



**Worcestershire  
Acute Hospitals**  
NHS Trust

**Worcestershire Acute Hospitals NHS Trust**

# Annual Accounts

*for the period 1 April 2016 to 31 March 2017*



Patients



Respect



Improve  
and Innovate



Dependable



Empower

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

	NOTE	2016-17 £000s	2015-16 £000s
Gross employee benefits	9.1	(253,589)	(254,707)
Other operating costs	7	(162,944)	(172,031)
Revenue from patient care activities	4	355,605	349,355
Other operating revenue	5	47,743	19,626
<b>Operating surplus/(deficit)</b>		<b>(13,185)</b>	<b>(57,757)</b>
Investment revenue	11	53	43
Other gains and (losses)	12	(29)	0
Finance costs	13	(14,286)	(11,804)
<b>Surplus/(deficit) for the financial year</b>		<b>(27,447)</b>	<b>(69,518)</b>
Public dividend capital dividends payable		(892)	(3,163)
Transfers by absorption - gains		0	0
Transfers by absorption - (losses)		0	0
<b>Net Gain/(loss) on transfers by absorption</b>		<b>0</b>	<b>0</b>
<b>Retained surplus/(deficit) for the year</b>		<b>(28,339)</b>	<b>(72,681)</b>

**Other Comprehensive Income**

	2016-17 £000s	2015-16 £000s
Impairments and reversals taken to the revaluation reserve	4,674	(19,743)
Net gain/(loss) on revaluation of property, plant & equipment	886	12,545
Net gain/(loss) on revaluation of intangibles	0	0
Net gain/(loss) on revaluation of financial assets	0	0
Other gain/(loss) (explain in footnote below)	0	0
Net gain/(loss) on revaluation of available for sale financial assets	0	0
Net actuarial gain/(loss) on pension schemes	0	0
Other pension remeasurements	0	0
<b>Reclassification adjustments</b>		
On disposal of available for sale financial assets	0	0
<b>Total comprehensive income for the year</b>	<b>(22,779)</b>	<b>(79,879)</b>

**Financial performance for the year**

Retained surplus/(deficit) for the year	(28,339)	(72,681)
Prior period adjustment to correct errors and other performance adjustments	0	0
IFRIC 12 adjustment (including IFRIC 12 impairments)	0	63
Impairments (excluding IFRIC 12 impairments)	(155)	13,261
Adjustments in respect of donated gov't grant asset reserve elimination <i>[if required]</i>	(254)	(474)
Adjustment re absorption accounting	0	0
<b>Adjusted retained surplus/(deficit)</b>	<b>(28,748)</b>	<b>(59,831)</b>

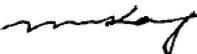
The notes on pages 8 to 27 form part of this account.

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

		31 March 2017	31 March 2016
	NOTE	£000s	£000s
<b>Non-current assets:</b>			
Property, plant and equipment	15	253,138	248,857
Intangible assets	16	4,221	1,733
Investment property	19	0	0
Other financial assets		0	0
Trade and other receivables	22.1	2,723	1,669
<b>Total non-current assets</b>		<b>260,082</b>	<b>252,259</b>
<b>Current assets:</b>			
Inventories	21	8,527	7,081
Trade and other receivables	22.1	26,187	24,983
Other financial assets	24	0	0
Other current assets	25	0	0
Cash and cash equivalents	26	2,050	1,474
<b>Sub-total current assets</b>		<b>36,764</b>	<b>33,538</b>
Non-current assets held for sale	27	570	840
<b>Total current assets</b>		<b>37,334</b>	<b>34,378</b>
<b>Total assets</b>		<b>297,416</b>	<b>286,637</b>
<b>Current liabilities</b>			
Trade and other payables	28	(39,874)	(43,709)
Other liabilities	29	0	0
Provisions	35	(827)	(791)
Borrowings		(1,941)	(1,936)
Other financial liabilities	31	0	0
DH revenue support loan		(1,334)	(1,334)
DH capital loan	0	(2,693)	(2,436)
<b>Total current liabilities</b>		<b>(46,669)</b>	<b>(50,206)</b>
<b>Net current assets/(liabilities)</b>		<b>(9,335)</b>	<b>(15,828)</b>
<b>Total assets less current liabilities</b>		<b>250,747</b>	<b>236,431</b>
<b>Non-current liabilities</b>			
Trade and other payables	28	(3,234)	(2,915)
Other liabilities	29	0	0
Provisions	35	(3,084)	(1,363)
Borrowings		(62,810)	(72,055)
Other financial liabilities	31	0	0
DH revenue support loan	0	(110,528)	(67,944)
DH capital loan	0	(24,798)	(23,535)
<b>Total non-current liabilities</b>		<b>(204,454)</b>	<b>(167,812)</b>
<b>Total assets employed:</b>		<b>46,293</b>	<b>68,619</b>
<b>FINANCED BY:</b>			
Public Dividend Capital		185,017	184,564
Retained earnings		(196,970)	(169,404)
Revaluation reserve		59,107	54,320
Charitable Funds Reserve		(861)	(861)
Other reserves		(861)	(861)
<b>Total Taxpayers' Equity:</b>		<b>46,293</b>	<b>68,619</b>

The notes on pages 28 to 49 form part of this account.

The financial statements on pages 2 to 7 were approved by the Board on 26 May 2017 and signed

Chief Executive:  Date: 26/05/2017  
Michelle McKay

**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
<b>Balance at 1 April 2016</b>	<b>184,564</b>	<b>(169,404)</b>	<b>54,320</b>	<b>(861)</b>	<b>68,619</b>
<b>Changes in taxpayers' equity for 2016-17</b>					
Retained surplus/(deficit) for the year		(28,339)			(28,339)
Net gain / (loss) on revaluation of property, plant, equipment			886		886
Net gain / (loss) on revaluation of intangible assets			0		0
Net gain / (loss) on revaluation of financial assets			0		0
Net gain / (loss) on revaluation of available for sale			0		0
Impairments and reversals			4,674		4,674
Other gains/(loss) (provide details below)				0	0
Transfers between reserves		773	(773)	0	0
<b>Reclassification Adjustments</b>					
Transfers between Reserves in respect of assets transferred under absorption	0	0	0	0	0
On disposal of available for sale financial assets			0		0
Reserves eliminated on dissolution		0	0	0	0
Originating capital for Trust established in year	0				0
Temporary and permanent PDC received - cash	453				453
Temporary and permanent PDC repaid in year	0				0
PDC written off	0	0			0
Transfer due to change of status from Trust to Foundatio	0	0	0	0	0
Other movements	0	0	0	0	0
Net actuarial gain/(loss) on pension		0		0	0
Other pensions remeasurement		0		0	0
<b>Net recognised revenue/(expense) for the year</b>	<b>453</b>	<b>(27,566)</b>	<b>4,787</b>	<b>0</b>	<b>(22,326)</b>
<b>Balance at 31 March 2017</b>		<b>(196,970)</b>	<b>59,107</b>	<b>(861)</b>	<b>46,293</b>

<b>Balance at 1 April 2015</b>	<b>183,996</b>	<b>(95,744)</b>	<b>60,539</b>	<b>(861)</b>	<b>147,930</b>
<b>Changes in taxpayers' equity for the year ended 31 March 2016</b>					
Retained surplus/(deficit) for the year		(72,681)			(72,681)
Net gain / (loss) on revaluation of property, plant, equipment			12,545		12,545
Net gain / (loss) on revaluation of intangible assets			0		0
Net gain / (loss) on revaluation of financial assets			0		0
Net gain / (loss) on revaluation of assets held for sale			0		0
Impairments and reversals			(19,743)		(19,743)
Other gains / (loss)				0	0
Transfers between reserves		(979)	979	0	0
<b>Reclassification Adjustments</b>					
Transfers between revaluation reserve & retained earnings reserve in respect of assets transferred under		0	0		0
On disposal of available for sale financial assets			0		0
Originating capital for Trust established in year	0				0
New PDC received - cash	568				568
PDC repaid in year	0				0
Other movements	0	0	0	0	0
Net actuarial gain/(loss) on pension				0	0
Other pension remeasurement				0	0
<b>Net recognised revenue/(expense) for the year</b>	<b>568</b>	<b>(73,660)</b>	<b>(6,219)</b>	<b>0</b>	<b>(79,311)</b>
<b>Balance at 31 March 2016</b>	<b>184,564</b>	<b>(169,404)</b>	<b>54,320</b>	<b>(861)</b>	<b>68,619</b>

