Annually Managed Expenditure	<u>20,431</u>
Total Impairments of Property, Plant and Equipment charged to SoCI	<u>20,431</u>
Intangible assets impairments and reversals charged to SoCI	
Unforeseen obsolescence	747
Changes in market price	996
Total charged to Annually Managed Expenditure	<u>1,743</u>
Total Impairments of Intangibles charged to SoCI	<u>1,743</u>
Total Impairments charged to SoCI - DEL	<u>0</u>
Total Impairments charged to SoCI - AME	<u>22,174</u>
Overall Total Impairments	<u>22,174</u>

18. Commitments**18.1. Capital commitments**

Contracted capital commitments at 31 March not otherwise included in these financial statements:

	31 March	31 March
	2017	2016
	£000s	£000s
Property, plant and equipment	147,717	156,477
Intangible assets	198	0
Total	<u>147,915</u>	<u>156,477</u>

Of the capital commitments £145,979,000 are in relation to the lifecycle and equipment elements of PFI schemes.

19. Inventories

	Drugs	Consumables	Work in Progress	Energy	Loan Equipment	Other	Total	Of which held at NRV
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2016	3,767	8,482	0	119	0	0	12,368	0
Additions	71,672	79,077	0	2,191	0	0	152,940	0
Inventories recognised as an expense in the period	(71,161)	(78,586)	0	(2,216)	0	0	(151,963)	0
Write-down of inventories (including losses)	(47)	0	0	0	0	0	(47)	0
Balance at 31 March 2017	4,231	8,973	0	94	0	0	13,298	0

20.1. Trade and other receivables

	Current		Non-current	
	31 March 2017	31 March 2016	31 March 2017	31 March 2016
	£000s	£000s	£000s	£000s
NHS receivables - revenue	18,854	29,273	0	0
NHS prepayments and accrued income	5,582	16,052	0	0
Non-NHS receivables - revenue	3,801	5,546	0	0
Non-NHS receivables - capital	0	0	0	0
Non-NHS prepayments and accrued income	9,052	8,964	3,032	2,991
PDC Dividend prepaid to DH	1,443	0	0	0
Provision for the impairment of receivables	(2,706)	(4,355)	0	0
VAT	1,791	3,033	0	0
Current/non-current part of PFI and other PPP arrangements prepayments and accrued income excluding PFI lifecycle	0	759	0	0
Other receivables	0	0	0	0
Total	37,817	59,272	3,032	2,991
Total current and non current	40,849	62,263		

The great majority of trade is with CCGs. As CCGs are funded by Government to buy NHS patient care services, no credit scoring of them is considered necessary

20.2. Receivables past their due date but not impaired

	31 March 2017	31 March 2016
	£000s	£000s
By up to three months	4,596	8,257
By three to six months	4,368	2,043
By more than six months	343	2,959
Total	9,307	13,259

20.3. Provision for impairment of receivables

	2016-17 £000s	2015-16 £000s
Balance at 1 April 2016	(4,355)	(2,069)
Amount written off during the year	30	0
Amount recovered during the year	3,742	3,333
(Increase)/decrease in receivables impaired	<u>(2,123)</u>	<u>(5,619)</u>
Balance at 31 March 2017	<u>(2,706)</u>	<u>(4,355)</u>

The Trust reviews and provides where necessary for income invoices more than 180 days past the due date, for RTA accruals at the prescribed rate of 21.99% and individually for any other debts which Trust management has reason to believe the Trust may not receive. The Trust's management considers that this is a reasonable estimate of the value of asset.

The increase or decrease in impairment of receivables is reviewed on a monthly basis and increased or decreased dependent upon the value of receivables deemed to be potentially at risk of being collected in full by the Trust. The Trust may go on to recover balances provided for at a future date and this is reflected within the amount recovered during the year.

21. Other current assets

	31 March 2017 £000s	31 March 2016 £000s
EU Emissions Trading Scheme Allowance	247	248
Other Assets	0	0
Total	<u>247</u>	<u>248</u>

22. Cash and Cash Equivalents

	31 March 2017 £000s	31 March 2016 £000s
Opening balance	10,043	9,758
Net change in year	<u>3,523</u>	<u>285</u>
Closing balance	<u>13,566</u>	<u>10,043</u>
Made up of		
Cash with Government Banking Service	13,560	10,037
Cash in hand	6	6
Cash and cash equivalents as in statement of financial position	<u>13,566</u>	<u>10,043</u>
Cash and cash equivalents as in statement of cash flows	<u>13,566</u>	<u>10,043</u>
Third Party Assets - Bank balance (not included above)	12	11