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

	Public Dividend capital £000s	Retained earnings £000s	Revaluation reserve £000s	Charitable Funds Reserve £000s	Other reserves £000s	Total reserves £000s
<b>Balance at 1 April 2016</b>	<b>184,564</b>	<b>(169,404)</b>	<b>54,320</b>	<b>0</b>	<b>(861)</b>	<b>68,619</b>
<b>Changes in taxpayers' equity for 2016-17</b>						
Retained surplus/(deficit) for the year		(28,339)				(28,339)
Net gain / (loss) on revaluation of property, plant, equipment			886			886
Net gain / (loss) on revaluation of intangible assets			0			0
Net gain / (loss) on revaluation of financial assets			0			0
Net gain / (loss) on revaluation of available for sale			0			0
Impairments and reversals			4,674			4,674
Other gains/(loss) (provide details below)					0	0
Transfers between reserves		773	(773)		0	0
<b>Reclassification Adjustments</b>						
Transfers between Reserves in respect of assets transferred under absorption	0	0	0		0	0
On disposal of available for sale financial assets			0			0
Reserves eliminated on dissolution		0	0		0	0
Originating capital for Trust established in year	0					0
Temporary and permanent PDC received - cash	453					453
Temporary and permanent PDC repaid in year	0					0
PDC written off	0	0				0
Transfer due to change of status from Trust to Foundation	0	0	0		0	0
Other movements	0	0	0		0	0
Revaluation and impairment of Charitable fund assets						0
Charitable Funds Adjustment						0
Net actuarial gain/(loss) on pension					0	0
Other pensions remeasurement					0	0
<b>Net recognised revenue/(expense) for the year</b>	<b>453</b>	<b>(27,566)</b>	<b>4,787</b>	<b>0</b>	<b>0</b>	<b>(22,326)</b>
<b>Balance at 31 March 2017</b>	<b>185,017</b>	<b>(196,970)</b>	<b>59,107</b>	<b>0</b>	<b>(861)</b>	<b>46,293</b>
<b>Balance at 1 April 2015</b>	<b>183,996</b>	<b>(95,744)</b>	<b>60,539</b>	<b>0</b>	<b>(861)</b>	<b>147,930</b>
<b>Changes in taxpayers' equity for the year ended 31 March 2016</b>						
Retained surplus/(deficit) for the year		(72,681)				(72,681)
Net gain / (loss) on revaluation of property, plant, equipment			12,545			12,545
Net gain / (loss) on revaluation of intangible assets			0			0
Net gain / (loss) on revaluation of financial assets			0			0
Net gain / (loss) on revaluation of assets held for sale			0			0
Impairments and reversals			(19,743)			(19,743)
Other gains / (loss)					0	0
Transfers between reserves		(979)	979		0	0
<b>Reclassification Adjustments</b>						
Transfers between revaluation reserve & retained earnings reserve in respect of assets transferred under		0	0			0
On disposal of available for sale financial assets			0			0
Originating capital for Trust established in year	0					0
New PDC received - cash	568					568
PDC repaid in year	0					0
Other movements	0	0	0		0	0
Revaluation and impairment of Charitable fund assets						0
Charitable Funds Adjustment						0
Net actuarial gain/(loss) on pension					0	0
Other pension remeasurement					0	0
<b>Net recognised revenue/(expense) for the year</b>	<b>568</b>	<b>(73,660)</b>	<b>(6,219)</b>	<b>0</b>	<b>0</b>	<b>(79,311)</b>
<b>Balance at 31 March 2016</b>	<b>184,564</b>	<b>(169,404)</b>	<b>54,320</b>	<b>0</b>	<b>(861)</b>	<b>68,619</b>

### 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 foundation 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.

**4 Other reserves**

The Other Reserve reflects the differences between the value of the fixed assets taken over by the Trust at inception and the corresponding figure in its originating debt.

**Statement of Cash Flows for the Year ended 31 March 2017**

	NOTE	2016-17 £000s	2015-16 £000s
<b>Cash Flows from Operating Activities</b>			
Operating surplus/(deficit)		(13,185)	(57,757)
Depreciation and amortisation	7	10,697	10,247
Impairments and reversals	17	(155)	13,261
Other gains/(losses) on foreign exchange	12	0	0
Donated Assets received credited to revenue but non-cash	5	0	0
Government Granted Assets received credited to revenue but non-cash		(46)	0
Release of PFI/deferred credit		(433)	0
(Increase)/Decrease in Inventories		(1,446)	(974)
(Increase)/Decrease in Trade and Other Receivables		(2,169)	3,742
(Increase)/Decrease in Other Current Assets		(1,060)	0
Increase/(Decrease) in Trade and Other Payables		(1,464)	1,325
(Increase)/Decrease in Other Current Liabilities		0	(317)
Provisions utilised		(652)	(677)
Increase/(Decrease) in movement in non cash provisions		2,043	(77)
NHS Charitable Funds - net adjustments for working capital movements, non-cash transactions and non-operating cash flows			
<b>Net Cash Inflow/(Outflow) from Operating Activities</b>		<b>(7,870)</b>	<b>(31,227)</b>
<b>Cash Flows from Investing Activities</b>			
Interest Received		53	43
(Payments) for Property, Plant and Equipment		(7,529)	(11,664)
(Payments) for Intangible Assets		(5,277)	(296)
(Payments) for Investments with DH		0	0
(Payments) for Other Financial Assets		0	0
(Payments) for Financial Assets (LIFT)		0	0
Proceeds of disposal of assets held for sale (PPE)		0	0
Proceeds of disposal of assets held for sale (Intangible)		0	0
Proceeds from Disposal of Investment with DH		0	0
Proceeds from Disposal of Other Financial Assets		0	0
Proceeds from the disposal of Financial Assets (LIFT)		0	0
Loans Made in Respect of LIFT		0	0
Loans Repaid in Respect of LIFT		0	0
Rental Revenue		0	0
NHS Charitable Funds - net cash flows relating to investing activities			
<b>Net Cash Inflow/(Outflow) from Investing Activities</b>		<b>(12,753)</b>	<b>(11,917)</b>
<b>Net Cash Inform / (outflow) before Financing</b>		<b>(20,623)</b>	<b>(43,144)</b>
<b>Cash Flows from Financing Activities</b>			
Gross Temporary and Permanent PDC Received		453	568
Gross Temporary and Permanent PDC Repaid		0	0
Loans received from DH - New Capital Investment Loans		3,956	1,783
Loans received from DH - New Revenue Support Loans		43,918	95,665
Other Loans Received		0	0
Loans repaid to DH - Capital Investment Loans Repayment of Principal		(2,436)	(2,436)
Loans repaid to DH - Working Capital Loans/Revenue Support Loans		(1,334)	(35,052)
Other Loans Repaid		0	0
Cash transferred to NHS Foundation Trusts or on dissolution		0	0
Capital Element of Payments in Respect of Finance Leases and On-SoFP PFI and LIFT		(9,240)	(1,970)
Interest paid		(14,286)	(11,803)
PDC Dividend (paid)/refunded		168	(4,244)
Capital grants and other capital receipts (excluding donated / government granted cash receipts)		0	0
NHS Charitable Funds - net cash flows relating to Financing activities			
<b>Net Cash Inflow/(Outflow) from Financing Activities</b>		<b>21,199</b>	<b>42,511</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>576</b>	<b>(633)</b>
<b>Cash and Cash Equivalents (and Bank Overdraft) at Beginning of the Period</b>			
Effect of exchange rate changes in the balance of cash held in foreign currencies		1,474	2,107
		0	0
<b>Cash and Cash Equivalents (and Bank Overdraft) at year end</b>	26	<b>2,050</b>	<b>1,474</b>

## 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 Accounting Manual, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the DH Group Accounting Manual (GAM) 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

These accounts have been prepared on a going concern basis.

International Accounting Standard 1 requires management to assess, as part of the accounts preparation process, the Trust's ability to continue as a going concern. In the context of non-trading entities in the public sector the anticipated continuation of the provision of a service in the future is normally 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.

The Board has considered the overall financial position of the Trust. This has included the financial position against the control total, the level of support already received, future cash flows, feedback from NHS Improvement on the annual plan, the contractual position with commissioners, the 2017/18 CIP programme, financial strategy, executive leadership and CQC inspections.

The Trust incurred a retained deficit of £28.3 million during the year ended 31 March 2017 and at that date had net current liabilities of £9.3 million. It has received cash loans totalling £111.9 million. The Trust has set an annual plan of a planned deficit for next year of £42.7 million before any funds received under STF. To ensure the Trust continues to operate, Directors are seeking additional cash support from NHS Improvement for 2017/18 of £31.3 million. This is in line with the plan submitted to NHS Improvement. NHS Improvement has not confirmed this support. These conditions indicate there is a material uncertainty which make cast a significant doubt about the Trusts 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.

#### 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."

#### 1.4 Charitable Funds

Following Treasury's agreement to apply IAS 27 (now superseded by IFRS10) to NHS Charities from 1 April 2013, the Trust has established that as the Trust is the corporate trustee of the linked NHS Charity (Worcestershire Acute Hospitals Charity), it effectively has the power to exercise control so as to obtain economic benefits. However the transactions are immaterial in the context of the group and transactions have not been consolidated. Details of the transactions with the charity are included in the related parties' notes.

#### 1.5 Not used

#### 1.6 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.

## NOTES TO THE ACCOUNTS

### 1.6.1 Critical judgements in applying accounting policies

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.

In 2013 the PFI provider was found to be in default of the service agreement due to building defects. The Deed of Variation included two broad elements, a lump sum compensation payment and alterations to future service charges. The lump sum payment of £6.5m was credited to other operating revenue.

In the 2016/17 statement of accounts, the Trust has recognised the revenue coming from future service price alterations in other operating revenue. The trust has looked at the reduction in future service provider margins that would not have been agreed without the building defects. The contractual value has been used as the basis for the calculation allowing both for cost of capital adjustments and future service price increases based on predicted RPI changes.

The 2016/17 gain on the alteration to future service charges has been recognised in other operating revenues to be consistent with the recognition of the lump sum compensation payment. This gain has reduced the PFI liability as the settlement related to the compensation for the building defects. The economic benefit of this transaction is recorded in the Statement of Comprehensive Income, the reduction in liability can be seen in Borrowings in the Statement of Financial Performance and note 30.

## NOTES TO THE ACCOUNTS

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

#### 1.6.2 Key sources of estimation uncertainty

The Trust provides for legal or constructive obligations that are of uncertain timing or amount at the balance sheet date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the Treasury's appropriate discount rate. The key estimation uncertainty in the 2016/17 accounts relates to the recognition of revenue for the PFI deed of variation. The Trust has reviewed the estimation provided by specialist advisors and considered the potential estimation uncertainty. The Trust has performed extensive modelling and is satisfied that the estimate is valued appropriately

#### 1.7 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 and costs incurred to date compared to total expected costs.

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.

#### 1.8 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, except for bonuses earned but not yet taken which, like leave earned but not yet taken is not accrued for at the year end, on the grounds of immateriality. However, accruals for Consultant's leave, which is calculated from the date of appointment rather than the start of the financial year. is accrued on the basis of materiality.

##### 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.

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.

The schemes are subject to a full actuarial valuation every four years and an accounting valuation every year.

#### 1.9 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.

## NOTES TO THE ACCOUNTS

### 1.10 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 used for the Trust's services or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the current 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, modern equivalent asset basis.

HM Treasury has adopted a standard approach to depreciated replacement cost valuations based on modern equivalent assets and, where it would meet the location requirements of the service being provided, an alternative site is used for valuation. The trust has adopted valuations based on modern equivalent assets but not an alternative site basis.

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.

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.

## NOTES TO THE ACCOUNTS

### 1.11 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 £5,000.

Intangible assets acquired separately are initially recognised at fair value. 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 amortised replacement cost (modern equivalent assets basis) indexed for relevant price increases, as a proxy for fair value. Internally-developed software is held at historic cost to reflect the opposing effects of increases in development costs and technological advances.

### 1.12 Depreciation, amortisation and impairments

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

Otherwise, depreciation and amortisation are charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, over their estimated useful lives, in a manner that reflects the consumption of economic benefits or service potential of the assets. 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 their 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.

## NOTES TO THE ACCOUNTS

### 1.13 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.

### 1.14 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.

### 1.15 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.

### 1.16 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.

Where there is significant modification to the lease we will consider the quantitative and qualitative aspects of the change to the accounting treatment in line with the requirements of the Application Guidance to IAS 39 Financial Instruments: Recognition and Measurement.

#### 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

### 1.17 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.

## NOTES TO THE ACCOUNTS

### 1.18 Inventories

Inventories (excluding Drugs) 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.

Drugs inventories are valued on an average cost basis.

### 1.19 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.

### 1.20 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.

Early retirement 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 cash flows 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.

### 1.21 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 35.

### 1.22 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.

### 1.23 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.

## NOTES TO THE ACCOUNTS

### 1.24 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.

### 1.25 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.

#### Financial assets 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 assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in calculating the NHS trust's surplus or deficit for the year. The net gain or loss incorporates any interest earned on the financial asset. The Trust has no separable embedded derivatives

#### Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and where there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

#### Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to surplus/deficit on de-recognition. Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques.

## 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.

Financial assets are initially recognised at fair value. Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques [specify – see IAS 39 AG 76]

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 directly.

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.

#### 1.26 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.

#### 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.

#### 1.27 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.

#### 1.28 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.

#### 1.29 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 45 to the accounts.

## NOTES TO THE ACCOUNTS

### 1.30 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.

### 1.31 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).

## NOTES TO THE ACCOUNTS

### 1.32 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'.

### 1.33 Associates

Material entities over which the NHS trust has the power to exercise significant influence so as to obtain economic or other benefits are classified as associates and are recognised in the NHS trust's accounts using the equity method. The investment is recognised initially at cost and is adjusted subsequently to reflect the NHS trust share of the entity's profit/loss and other gains/losses. It is also reduced when any distribution is received by the NHS trust from the entity.

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

### 1.34 Joint arrangements

Material entities over which the NHS trust has joint control with one or more other entities are classified as joint arrangements. Joint control is the contractually agreed sharing of control of an arrangement. A joint arrangement is either a joint operation or a joint venture.

A joint operation exists where the parties that have joint control have rights to the assets and obligations for the liabilities relating to the arrangement. Where the NHS trust is a joint operator it recognises its share of, assets, liabilities, income and expenses in its own accounts.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Joint ventures are recognised as an investment and accounted for using the equity method.

### 1.35 Research and Development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the SOCI on a systematic basis over the period expected to benefit from the project. It should be revalued on the basis of current cost. The amortisation is calculated on the same basis as depreciation, on a quarterly basis.

### 1.36 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.

### 1.37 Gifts

Gifts are items that are voluntarily donated, with no preconditions and without the expectation of any return. Gifts include all transactions economically equivalent to free and unremunerated transfers, such as the loan of an asset for its expected useful life, and the sale or lease of assets at below market value.

## 2. Operating segments

The Trust has only one Operating segment, that is the provision of healthcare services.

The total amount of income from the provision of healthcare services during the accounting period is £396,044k. The total operating expenditure from the provision of healthcare services during the accounting period is £409,229k.

The Trust generated over 10% of income from the following organisations. Worcestershire CCGs income of £263,144 is included in the total income from CCG's of £287,324

	Worcestershire CCGs		NHS England		Total	
	2016-17 £000s	2015-16 £000s	2016-17 £000s	2015-16 £000s	2016-17 £000s	2015-16 £000s
Income	<u>263,144</u>	<u>257,101</u>	<u>62,559</u>	<u>58,403</u>	<u>325,703</u>	<u>315,504</u>

## 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	2,551	2,557
Full cost *	<u>2,027</u>	<u>2,005</u>
Surplus/(deficit)	<u>524</u>	<u>552</u>

\* Full cost for both financial years includes additional car park improvements and modernisation costs.