23. Trade and other payables

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
NHS payables - revenue	1,556	468	0	0
NHS payables - capital	0	0	0	0
NHS accruals and deferred income	6,152	21,848	0	0
Non-NHS payables - revenue	17,275	12,573	0	0
Non-NHS payables - capital	13,642	8,255	0	0
Non-NHS accruals and deferred income	25,176	30,272	0	0
PDC Dividend payable to DH	0	460		
Accrued Interest on DH Loans	20	9		
VAT	121	288	0	0
Tax	9,220	8,108		
Other	5,292	6,092	0	0
Total	78,454	88,373	0	0
Total payables (current and non-current)	78,454	88,373		
Included above:				
outstanding Pension Contributions at the year end	5,668	5,382		

24. Borrowings

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Loans from Department of Health	12,450	0	29,362	12,450
PFI liabilities - main liability	8,772	8,970	301,028	309,085
Finance lease liabilities	470	315	2,004	1,748
SALIX loans	258	213	638	637
Total	21,950	9,498	333,032	323,920
Total other liabilities (current and non-current)	354,982	333,418		

Borrowings / Loans - repayment of principal falling due in:

	31 March 2017		
	DH £000s	Other £000s	Total £000s
0-1 Years	12,450	9,492	21,942
1 - 2 Years	0	8,623	8,623
2 - 5 Years	29,362	28,520	57,882
Over 5 Years	0	266,535	266,535
TOTAL	41,812	313,170	354,982

The Trust's finance leases included above relate to a building and equipment. The final repayment for the building lease will be made in 2025 and for the equipment 2022.

The Trust has a PFI scheme in operation for the provision of buildings, equipment and services. The final repayment associated with the assets currently in use and those scheduled to come into use will be made in 2044.

25. Deferred income

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Opening balance at 1 April 2016	7,444	11,163	1,642	1,642
Deferred revenue addition	962	12,629	8	0
Transfer of deferred revenue	(3,139)	(16,348)	(1,433)	0
Current deferred income at 31 March 2017	5,267	7,444	217	1,642
Total deferred income (current and non-current)	5,484	9,086		

26. Finance lease obligations as lessee

The Trust has a finance lease for one building. The final repayment will be made in 2025.

The lease liability in the Trust's Statement of Financial Position is £1,262,000 split between £109,000 due in less than one year and £1,153,000 due in more than one year. This liability represents the sum of the rental payments due in respect of the property (£1,467,000) less the element deemed to be interest (£205,000) which is recognised as an expense in the year that the payment is made.

Amounts payable under finance leases (Buildings)	Minimum lease payments		Present value of minimum	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Within one year	149	145	109	101
Between one and five years	643	624	521	486
After five years	675	842	632	776
Less future finance charges	(205)	(248)	0	0
Minimum Lease Payments / Present value of minimum lease payments	<u>1,262</u>	<u>1,363</u>	<u>1,262</u>	<u>1,363</u>
Included in:				
Current borrowings			109	101
Non-current borrowings			<u>1,153</u>	<u>1,262</u>
			<u>1,262</u>	<u>1,363</u>

Amounts payable under finance leases (Other)

The Trust has finance leases for pathology equipment and printers. The final repayments will be made in 2022.

The lease liability in the Trust's Statement of Financial Position is £1,212,000 split between £361,000 due in less than one year and £851,000 due in more than one year. This liability represents the sum of the rental payments due in respect of the equipment (£2,382,000) less the element deemed to be interest (£1,170,000) which is recognised as an expense in the year that the payment is made.

Amounts payable under finance leases (Other)	Minimum lease payments		Present value of minimum	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Within one year	446	379	361	214
Between one and five years	1,774	1,494	695	15
After five years	162	561	156	471
Less future finance charges	(1,170)	(1,734)		
Minimum Lease Payments / Present value of minimum lease payments	<u>1,212</u>	<u>700</u>	<u>1,212</u>	<u>700</u>
Included in:				
Current borrowings			361	214
Non-current borrowings			<u>851</u>	<u>486</u>
			<u>1,212</u>	<u>700</u>

27. Finance lease receivables as lessor

The Trust has no finance leases where it acts as the lessor.

28. Provisions

	£000s	Early Departure Costs	Legal Claims	Continuing Care	Equal Pay (incl. Agenda for Change)	Other	Redundancy
Total	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Balance at 1 April 2016	10,306	77	525	383	1,198	6,752	1,371
Arising during the year	2,920	1,135	81	0	0	941	763
Utilised during the year	(561)	(88)	(120)	0	0	(299)	(54)
Reversed unused	(5,969)	0	(282)	(383)	0	(4,879)	(425)
Balance at 31 March 2017	6,696	1,124	204	0	1,198	2,515	1,655
Expected Timing of Cash Flows:							
No Later than One Year	5,713	141	204	0	1,198	2,515	1,655
Later than One Year and not later than Five Years	402	402	0	0	0	0	0
Later than Five Years	581	581	0	0	0	0	0

Amount Included in the Provisions of the NHS Litigation Authority in Respect of Clinical Negligence Liabilities:

As at 31 March 2017	190,748
As at 31 March 2016	154,176

The Trust has provided £1,124,000 (2015-16: £77,000) in respect of post employment pension obligations for twenty three former employees. The value of the liability is an estimate which has been recalculated during the year based on actuarial assumptions regarding life expectancy.

The Trust has provided £202,000 (2015-16: £525,000) in respect of legal cases. Of this £50,000 relates to current employment tribunal cases and £152,000 relates to the insurance excess on public and employer liability cases being administered by the NHS Litigation Authority. In all cases the timing and the value of the payments are uncertain and the Trust has provided based on the advice provided by legal advisors and the NHS Litigation Authority.

The Trust has provided £4,098,000 (2015-16: £8,333,000) in respect of additional costs in relation to income, pay and operating costs where the Trust has deemed there to be a risk and a qualifying providing event which is likely to result in the Trust incurring future cash outflows as a result of past events. These are classified under Continuing Care, Equal pay and Other.

The Trust has provided £1,655,000 (2015-16: £1,371,000) in respect of redundancy costs.

29. Contingencies

The member contingent liability relating to the excess due on clinical negligence cases covered by the NHS Litigation Authority is £102,000. The equivalent balance in 2015-16 was £177,000.

30. PFI and LIFT - additional information

The information below is required by the Department of Health for inclusion in national statutory accounts

The Trust has commitments to two PFI schemes:

- The main scheme covering the redevelopment of the City General site, facilities management services, PACS equipment, a managed equipment service and network and communications equipment
- A second scheme covering radiotherapy equipment

The Trust will retain existing estate at the City General site in addition to new buildings covered by the PFI scheme.

The main PFI contract ends in August 2044. A monthly unitary payment will be paid up to that point. Historically, bullet payments have been made to reduce the monthly unitary payment. The unitary payment is subject to annual increases in line with RPI. Services are subject to market testing every 7 years. The arrangement requires the operator to deliver services to the Trust in accordance with the service delivery specification. Non delivery of quality or performance can lead to a reduction in the service charge being paid by the Trust. The Trust retains step in rights should the contractor fail to meet minimum standards as set out within the contract. Under IFRIC 12 the asset is treated as an asset of the trust. The substance of the contract is that the trust has a financial lease and payments comprise 2 elements – imputed finance lease charges and service charges. Details of the imputed finance lease charges are included within the table below.

The radiotherapy contract commenced in May 2010 and runs for 10 years. A bullet payment was made at the beginning of the scheme. Monthly service payments are made to cover the cost of the equipment, maintenance and lifecycle costs.

Charges to operating expenditure and future commitments in respect of on SOFP PFI

	2016-17 £000s	2015-16 £000s
Service element of on SOFP PFI charged to operating expenses in year	<u>31,813</u>	<u>30,759</u>
Total	31,813	30,759
Payments committed to in respect of the service element of on SOFP PFI		
No Later than One Year	33,251	31,464
Later than One Year, No Later than Five Years	128,589	123,476
Later than Five Years	719,138	710,579
Total	880,978	865,519

The above table discloses the total payments the Trust is committed to paying in respect of the service element of on SOFP PFI inflated at current inflation rate. If this rate was to increase by 2.5% each year, the Trust would be committed to pay an additional £318,038k in respect of service element of on SOFP PFI until the end of the PFI contract life in 2044.