## 4. Revenue from patient care activities

	2016-17 £000s	2015-16 £000s
NHS Trusts	1,255	7,531
NHS England	62,559	59,073
Clinical Commissioning Groups	287,324	279,733
Foundation Trusts	1,315	1,106
Department of Health	0	0
NHS Other (including Public Health England and Prop Co)	70	31
Additional income for delivery of healthcare services	0	0
Non-NHS:		
Local Authorities	149	149
Private patients	529	484
Overseas patients (non-reciprocal)	66	13
Injury costs recovery **	1,367	1,186
Other Non-NHS patient care income	971	49
<b>Total Revenue from patient care activities</b>	<u>355,605</u>	<u>349,355</u>

\*\* Injury cost recovery income is subject to a provision for impairment of receivables of 22.94% to reflect expected rates of collection. This percentage is advised nationally by the Compensation Recovery Unit.

## 5. Other operating revenue

	2016-17 £000s	2015-16 £000s
Recoveries in respect of employee benefits	0	0
Patient transport services	0	0
Education, training and research	12,225	11,142
Charitable and other contributions to revenue expenditure - NHS	0	535
Charitable and other contributions to revenue expenditure -non- NHS	444	0
Receipt of charitable donations for capital acquisitions	300	1,098
Support from DH for mergers	0	0
Receipt of Government grants for capital acquisitions	0	0
Non-patient care services to other bodies	7,065	856
Sustainability & Transformation Fund Income	15,955	
Income generation (Other fees and charges)	100	37
Rental revenue from finance leases	0	0
Rental revenue from operating leases	108	93
Other revenue	11,546	5,865
<b>Total Other Operating Revenue</b>	<u>47,743</u>	<u>19,626</u>
<b>Total operating revenue</b>	<u>403,348</u>	<u>368,981</u>

The income above includes Sustainability and Transformation Funding of £15.955m received from NHS Improvement. This was the first year when the income was received.

The increase in other revenues is due to the recognition of £7.304 million estimated net present value of changes to future PFI unitary charge. These are the reductions to unitary payments relating to Facilities Management, additional volume payments and the receipt of rent for office accommodation agreed between the Trust and its PFI provider in June 2016 following the rectification of building defects.

<b>6. Overseas Visitors Disclosure</b>	<b>2016-17</b>	2015-16
	<b>£000s</b>	£000s
Income recognised during 2016-17 (invoiced amounts and accruals)	<b>66</b>	<b>13</b>
Cash payments received in-year (re receivables at 31 March 2016)	<b>0</b>	<b>0</b>
Cash payments received in-year (i.e. invoices issued 2016-17)	<b>30</b>	<b>1</b>
Amounts added to provision for impairment of receivables (re receivables at 31 March 2016)	<b>7</b>	<b>0</b>
Amounts added to provision for impairment of receivables (i.e. invoices issued 2016-17)	<b>27</b>	<b>0</b>
Amounts written off in-year (irrespective of year of recognition)	<b>0</b>	<b>0</b>

	2016-17 £000s	2015-16 £000s
<b>7. Operating expenses</b>		
Services from other NHS Trusts	3,170	2,515
Services from CCGs/NHS England	2,113	0
Services from other NHS bodies	590	0
Services from NHS Foundation Trusts	252	0
<b>Total Services from NHS bodies*</b>	<b>6,125</b>	<b>2,515</b>
Purchase of healthcare from non-NHS bodies	1,410	1,435
Purchase of Social Care	0	0
Trust Chair and Non-executive Directors	70	62
Supplies and services - clinical	78,420	88,073
Supplies and services - general	21,886	5,554
Consultancy services	1,284	148
Establishment	5,614	8,838
Transport	1,289	394
Service charges - ON-SOFP PFIs and other service concession arrangements	14,258	13,393
Service charges - On-SOFP LIFT contracts	0	0
Total charges - Off-SOFP PFIs and other service concession arrangements	0	0
Total charges - Off-SOFP LIFT contracts	0	0
Business rates paid to local authorities	2,039	2,155
Premises	7,462	14,230
Hospitality	18	13
Insurance	267	253
Legal Fees	805	1,341
Impairments and Reversals of Receivables	(348)	559
Inventories write down	213	0
Depreciation	7,908	9,690
Amortisation	2,789	557
Impairments and reversals of property, plant and equipment	(425)	13,261
Impairments and reversals of intangible assets	0	0
Impairments and reversals of financial assets [by class]	0	0
Impairments and reversals of non current assets held for sale	270	0
Internal Audit Fees	74	78
Audit fees	117	75
Other auditor's remuneration [clinical audit]	45	38
Clinical negligence	8,338	7,146
Research and development (excluding staff costs)	0	0
Education and Training	628	858
Change in Discount Rate	345	19
Capital Grants in Kind	0	0
Other	2,043	1,346
<b>Total Operating expenses (excluding employee benefits)</b>	<b>162,944</b>	<b>172,031</b>
<b>Employee Benefits</b>		
Employee benefits excluding Board members	251,582	253,712
Board members	2,007	995
<b>Total Employee Benefits</b>	<b>253,589</b>	<b>254,707</b>
<b>Total Operating Expenses</b>	<b>416,533</b>	<b>426,738</b>

In preparation of the 2016/17 Financial Statements the Trust reassessed the categorisation of operating expenditure. This review has led to the reclassification of some expenditure in 2016/17 and mainly impacts on supplies and services and premises expenses. The prior year comparative figures remain as audited in 2015/16.

## 8. Operating Leases

### 8.1 Worcestershire Acute Hospitals NHS Trust as lessee

	Land £000s	Buildings £000s	Other £000s	2016-17 Total £000s	2015-16 £000s
<b>Payments recognised as an expense</b>					
Minimum lease payments				2,287	311
Contingent rents				0	0
Sub-lease payments				0	0
<b>Total</b>				<b>2,287</b>	<b>311</b>
<b>Payable:</b>					
No later than one year		592	0	592	296
Between one and five years	0	2,959	0	2,959	2,959
After five years	0	5,623	0	5,623	6,214
<b>Total</b>	<b>0</b>	<b>9,174</b>	<b>0</b>	<b>9,174</b>	<b>9,469</b>
Total future sublease payments expected to be received:				0	0

### 8.2 Worcestershire Acute Hospitals NHS Trust as lessor

	2016-17 £000s	2015-16 £000s
<b>Recognised as revenue</b>		
Rental revenue	0	0
Contingent rents	108	93
<b>Total</b>	<b>108</b>	<b>93</b>
<b>Receivable:</b>		
No later than one year	108	93
Between one and five years	0	0
After five years	0	0
<b>Total</b>	<b>108</b>	<b>93</b>

## 9. Employee benefits

### 9.1. Employee benefits

	2016-17 Total £000s	2015-16 Total £000s
<b>Employee Benefits - Gross Expenditure</b>		
Salaries and wages	214,675	222,130
Social security costs	18,134	13,489
Employer Contributions to NHS BSA - Pensions Division	22,206	20,210
Other pension costs	13	0
Termination benefits	0	383
<b>Total employee benefits</b>	<b>255,028</b>	<b>256,212</b>
<b>Employee costs capitalised</b>	<b>1,439</b>	<b>1,505</b>
<b>Gross Employee Benefits excluding capitalised costs</b>	<b>253,589</b>	<b>254,707</b>

Note In line with the DH GAM, employee benefits should be shown in the accounts note in a single column for all categories of staff, which matches those shown for employee benefits in the staff costs disclosure in the Staff Report part of the annual report. See paragraphs 5.60 - 5.62 in the DH GAM for more detail.