Imputed "finance lease" obligations for on SOFP PFI contracts due

	2016-17 £000s	2015-16 £000s
No Later than One Year	16,826	17,241
Later than One Year, No Later than Five Years	64,417	65,211
Later than Five Years	355,036	370,248
Subtotal	436,279	452,700
Less: Interest Element	<u>(126,479)</u>	<u>(134,645)</u>
Total	309,800	318,055

Present Value Imputed "finance lease" obligations for on SOFP PFI contracts due

	2016-17 £000s	2015-16 £000s
Analysed by when PFI payments are due		
No Later than One Year	8,772	8,970
Later than One Year, No Later than Five Years	34,492	34,415
Later than Five Years	266,536	274,670
Total	309,800	318,055

Number of on SOFP PFI Contracts

Total Number of on PFI contracts	2
Number of on PFI contracts which individually have a total commitments value in excess of £500m	1

31. Impact of IFRS treatment - current year

The information below is required by the Department of Health for budget reconciliation purposes

Revenue costs of IFRS: Arrangements reported on SoFP under IFRIC12 (e.g PFI / LIFT)

	2016-17		2015-16	
	Income £000s	Expenditure £000s	Income £000s	Expenditure £000s
Depreciation charges		7,315		7,268
Interest Expense		14,752		14,746
Impairment charge - AME		9,728		0
Impairment charge - DEL		0		0
Other Expenditure		34,136		30,759
Revenue Receivable from subleasing	(254)		(170)	
Impact on PDC dividend payable		(6,269)		(4,906)
Total IFRS Expenditure (IFRIC12)	(254)	59,662	(170)	47,867
Revenue consequences of PFI / LIFT schemes under UK GAAP / ESA95 (net of any sublease revenue)		55,826		54,994
Net IFRS change (IFRIC12)		3,582		(7,297)

Capital Consequences of IFRS : LIFT/PFI and other items under IFRIC12

Capital expenditure 2016-17	4,400	2,683
UK GAAP capital expenditure 2016-17 (Reversionary Interest)	2,245	2,167

The Trust is not required to include the IFRS impact when measuring breakeven performance.

32. Financial Instruments

32.1. Financial risk management

Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Because of the continuing service provider relationship that the NHS Trust has with CCG's and the way those CCG's are financed, the NHS Trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies, to which the financial reporting standards mainly apply. The NHS Trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS Trust in undertaking its activities.

The Trust's treasury management operations are carried out by the finance department, within parameters defined formally within the Trust's standing financial instructions and policies agreed by the board of directors. Trust treasury activity is subject to review by the Trust's internal auditors.

Currency risk

The Trust is principally a domestic organisation with the great majority of transactions, assets and liabilities being in the UK and sterling based. The Trust has no overseas operations. The Trust therefore has low exposure to currency rate fluctuations.

Interest rate risk

The Trust may borrow from government for revenue financing subject to approval by NHS Improvement at rates set by the Department of Health (the lender).

Credit risk

Because the majority of the Trust's revenue comes from contracts with other public sector bodies, the Trust has low exposure to credit risk. The maximum exposures as at 31 March 2017 are in receivables from customers, as disclosed in the trade and other receivables note.

Liquidity risk

The Trust's operating costs are incurred under contracts with CCG's, which are financed from resources voted annually by Parliament. The Trust funds its capital expenditure from funds obtained within its prudential borrowing limit. The Trust is not, therefore, exposed to significant liquidity risks.

32.2. Financial Assets

	Loans and receivables	Total
	£000s	£000s
Receivables - NHS	24,510	24,510
Receivables - non-NHS	4,145	4,145
Cash at bank and in hand	13,566	13,566
Total at 31 March 2017	42,221	42,221
Receivables - NHS	45,546	45,546
Receivables - non-NHS	3,747	3,747
Cash at bank and in hand	10,043	10,043
Total at 31 March 2016	59,336	59,336

32.3. Financial Liabilities

	Other	Total
	£000s	£000s
NHS payables	4,088	4,088
Non-NHS payables	59,359	59,359
Other borrowings	1,078	1,078
PFI & finance lease obligations	312,274	312,274
Other financial liabilities	41,812	41,812
Total at 31 March 2017	418,611	418,611
NHS payables	15,017	15,017
Non-NHS payables	55,415	55,415
Other borrowings	1,371	1,371
PFI & finance lease obligations	320,118	320,118
Other financial liabilities	13,300	13,300
Total at 31 March 2016	405,221	405,221

IFRS 7 requires the Trust to disclose the fair value of financial liabilities. The PFI scheme is a non-current Financial Liability where the fair value is likely to differ from the carrying value. The trust have reviewed the current interest rates available on the market and if these were used as the implicit interest rate for the scheme the fair value of the liability would be £308,555,000.

33. Events after the end of the reporting period

The Trust has not identified any major events that required disclosure.

34. Related party transactions

The Trust's Register of Interests shows that a number of individuals employed or contracted by the Trust in roles of significant influence are also employed or contracted in roles of significant influence by other organisations. The income received relates mainly to the purchase by the UHNM Charity of equipment that enhances the service provided by the Trust. For practical purposes these purchases are administered via the Trust's established ordering and payment procedures with the UHNM Charity reimbursing the cost to the Trust. The charitable and other contributions to revenue expenditure income disclosed in Note 4 relates to services provided by the Trust to the UHNM charity, i.e. the running of the Appeals Dept. Details of related party transactions with such parties are detailed below:

	2016-17			
	Payments to Related Party	Receipts from Related Party	Amounts owed to Related Party	Amounts due from Related Party
	£'000	£'000	£'000	£'000
Alliance Medical	347	884	1	147
King's College	1	0	0	0
NHS Providers	13	0	0	0
Staffordshire University	267	1	3	0
Keele University	4,347	2,129	756	374
Nuffield Hospital	299	75	13	19
Mid Staffordshire Postgraduate Medical Centre (Education)	85	58	1	0
Capsticks Solicitors HR Advisory Practice	1	0	0	0
Stoke on Trent College	426	0	48	0

	2015-16			
	Payments to Related Party	Receipts from Related Party	Amounts owed to Related Party	Amounts due from Related Party
	£'000	£'000	£'000	£'000
Staffordshire University	127	1	5	0
Keele University	3,315	1,920	1,016	629
Worcestershire Acute NHS Trust	0	36	0	8
Nuffield Hospital	292	61	13	24
Mid Staffordshire Postgraduate Medical Centre (Education)	77	64	13	10
Capsticks Solicitors HR Advisory Practice	52	0	13	0
Stoke on Trent College	196	0	100	0

The Department of Health is regarded as a related party. During the year the Trust has had a significant number of material transactions with the Department, and with other entities for which the Department is regarded as the parent Department, these are detailed below.

2016-17

Betsi Cadwaladr Uhb
 Cheshire, Warrington And Wirral Area Team Dental Services
 Cheshire, Warrington And Wirral Area Team Screening Services
 Department of Health
 Health Commission Wales
 NHS Birmingham Cross City CCG
 NHS Business Services Authority
 NHS Cannock Chase CCG
 NHS Dudley CCG
 NHS East Staffordshire CCG
 NHS Eastern Cheshire CCG
 NHS England Specialised
 NHS Litigation Authority
 NHS North Derbyshire CCG
 NHS North Staffordshire CCG
 NHS Redditch And Bromsgrove CCG
 NHS Sandwell And West Birmingham CCG
 NHS Shropshire CCG
 NHS Solihull CCG
 NHS South Cheshire CCG
 NHS South East Staffs And Seisdon Peninsular CCG
 NHS South Worcestershire CCG
 NHS Southern Derbyshire CCG
 NHS Stafford And Surrounds CCG
 NHS Stoke On Trent CCG
 NHS Telford And Wrekin CCG
 NHS Vale Royal CCG
 NHS Walsall CCG
 NHS West Cheshire CCG
 NHS Wolverhampton CCG
 NHS Wyre Forest CCG
 North Staffordshire Combined Healthcare NHS Trust
 Shrewsbury and Telford Hospital NHS Trust
 Shropshire And Staffordshire Area Team Dental Services
 Shropshire And Staffordshire Area Team Screening Services
 Staffordshire and Stoke on Trent Partnership NHS Trust
 The Mid Cheshire NHS Foundation Trust
 Virgin Care - East Staffs

2015-16

Betsi Cadwaladr Uhb
 Cheshire, Warrington And Wirral Area Team Dental Services
 Cheshire, Warrington And Wirral Area Team Screening Ser.
 Department of Health
 Health Commission Wales
 NHS Birmingham Cross City CCG
 NHS Business Services Authority
 NHS Cannock Chase CCG
 NHS Dudley CCG
 NHS East Staffordshire CCG
 NHS Eastern Cheshire CCG
 NHS England Specialised
 NHS Litigation Authority
 NHS North Derbyshire CCG
 NHS North Staffordshire CCG
 NHS Redditch And Bromsgrove CCG
 NHS Sandwell And West Birmingham CCG
 NHS Shropshire CCG
 NHS Solihull CCG
 NHS South Cheshire CCG
 NHS South East Staffs And Seisdon Peninsular CCG
 NHS South Worcestershire CCG
 NHS Southern Derbyshire CCG
 NHS Stafford And Surrounds CCG
 NHS Stoke On Trent CCG
 NHS Telford And Wrekin CCG
 NHS Vale Royal CCG
 NHS Walsall CCG
 NHS West Cheshire CCG
 NHS Wolverhampton CCG
 NHS Wyre Forest CCG
 North Staffordshire Combined Healthcare NHS Trust
 Shrewsbury and Telford Hospital NHS Trust
 Shropshire And Staffordshire Area Team Dental Services
 Shropshire And Staffordshire Area Team Screening Services
 Staffordshire and Stoke on Trent Partnership NHS Trust
 The Mid Cheshire NHS Foundation Trust