### 9.2. Retirements due to ill-health

	2016-17 Number	2015-16 Number
Number of persons retired early on ill health grounds	9	3
	£000s	£000s
Total additional pensions liabilities accrued in the year	571	90

### 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](http://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.

## 10. Better Payment Practice Code

### 10.1. Measure of compliance

	2016-17 Number	2016-17 £000s	2015-16 Number	2015-16 £000s
<b>Non-NHS Payables</b>				
Total Non-NHS Trade Invoices Paid in the Year	101,040	209,074	100,120	209,148
Total Non-NHS Trade Invoices Paid Within Target	86,806	171,678	36,193	100,323
Percentage of NHS Trade Invoices Paid Within Target	<u>85.91%</u>	<u>82.11%</u>	<u>36.15%</u>	<u>47.97%</u>
<b>NHS Payables</b>				
Total NHS Trade Invoices Paid in the Year	3,149	35,334	3,164	30,424
Total NHS Trade Invoices Paid Within Target	2,387	28,711	1,418	22,247
Percentage of NHS Trade Invoices Paid Within Target	<u>75.80%</u>	<u>81.26%</u>	<u>44.82%</u>	<u>73.12%</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
Amounts included in finance costs from claims made under this legislation	0	71
Compensation paid to cover debt recovery costs under this legislation	0	0
<b>Total</b>	<u>0</u>	<u>71</u>

## 11. Investment Revenue

	2016-17 £000s	2015-16 £000s
<b>Rental revenue</b>		
PFI finance lease revenue (planned)	0	0
PFI finance lease revenue (contingent)	0	0
Other finance lease revenue	0	0
<b>Subtotal</b>	<u>0</u>	<u>0</u>
<b>Interest revenue</b>		
LIFT: equity dividends receivable	0	0
LIFT: loan interest receivable	0	0
Bank interest	53	43
Other loans and receivables	0	0
Impaired financial assets	0	0
Other financial assets	0	0
<b>Subtotal</b>	<u>53</u>	<u>43</u>
<b>Total investment revenue</b>	<u>53</u>	<u>43</u>

## 12. Other Gains and Losses

	2016-17 £000s	2015-16 £000s
Gain/(Loss) on disposal of assets other than by sale (PPE)	(29)	0
Gain/(Loss) on disposal of assets other than by sale (intangibles)	0	0
Gain/(Loss) on disposal of Financial Assets other than held for sale	0	0
Gain (Loss) on disposal of assets held for sale	0	0
Gain/(loss) on foreign exchange	0	0
Change in fair value of financial assets carried at fair value through the SoCI	0	0
Change in fair value of financial liabilities carried at fair value through the SoCI	0	0
Change in fair value of investment property	0	0
Recycling of gain/(loss) from equity on disposal of financial assets held for sale	0	0
<b>Total</b>	<u>(29)</u>	<u>0</u>

**13. Finance Costs**

	2016-17 £000s	2015-16 £000s
<b>Interest</b>		
Interest on loans and overdrafts	2,788	1,279
Interest on obligations under finance leases	0	0
<b>Interest on obligations under PFI contracts:</b>		
- main finance cost	6,097	6,260
- contingent finance cost	5,380	4,171
<b>Interest on obligations under LIFT contracts:</b>		
- main finance cost	0	0
- contingent finance cost	0	0
Interest on late payment of commercial debt	0	0
<b>Total interest expense</b>	<u>14,265</u>	<u>11,710</u>
Other finance costs	0	0
Provisions - unwinding of discount	21	23
<b>Total</b>	<u>14,286</u>	<u>11,733</u>

**14. Finance Costs**

**14.1 Other auditor remuneration**

The operational expenditure doesn't include other auditor remuneration.

**15.1. Property, plant and equipment**

	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
<b>2016-17</b>									
<b>Cost or valuation:</b>									
<b>At 1 April 2016</b>	36,798	182,485	902	6,970	48,348	312	24,349	1,447	301,611
Additions of Assets Under Construction				3,077					3,077
Additions Purchased	0	4,521	0		289	0	(222)	0	4,588
Additions - Non Cash Donations (i.e. physical assets)	0	0	0	0	0	0	0	0	0
Additions - Purchases from Cash Donations & Government Grants	0	0	0	0	0	0	300	0	300
Additions Leased (including PFI/LIFT)	0	588	0		1,072	0	0	0	1,660
Reclassifications	0	4,477	0	(9,509)	1,109	21	(1,206)	(1,131)	(6,239)
Reclassifications as Held for Sale and reversals	0	0	0	0	0	0	0	0	0
Disposals other than for sale	0	0	0	0	(3,413)	(13)	(1,546)	(156)	(5,128)
Revaluation	0	(1,927)	(13)	0	0	0	0	0	(1,940)
Impairments/reversals charged to operating expenses	0	0	0	0	0	0	0	0	0
Impairments/reversals charged to reserves	0	4,626	48	0	0	0	0	0	4,674
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0	0	0	0	0	0	0
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0	0	0	0	0	0	0	0
<b>At 31 March 2017</b>	<b>36,798</b>	<b>194,770</b>	<b>937</b>	<b>538</b>	<b>47,405</b>	<b>320</b>	<b>21,675</b>	<b>160</b>	<b>302,603</b>
<b>Depreciation</b>									
<b>At 1 April 2016</b>	0	0	0		34,511	312	17,143	788	52,754
Reclassifications	0	0	0		491	21	(2,853)	(513)	(2,854)
Reclassifications as Held for Sale and reversals	0	0	0		0	0	0	0	0
Disposals other than for sale	0	0	0		(3,382)	(13)	(1,541)	(156)	(5,092)
Revaluation	0	(2,813)	(13)		0	0	0	0	(2,826)
Impairment/reversals charged to reserves	0	0	0		0	0	0	0	0
Impairments/reversals charged to operating expense	0	(419)	(6)		0	0	0	0	(425)
Charged During the Year	0	3,277	19		3,007	0	1,592	13	7,908

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Transfer									
s to									
NHS									
Foundati									
on Trust									
on									
authoris									
ation as									
FT	0	0	0		0	0	0	0	0
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0	0		0	0	0	0	0
<b>At 31 March 2017</b>	<b>0</b>	<b>45</b>	<b>0</b>	<b>0</b>	<b>34,627</b>	<b>320</b>	<b>14,341</b>	<b>132</b>	<b>49,465</b>
<b>Net Book Value at 31 March 2017</b>	<b>36,798</b>	<b>194,725</b>	<b>937</b>	<b>538</b>	<b>12,778</b>	<b>0</b>	<b>7,334</b>	<b>28</b>	<b>253,138</b>
<b>Asset financing:</b>									
Owned - Purchased	36,798	116,567	937	538	12,724	0	7,034	28	174,626
Owned - Donated	0	289	0	0	54	0	300	0	643
Owned - Government Granted	0	0	0	0	0	0	0	0	0
Held on finance lease	0	0	0	0	0	0	0	0	0
On-SOFP PFI contracts	0	77,869	0	0	0	0	0	0	77,869
PFI residual interests	0	0	0	0	0	0	0	0	0
<b>Total at 31 March 2017</b>	<b>36,798</b>	<b>194,725</b>	<b>937</b>	<b>538</b>	<b>12,778</b>	<b>0</b>	<b>7,334</b>	<b>28</b>	<b>253,138</b>

**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
<b>At 1 April 2016</b>	22,303	30,522	471	0	1,020	1	3	0	<b>54,320</b>
Movements (specify)	0	4,926	38	0	(176)	(1)	0	0	<b>4,787</b>
<b>At 31 March 2017</b>	<b>22,303</b>	<b>35,448</b>	<b>509</b>	<b>0</b>	<b>844</b>	<b>0</b>	<b>3</b>	<b>0</b>	<b>59,107</b>

**Additions to Assets Under Construction in 2016-17**

Land	0
Buildings excl Dwellings	(1,024)
Dwellings	0
Plant & Machinery	4,101
<b>Balance as at YTD</b>	<b>3,077</b>