In addition, the Trust has had a number of material transactions with other government departments and other central and local government bodies. The majority of these transactions have been with HM Revenue and Customs, National Insurance Fund and the NHS Pension scheme.

The Trust has also received revenue and capital payments from the UHNS Charity and all of the Trustees are also members of the Trust board. In 2016-17 the total amount received from the UHNS Charity was £2,205,821 (2015-16: £886,753). At the end of the year £562,425 (2015-16: £1,269,507) was outstanding and is included within trade and other receivables.

35. Losses and special payments

The total number of losses cases in 2016-17 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	30,458	75
Special payments	23,242	58
Total losses and special payments and gifts	53,700	133

The total number of losses cases in 2015-16 and their total value was as follows:

	Total Value of Cases £s	Total Number of Cases
Losses	1,400	5
Special payments	28,256	84
Total losses and special payments	29,656	89

There have been no cases in 2016/17 or 2015/16 over £300,000 individually.

36. Financial performance targets

The figures given for periods prior to 2009-10 are on a UK GAAP basis as that is the basis on which the targets were set for those years.

36.1. Breakeven performance

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	333,855	393,915	371,299	408,938	418,078	426,319	473,558	475,330	623,835	702,917	739,279
Retained surplus/(deficit) for the year	311	3,990	3,008	(62,470)	1,371	(125,084)	(53,483)	(20,099)	76,890	(37,748)	(50,235)
Adjustment for:											
Adjustments for impairments	0	0	0	61,227	28	127,898	57,106	1,113	8,231	11,281	22,174
Adjustments for impact of policy change re donated/government grants assets						22	(3,388)	(315)	(887)	(469)	288
Consolidated Budgetary Guidance - adjustment for dual accounting under IFRIC12*						(1,786)	0	0	0	0	0
Absorption accounting adjustment				6,555	2,742	(1,786)	0	0	0	0	0
Break-even in-year position	311	3,990	3,008	5,312	4,141	1,050	235	(19,301)	3,782	(26,936)	(27,773)
Break-even cumulative position	(14,623)	(10,633)	(7,625)	(2,313)	1,828	2,878	3,113	(16,188)	(12,406)	(39,342)	(67,115)

* Due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009-10, NHS [organisation]'s financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring Departmental expenditure. Therefore, the incremental revenue expenditure resulting from the application of IFRS 12 schemes (which would include PFI schemes), which has no cash impact and is not chargeable for overall budgeting purposes, is excluded when measuring Breakeven performance. Other adjustments are made in respect of accounting policy changes (impairments and the removal of the donated asset and government grant reserves) to maintain comparability year to year.

Materiality test (i.e. is it equal to or less than 0.5%):

Break-even in-year position as a percentage of turnover

Break-even cumulative position as a percentage of turnover

The amounts in the above tables in respect of financial years 2005/06 to 2008/09 inclusive have not been restated to IFRS and remain on a UK GAAP basis.

The Trust has a statutory duty to break even on a cumulative basis. The Trust had previously developed a 5 year Financial Recovery Plan (FRP) in 2006 which was agreed with the Strategic Health Authority and the Department of Health to achieve cumulative break even by the end of 2010/11. During the 5 years to March 2011 the Trust generated a surplus and was able to repay the cumulative deficit. In 2011/12 and 2012/13 the Trust achieved surplus positions which gave a cumulative surplus as at March 2013 of £3,113,000. The Trust submitted a deficit plan of £31,673,000 for 2013/14 and achieved a deficit of £19,301,000 against this plan, following receipt of £17,000,000 non-recurrent funding. In 2014/15 the Trust approved a financial plan with a planned deficit of £16,944,000 and achieved an in year breakeven position of a surplus £3,782,000 giving a cumulative deficit position at March 2015 of £12,406,000.

In 2015/16 the Trust submitted a deficit plan of £16,823,000 and achieved a deficit of £26,936,000. Due to the cumulative deficit forecast the Trust's external auditors were required to refer the Trust in accordance with section 30 of the Local Audit and Accountability Act 2014 to the Secretary of State for Health informing him that the Trust was not expected to meet its statutory duty to break-even over a 3 year period. This referral was made on 12 May 2015

In 2016/17 the Trust prepared a budget with a surplus position of £698,000, representing the control total agreed with NHS Improvement. In 2016/17 the Trust has reported a deficit of £27,773,000. As at 31 March 2017, the Trust has received cash support for its revenue position of £41,812,000 over the preceding two years. The Trust's financial plan for 2017/18 and 2018/19 forecasts the delivery of further deficits of £119,076,000 and £99,801,000 respectively necessitating further revenue cash borrowing. As a result of the Trust delivering a significant negative variance against the planned control total in 2016/17 and planning a deficit for 2017/18 the Trust has been placed in Financial Special Measures which will require the Trust to develop a robust high-level recovery plan which is service quality assured. The recovery plan must be agreed by the Trust Board and NHS Improvement. Financial Special Measures for the Trust became effective on 24 March 2017 and will remain in place until NHS Improvement determines that the trust has met agreed criteria to exit Financial Special Measures.

Due to the significant deterioration in the Trust's financial performance and forecast position, the Trust's auditors issued a further section 30 referral to the Secretary of State for Health on 22 May 2017 reporting that the Trust's expenditure is likely to continue to exceed income for the foreseeable future.

36.2. Capital cost absorption rate

The dividend payable on public dividend capital is based on the actual (rather than forecast) average relevant net assets based on the pre audited accounts and therefore the actual capital cost absorption rate is automatically 3.5%.

36.3. External financing

The Trust is given an external financing limit which it is permitted to undershoot.

	2016-17	2015-16
	£000s	£000s
External financing limit (EFL)	<u>45,894</u>	<u>39,387</u>
	45,894	39,387
External Financing Limit as reported in the financial statements		
Cash flow financing	42,783	37,572
Finance leases taken out in the year	1,915	0
Other capital receipts	<u>(7)</u>	<u>0</u>
External financing requirement	<u>44,691</u>	<u>37,572</u>
Under/(over) spend against EFL	1,203	1,815

36.4. Capital resource limit

The Trust is given a capital resource limit which it is not permitted to exceed.

	2016-17	2015-16
	£000s	£000s
Gross capital expenditure	50,923	57,766
Less: book value of assets disposed of	(86)	(112)
Less: donations towards the acquisition of non-current assets	<u>(452)</u>	<u>(1,190)</u>
Charge against the capital resource limit	50,385	56,464
Capital resource limit	<u>51,861</u>	<u>57,540</u>
(Over)/underspend against the capital resource limit	1,476	1,076

37. Third party assets

The Trust held cash and cash equivalents which relate to monies held by the NHS Trust on behalf of patients or other parties. This has been excluded from the cash and cash equivalents figure reported in the accounts.

	31 March	31 March
	2017	2016
	£000s	£000s
Third party assets held by the Trust	<u>12</u>	<u>11</u>

STATEMENT OF THE CHIEF EXECUTIVE'S RESPONSIBILITIES AS THE ACCOUNTABLE OFFICER OF THE TRUST

The Chief Executive of the NHS Trust Development Authority has designated that the Chief Executive should be the Accountable Officer to the trust. The relevant responsibilities of Accountable Officers are set out in the Accountable Officers Memorandum issued by the Chief Executive of the NHS Trust Development Authority. These include ensuring that:

- there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance;
- value for money is achieved from the resources available to the trust;
- the expenditure and income of the trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them;
- effective and sound financial management systems are in place; and
- annual statutory accounts are prepared in a format directed by the Secretary of State with the approval of the Treasury to give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, recognised gains and losses and cash flows for the year.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in my letter of appointment as an Accountable Officer.

I confirm that, as far as I am aware, there is no relevant audit information of which the trust's auditors are unaware, and I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the trust's auditors are aware of that information.

I confirm that the annual report and accounts as a whole is fair, balanced and understandable and that I take personal responsibility for the annual report and accounts and the judgments required for determining that it is fair, balanced and understandable.

Signed..........Paula Clark - Chief Executive

Date...31/5/17.....