**15.2. Property, plant and equipment prior-year**

	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
<b>2015-16</b>									
<b>Cost or valuation:</b>									
At 1 April 2015	32,706	203,750	1,761	5,366	50,771	315	21,494	0	316,163
Additions of Assets Under Construction				9,001					9,001
Additions Purchased	0	54	0		1,528	0	888	0	2,470
Additions - Non Cash Donations (i.e. Physical Assets)	0	0	0	0	0	0	0	0	0
Additions - Purchases from Cash Donations & Government Grants	0	1,098	0	0	0	0	0	0	1,098
Additions Leased (including PFI/LIFT)	0	0	0		0	0	0	0	0
Reclassifications	0	4,965	24	(7,397)	164	0	1,967	0	(277)
Reclassifications as Held for Sale and Reversals	0	0	0	0	0	0	0	0	0
Disposals other than for sale	0	0	0	0	(2,633)	(3)	0	0	(2,636)
Revaluation	7,469	5,076	0	0	0	0	0	0	12,545
Impairment/reversals charged to reserves	(208)	(12,813)	(240)	0	0	0	0	0	(13,261)
Impairments/reversals charged to operating expenses	(3,169)	(15,969)	(605)	0	0	0	0	0	(19,743)
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0	0	0	0	0	0	0
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0	0	0	0	0	0	0	0
<b>At 31 March 2016</b>	<b>36,798</b>	<b>186,161</b>	<b>940</b>	<b>6,970</b>	<b>49,830</b>	<b>312</b>	<b>24,349</b>	<b>0</b>	<b>305,360</b>
<b>Depreciation</b>									
At 1 April 2015	0	0	0		34,760	315	14,248	0	49,323
Reclassifications	0	0	0		0	0	0	0	0
Reclassifications as Held for Sale and Reversals	0	0	0		0	0	0	0	0
Disposals other than for sale	0	0	0		(2,507)	(3)	0	0	(2,510)
Revaluation	0	0	0		0	0	0	0	0
Impairment/reversals charged to reserves	0	0	0		0	0	0	0	0
Impairments/reversals charged to operating expenses	0	0	0		0	0	0	0	0
Charged During the Year	0	3,676	38		3,081	0	2,895	0	9,690
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0		0	0	0	0	0
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0	0		0	0	0	0	0
<b>At 31 March 2016</b>	<b>0</b>	<b>3,676</b>	<b>38</b>	<b>0</b>	<b>35,334</b>	<b>312</b>	<b>17,143</b>	<b>0</b>	<b>56,503</b>
<b>Net Book Value at 31 March 2016</b>	<b>36,798</b>	<b>182,485</b>	<b>902</b>	<b>6,970</b>	<b>14,496</b>	<b>0</b>	<b>7,206</b>	<b>0</b>	<b>248,857</b>
<b>Asset financing:</b>									
Owned - Purchased	36,798	107,923	902	6,970	8,504	0	7,206	0	168,303
Owned - Donated	0	299	0	0	156	0	0	0	455
Owned - Government Granted	0	0	0	0	0	0	0	0	0
Held on finance lease	0	0	0	0	0	0	0	0	0
On-SOFP PFI contracts	0	74,263	0	0	5,836	0	0	0	80,099
PFI residual interests	0	0	0	0	0	0	0	0	0
<b>Total at 31 March 2016</b>	<b>36,798</b>	<b>182,485</b>	<b>902</b>	<b>6,970</b>	<b>14,496</b>	<b>0</b>	<b>7,206</b>	<b>0</b>	<b>248,857</b>

**15.3 (cont). Property, plant and equipment**

A valuation of the Trust's land and buildings was undertaken by Cushman and Wakefield (RICS Registered Valuers), as at 31st March 2017.

The valuations were carried out in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the Department of Health and HM Treasury. In accordance with the requirements of the Department of Health, the asset valuations were undertaken in 2017 as at the prospective valuation date of 31 March 2017.

The valuations have been carried out primarily on the basis of Depreciated Replacement Cost for specialised operational property and Existing Use Value for non-specialised operational property.

In line with HM Treasury guidance, the revaluation as at 31st March 2017 was based on the 'Modern Equivalent Asset' approach to valuation.

The Trust acts as a Lessor, detailed in Note 8.2 of the Accounts. The PPE note includes amounts associated with the leased assets as follows:-

	<b>Gross Carrying Amount of Asset</b>	<b>Depreciation 2016/17</b>
	<b>£000</b>	<b>£000</b>
Kidderminster Hospital - F Block	<b>1,056</b>	<b>19</b>
Worcester John Anthony Centre GU Medicine	<b>270</b>	<b>4</b>

The Trusts leases smaller areas as detailed in Note 8.2, however due the revaluation of Property on a Modern Equivalent Asset basis it is not possible to separately identify any of the values associated with these assets.

The valuation undertaken by Cushman and Wakefield calculates the useful economic lives based on a standard formula. In March 2013 the Trust undertook a full review of its asset base including a condition survey which informed the Trust's assessment of useful economic lives. After taking professional advice the Trust has revised the useful economic lives based on the condition survey to more accurately reflect the future economic benefit from property assets. The approach used is consistent with the principles of the Red Book and IAS16. Each site is now defined as the property asset with the 3 significant components defined as land, buildings and external works. This has had the overall effect of extending the useful economic lives. During the March 2017 valuation exercise, these Asset Lives were checked and revised where necessary.

**16. Intangible non-current assets**

**16.1. Intangible non-current assets**

	IT - in-house & 3rd party software	Software and Computer Licenses	Licenses and Trademarks	Patents	Developmen t Expenditure - Internally Generated	Intangible Assets Under Constructio n	Total
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
<b>2016-17</b>							
<b>At 1 April 2016</b>	<b>2,762</b>	<b>707</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,469</b>
Additions of Assets Under Construction						0	0
Additions Purchased	508	1,383	0	0	0	0	1,891
Additions Internally Generated	0	0	0	0	0	0	0
Additions - Non Cash Donations (i.e. physical assets)	0	0	0	0	0	0	0
Additions - Purchases from Cash Donations and Government Grants	0	0	0	0	0	0	0
Additions Leased (including PFI/LIFT)	0	0	0	0	0	0	0
Reclassifications	(2)	6,241	0	0	0	0	6,239
Reclassified as Held for Sale and Reversals	0	0	0	0	0	0	0
Disposals other than by sale	(1)	(3)	0	0	0	0	(4)
Upward revaluation/positive indexation	0	0	0	0	0	0	0
Impairments/reversals charged to operating expenses	0	0	0	0	0	0	0
Impairments/reversals charged to reserves	0	0	0	0	0	0	0
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0	0	0	0	0
Transfer (to)/from Other Public Sector bodies under Absorption	0	0	0	0	0	0	0
<b>At 31 March 2017</b>	<b>3,267</b>	<b>8,328</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,595</b>
<b>Amortisation</b>							
<b>At 1 April 2016</b>	<b>1,627</b>	<b>109</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>1,736</b>
Reclassifications	0	2,854	0	0	0		2,854
Reclassified as Held for Sale and Reversals	0	0	0	0	0		0
Disposals other than by sale	(1)	(4)	0	0	0		(5)
Upward revaluation/positive indexation	0	0	0	0	0		0
Impairment/reversals charged to reserves	0	0	0	0	0		0
Impairments/reversals charged to operating expenses	0	0	0	0	0		0
Charged During the Year	432	2,357	0	0	0		2,789
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0	0	0		0
Transfer (to)/from Other Public Sector bodies under Absorption	0	0	0	0	0		0
<b>At 31 March 2017</b>	<b>2,058</b>	<b>5,316</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>7,374</b>
<b>Net Book Value at 31 March 2017</b>	<b>1,209</b>	<b>3,012</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,221</b>
<b>Asset Financing: Net book value at 31 March 2017 comprises:</b>							
Purchased	1,209	3,012	0	0	0	0	4,221
Donated	0	0	0	0	0	0	0
Government Granted	0	0	0	0	0	0	0
Finance Leased	0	0	0	0	0	0	0
On-balance Sheet PFIs	0	0	0	0	0	0	0

<b>Total at 31 March 2017</b>	<u>1,209</u>	<u>3,012</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,221</u>
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In preparation of the 2016/17 Financial Statements the Trust reassessed the categorisation of IT software and licenses from tangible assets to intangible assets.

**Revaluation reserve balance for intangible non-current assets**

	£000's						
<b>At 1 April 2016</b>	0	0	0	0	0	0	0
Movements (specify)	0	0	0	0	0	0	0
<b>At 31 March 2017</b>	<u>0</u>						

**16.2. Intangible non-current assets prior year**

2015-16	IT - in-house & 3rd party software £000's	Computer Licenses £000's	Licenses and Trademarks £000's	Patents £000's	Development Expenditure - Internally Generated £000's	£000's	Total £000's
Cost or valuation:							
At 1 April 2015	2,189	707	0	0	0	0	<b>2,896</b>
Additions - purchased	296	0	0	0	0	0	<b>296</b>
Additions - internally generated	0	0	0	0	0	0	<b>0</b>
Additions - donated	0	0	0	0	0	0	<b>0</b>
Additions - government granted	0	0	0	0	0	0	<b>0</b>
Additions Leased (including PFI/LIFT)	0	0	0	0	0	0	<b>0</b>
Reclassifications	277	0	0	0	0	0	<b>277</b>
Reclassified as held for sale	0	0	0	0	0	0	<b>0</b>
Disposals other than by sale	0	0	0	0	0	0	<b>0</b>
Upward revaluation/positive indexation	0	0	0	0	0	0	<b>0</b>
Impairments/reversals charged to operating expenses	0	0	0	0	0	0	<b>0</b>
Impairments/reversals charged to reserves	0	0	0	0	0	0	<b>0</b>
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0	0	0	0	<b>0</b>
Transfer (to)/from Other Public Sector bodies under Absorption	0	0	0	0	0	0	<b>0</b>
At 31 March 2016	<u>2,762</u>	<u>707</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,469</u>
Amortisation							
At 1 April 2015	1,070	109	0	0	0	0	<b>1,179</b>
Reclassifications	0	0	0	0	0	0	<b>0</b>
Reclassified as held for sale	0	0	0	0	0	0	<b>0</b>
Disposals other than by sale	0	0	0	0	0	0	<b>0</b>
Upward revaluation/positive indexation	0	0	0	0	0	0	<b>0</b>
Impairments/reversals charged to operating expenses	0	0	0	0	0	0	<b>0</b>
Impairments/reversals charged to reserves	0	0	0	0	0	0	<b>0</b>
Charged during the year	557	0	0	0	0	0	<b>557</b>
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0	0	0	0	<b>0</b>
Transfer (to)/from Other Public Sector bodies under Absorption	0	0	0	0	0	0	<b>0</b>
At 31 March 2016	<u>1,627</u>	<u>109</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,736</u>
Net book value at 31 March 2016	0	17	1,135	0	0	0	<b>1,152</b>
Net book value at 31 March 2016 comprises:							
Purchased							<b>0</b>
Donated							<b>0</b>
Government Granted							<b>0</b>
Finance Leased							<b>0</b>
On-balance Sheet PFIs							<b>0</b>
Total at 31 March 2016	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

**16.3. Intangible non-current assets**

**Economic life of non-current assets**

	<b><u>Min Life</u></b> <b><u>Years</u></b>	<b><u>Max Life</u></b> <b><u>Years</u></b>
Software Licences	5	5
Property, Plant and Equipment:-		
Buildings excl Dwellings	17	93
Dwellings	58	87
Plant & Machinery	4	15
Transport Equipment	4	15
Information Technology	3	10
Furniture and Fittings		

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

	<b>2016-17</b>
	<b>Total</b>
	<b>£000s</b>
<b>Property, Plant and Equipment impairments and reversals taken to SoCI</b>	
Loss or damage resulting from normal operations	0
Over-specification of assets	0
Abandonment of assets in the course of construction	0
<b>Total charged to Departmental Expenditure Limit</b>	<b>0</b>
Unforeseen obsolescence	0
Loss as a result of catastrophe	0
Other	0
Changes in market price	(425)
<b>Total charged to Annually Managed Expenditure</b>	<b>(425)</b>
<b>Total Impairments of Property, Plant and Equipment changed to SoCI</b>	<b>(425)</b>
<b>Intangible assets impairments and reversals charged to SoCI</b>	
Loss or damage resulting from normal operations	0
Over-specific ation of assets	0
Abandonment of assets in the course of construction	0
<b>Total charged to Departmental Expenditure Limit</b>	<b>0</b>
Unforeseen obsolescence	0
Loss as a result of catastrophe	0
Other	0
Change s in market price	0
<b>Total charged to Annually Managed Expenditure</b>	<b>0</b>
<b>Total Impairments of Intangibles charged to SoCI</b>	<b>0</b>
<b>Financial Assets charged to SoCI</b>	
Loss or damage resulting from normal operations	0
<b>Total charged to Departmental Expenditure Limit</b>	<b>0</b>
Loss as a result of catastrophe	0
Other	0
<b>Total charged to Annually Managed Expenditure</b>	<b>0</b>
<b>Total Impairments of Financial Assets charged to SoCI</b>	<b>0</b>
<b>Non-current assets held for sale - impairments and reversals charged to SoCI.</b>	
Loss or damage resulting from normal operations	0
Abandonment of assets in the course of construction	0
<b>Total charged to Departmental Expenditure Limit</b>	<b>0</b>
Unforeseen obsolescence	0
Loss as a result of catastrophe	0
Other	0
Changes in market price	270
<b>Total charged to Annually Managed Expenditure</b>	<b>270</b>
<b>Total impairments of non-current assets held for sale charged to SoCI</b>	<b>270</b>
<b>Total Impairments charged to SoCI - DEL</b>	<b>0</b>
<b>Total Impairments charged to SoCI - AME</b>	<b>(155)</b>
<b>Overall Total Impairments</b>	<b>(155)</b>
<b>Donated and Gov Granted Assets, included above</b>	
PPE - Donated and Government Granted Asset Impairments: amount charged to SOCI - DEL	0
Intangibles - Donated and Government Granted Asset Impairments: amount charged to SOCI - DEL	0

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

	Property Plant and Equipment	Intangible Assets	Financial Assets	Non- Current Assets Held for Sale	Total £000s
<b>Impairments and reversals taken to SoCI</b>					
Loss or damage resulting from normal operations	0	0	0	0	0
Over-specification of assets	0	0	0	0	0
Abandonment of assets in the course of construction	0	0	0	0	0
<b>Total charged to Departmental Expenditure Limit</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Unforeseen obsolescence	0	0	0	0	0
Loss as a result of catastrophe	0	0	0	0	0
Other	0	0	0	0	0
Changes in market price	(425)	0	0	270	(155)
<b>Total charged to Annually Managed Expenditure</b>	<b>(425)</b>	<b>0</b>	<b>0</b>	<b>270</b>	<b>(155)</b>
<b>Total Impairments of Property, Plant and Equipment changed</b>	<b>(425)</b>	<b>0</b>	<b>0</b>	<b>270</b>	<b>(155)</b>

**Donated and Gov Granted Assets, included above**

	£000s
PPE - Donated and Government Granted Asset Impairments: amount charged to SOCI - DEL	0
Intangibles - Donated and Government Granted Asset Impairments: amount charged to SOCI - DEL	0

**19. Investment property**

	31 March 2017 £000s	31 March 2016 £000s
<b>At fair value</b>		
<b>Balance at 1 April 2016</b>	0	0
Additions Through Subsequent Expenditure	0	0
Other Acquisitions	0	0
Disposals	0	0
Property Reclassified as Held for Sale	0	0
Loss from Fair Value Adjustments - Impairments	0	0
Loss from Fair Value Adjustments - Reversal of Impairments	0	0
Gain from Fair Value Adjustments	0	0
Transfers to NHS Foundation Trust on authorisation as FT	0	0
Transfers (to) / from Other Public Sector Bodies under absorption accounting	0	0
Other Changes	0	0
<b>Balance at 31 March 2017</b>	<b>0</b>	<b>0</b>

**20. Commitments****20.1. Capital commitments**

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

	31 March 2017 £000s	31 March 2016 £000s
Property, plant and equipment	1,860	1,541
Intangible assets	72	0
<b>Total</b>	<b>1,932</b>	<b>1,541</b>

**20.2. Other financial commitments**

The trust hasn't entered into non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements).

## 21. Inventories

	Drugs	Consumables	Work in Progress	Energy	Loan Equipment	Other	Total	Of which held at NRV
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 1 April 2016</b>	<b>2,734</b>	<b>4,254</b>	<b>87</b>	<b>6</b>	<b>0</b>	<b>0</b>	<b>7,081</b>	<b>0</b>
Additions	43,296	1,853	0	5	0	0	45,154	0
Inventories recognised as an expense in the period	(42,358)	(1,132)	(5)	0	0	0	(43,495)	0
Write-down of inventories (including losses)	(213)	0	0	0	0	0	(213)	0
Reversal of write-down previously taken to SOCI	0	0	0	0	0	0	0	0
Transfers to NHS Foundation Trust on authorisation as FT	0	0	0	0	0	0	0	0
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0	0	0	0	0	0	0
<b>Balance at 31 March 2017</b>	<b>3,459</b>	<b>4,975</b>	<b>82</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>8,527</b>	<b>0</b>