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

The directors are required under the National Health Service Act 2006 to prepare accounts for each financial year. The Secretary of State, with the approval of the Treasury, directs that these accounts give a true and fair view of the state of affairs of the trust and of the income and expenditure, recognised gains and losses and cash flows for the year. In preparing those accounts, directors are required to:


- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the trust and to enable them to ensure that the accounts comply with requirements outlined in the above mentioned direction of the Secretary of State. They are also responsible for safeguarding the assets of the trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm to the best of their knowledge and belief they have complied with the above requirements in preparing the accounts.

By order of the Board

.....Date 31.5.17.....Paula Clark - Chief Executive

.....Date 31.5.17.....Helen Ashley Chief Officer for
Finance & Performance

INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF UNIVERSITY HOSPITALS OF NORTH MIDLANDS NHS TRUST

We have audited the financial statements of University Hospitals of North Midlands NHS Trust (the "Trust") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity, the Statement of Cash Flows and the related notes. 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, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 (the "2016/17 GAM") and the requirements of the National Health Service Act 2006.

We have also audited the information in the Accountability Report that is subject to audit, being:

- the table of salaries and allowances of senior managers on page 69;
- the table of pension benefits of senior managers on page 71;
- the table of exit packages on page 71;
- the analysis of staff numbers and related narrative notes on page 74; and
- the disclosure of pay multiples on page 72.

This report is made solely to the Directors of University Hospitals of North Midlands NHS Trust, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Trust's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's Directors, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors', the Accountable Officer and auditor

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

As explained in the Statement of the Accountable Officer's responsibilities, the Accountable Officer is responsible for the arrangements to secure economy, efficiency and effectiveness in the use of the Trust's resources. We are required under Section 21(3)(c) and Schedule 13 paragraph 10(a) of the Act to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report by exception where we are not satisfied.

We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the audit of the financial statements

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 Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Performance Report and the Accountability Report 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 us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017, and to report by exception where we are not satisfied.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the financial position of University Hospitals of North Midlands NHS Trust as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 and the requirements of the National Health Service Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1.1 to the financial statements concerning the Trust's ability to continue as a going concern. The Trust incurred a deficit of £27,773,000 during the year ended 31 March 2017 and as at that date, the Trust had net current liabilities of £41,189,000. As disclosed in note 1.1, the Directors are seeking additional support from NHS Improvement in 2017/18 of £116,000,000, however, NHS Improvement has not, at the date of our report, confirmed this support.

These conditions, along with the other matters explained in note 1.1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Trust's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Trust was unable to continue as a going concern.

Opinion on other matters

In our opinion:

- the parts of the Accountability Report to be audited have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Department of Health Group Accounting Manual 2016/17 and the requirements of the National Health Service Act 2006; and
- the other information published together with the audited financial statements in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if we are not satisfied that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for adverse value for money conclusion

Financial Sustainability

The Trust's outturn position for 2016/17 was a £27.8 million deficit which was a significant deterioration compared with the Trust's original budget of a £0.7 million surplus. The Trust's medium term financial plan shows further deficits of £119.1 million and £99.8 million for 2017/18 and 2018/19 respectively. On 24 March 2017 NHS Improvement advised the Trust it was being placed into financial special measures.

The Trust has been unable to set sustainable financial budgets primarily due to:

- failure to deliver the ratio of elective and emergency activity planned with a corresponding increase in emergency activity reducing planned income;
- failure to control staffing costs within the planned budget; and
- inability to fully deliver its cost improvement schemes.

These issues are evidence of weaknesses in proper arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

Adverse value for money conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller and Auditor General in November 2016, because of the significance of the matters described in the Basis for adverse value for money conclusion paragraphs, we are not satisfied that, in all significant respects, University Hospitals of North Midlands NHS Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Referral of a matter to the Secretary of State

We are required to report to you if we refer a matter to the Secretary of State under section 30 of the National Health Service Act 2006 because we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency.

On 22 May 2017 we referred a matter to the Secretary of State under section 30(a) of the National Health Service Act 2006 as we have reason to believe that University Hospitals of North Midlands NHS Trust has taken a course of action that continues to breach the Trust's break-even duty for the three year period. The Trust first breached this duty in the financial period ending 31 March 2016.

We are also required to report to you if:

- in our opinion the Governance Statement 2016/17 does not comply with the guidance issued by NHS Improvement; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Trust under section 24 of the Act in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Certificate

We certify that we have completed the audit of the financial statements of University Hospitals of North Midlands NHS Trust in accordance with the requirements of the Act and the Code of Audit Practice.

Jon Roberts

Jon Roberts

Partner

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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31 May 2017