## 22.1. 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	6,684	10,231	0	0
NHS receivables - capital	58	0	0	0
NHS prepayments and accrued income	9,950	0	0	0
Non-NHS receivables - revenue	2,575	665	2,723	0
Non-NHS receivables - capital	31	0	0	0
Non-NHS prepayments and accrued income	5,683	13,740	0	587
Provision for the impairment of receivables	(1,829)	(2,041)	0	0
VAT	1,927	1,117	0	0
Current/non-current part of PFI and other PPP arrangements prepayments and accrued income excluding PFI lifecycle	0	0	0	0
Interest receivables	0	0	0	0
Finance lease receivables	0	0	0	0
Operating lease receivables	0	0	0	0
Other receivables	0	0	0	1,082
<b>Total</b>	<b>26,187</b>	<b>24,983</b>	<b>2,723</b>	<b>1,669</b>
<b>Total current and non current</b>	<b>28,910</b>	<b>26,652</b>		
Included in NHS receivables are prepaid pension contributions:	<b>0</b>			

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

## 22.2. Receivables past their due date but not impaired

	31 March 2017	31 March 2016
	£000s	£000s
By up to three months	988	3,623
By three to six months	259	493
By more than six months	908	1,671
<b>Total</b>	<b>2,155</b>	<b>5,787</b>



**22.3. Provision for impairment of receivables**

	2016-17 £000s	2015-16 £000s
<b>Balance at 1 April 2016</b>	<b>(2,350)</b>	(1,482)
Amount written off during the year	173	0
Amount recovered during the year	0	0
(Increase)/decrease in receivables impaired	348	(559)
Transfers to NHS Foundation Trust on authorisation as FT	0	0
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0
<b>Balance at 31 March 2017</b>	<b>(1,829)</b>	(2,041)

**23. NHS LIFT investments**

The Trust had no LIFT Investments during the year ended 31st March 2017

**24.1. Other Financial Assets - Current**

The Trust had no Other Financial Assets - Current during the year ended 31st March 2017

**24.2. Other Financial Assets - Non Current**

The Trust had no Other Financial Assets - Non Current during the year ended 31st March 2017

**25. Other current assets**

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

**26. Cash and Cash Equivalents**

	31 March 2017 £000s	31 March 2016 £000s
<b>Opening balance</b>	<b>1,474</b>	2,107
Net change in year	576	(633)
<b>Closing balance</b>	<b>2,050</b>	1,474
<b>Made up of</b>		
Cash with Government Banking Service	2,015	970
Commercial banks ****	30	500
Cash in hand	5	4
Liquid deposits with NLF	0	0
Current investments	0	0
<b>Cash and cash equivalents as in statement of financial position</b>	<b>2,050</b>	1,474
Bank overdraft - Government Banking Service	0	0
Bank overdraft - Commercial banks	0	0
<b>Cash and cash equivalents as in statement of cash flows</b>	<b>2,050</b>	1,474
Third Party Assets - Bank balance (not included above)	0	0
Third Party Assets - Monies on deposit	0	0

\*\*\*\* The Trust closed the Trust Variation Commercial Bank Account in 2016/17; this account had been jointly accessible by the Trust and the Trust's PFI Partner.

**27. Non-current assets held for sale**

	Land	Buildings, excl. dwellings	Dwellings	Asset Under Construction and Payments on Account	Plant and Machinery	Transport and Equipment	Information Technology	Furniture and Fittings	Intangible Assets	Financial Assets	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 1 April 2016</b>	0	0	840	0	0	0	0	0	0	0	<b>840</b>
Plus assets classified as held for sale in the year	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Less assets sold in the year	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Less impairment of assets held for sale	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Plus reversal of impairment of assets held for sale	0	0	(270)	0	0	0	0	0	0	0	<b>(270)</b>
Less assets no longer classified as held for sale, for reasons other than disposal by sale	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Transfers to Foundation Trust on authorisation as FT	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0	0	0	0	0	0	0	0	0	<b>0</b>
<b>Balance at 31 March 2017</b>	<b>0</b>	<b>0</b>	<b>570</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>570</b>
<b>Liabilities associated with assets held for sale at 31 March 2017</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Balance at 1 April 2015</b>	0	0	840	0	0	0	0	0	0	0	<b>840</b>
Plus assets classified as held for sale in the year	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Less assets sold in the year	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Less impairment of assets held for sale	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Plus reversal of impairment of assets held for sale	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Less assets no longer classified as held for sale, for reasons other than disposal by sale	0	0	0	0	0	0	0	0	0	0	<b>0</b>
Transfers (to)/from Other Public Sector Bodies under Absorption Accounting	0	0	0	0	0	0	0	0	0	0	<b>0</b>
<b>Balance at 31 March 2016</b>	<b>0</b>	<b>0</b>	<b>840</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>840</b>
<b>Liabilities associated with assets held for sale at 31 March 2016</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

For 2016/17 the Assets classified as Held for Sale in year are two Accommodation Blocks at the Alexandra Hospital Redditch, for which the process of disposal is still to be finalised.

## 28. 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	1,303	3,236	0	0
NHS payables - capital	0	0	0	0
NHS accruals and deferred income	5,005	0	0	0
Non-NHS payables - revenue	6,586	15,414	0	0
Non-NHS payables - capital	1,811	3,365	0	0
Non-NHS accruals and deferred income	16,187	13,480	3,234	2,915
Social security costs	5,591	2,052		
PDC Dividend payable to DH	892	0		
Accrued Interest on DH Loans	389	195		
VAT	0	0	0	0
Tax	2,090	2,215		
Payments received on account	20	0	0	0
Other	0	3,752	0	0
<b>Total</b>	<b>39,874</b>	<b>43,709</b>	<b>3,234</b>	<b>2,915</b>
<b>Total payables (current and non-current)</b>	<b>43,108</b>	<b>46,624</b>		
<b>Included above:</b>				
To Buy Out the Liability for Early Retirements Over 5 Years	0	0		
Number of Cases Involved (number)	0	0		
Outstanding Pension Contributions at the year end	3,041	3,048		

## 29. Other liabilities

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Lease incentives	0	0	0	0
Other	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total other liabilities (current and non-current)</b>	<b>0</b>	<b>0</b>		

### 30. Borrowings

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
Bank overdraft - Government Banking Service	0	0		
Bank overdraft - commercial banks	0	0		
Loans from Department of Health	4,027	3,770	135,326	91,479
Loans from other entities	0	0	0	0
<b>PFI liabilities - main liability</b>	<b>1,941</b>	<b>1,936</b>	<b>62,810</b>	<b>72,055</b>
<b>LIFT liabilities - main liability</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Finance lease liabilities	0	0	0	0
Other (describe)	0	0	0	0
<b>Total</b>	<b>5,968</b>	<b>5,706</b>	<b>198,136</b>	<b>163,534</b>
<b>Total other liabilities (current and non-current)</b>	<b>204,104</b>	<b>169,240</b>		

#### Borrowings / Loans - repayment of principal falling due in:

	DH £000s	31 March 2017	
		Other £000s	Total £000s
0-1 Years	4,027	1,941	5,968
1 - 2 Years	42,410	2,106	44,516
2 - 5 Years	78,387	12,138	90,525
Over 5 Years	14,529	48,566	63,095
<b>TOTAL</b>	<b>139,353</b>	<b>64,751</b>	<b>204,104</b>

### 31. Other financial liabilities

The Trust held no other financial liabilities in 2016/17.

### 32. Deferred income

	Current		Non-current	
	31 March 2017 £000s	31 March 2016 £000s	31 March 2017 £000s	31 March 2016 £000s
<b>Current deferred Income at 31 March 2017</b>	<b>1,156</b>	<b>682</b>	<b>0</b>	<b>0</b>
<b>Total deferred income (current and non-current)</b>	<b>1,156</b>	<b>682</b>		

### 33. Finance lease obligations as lessee

The Trust held no finance leases during 2016/17 (as defined under IAS17). PFI finance leases as determined under IFRIC12 are disclosed in Note 38.

### 34. Finance lease receivables as lessor

The Trust did not lease any assets to a third party that were deemed to be a finance leases during 2016/17.

### 35. Provisions

	Total	Comprising:						Redundancy
		Early Departure Costs	Legal Claims	Restructuring	Continuing Care	Equal Pay (incl. Agenda for Change)	Other	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
<b>Balance at 1 April 2016</b>	<b>2,154</b>	1,506	242	0	0	0	406	0
Arising during the year	<b>2,232</b>	1,680	152	0	0	0	400	0
Utilised during the year	<b>(652)</b>	(238)	(35)	0	0	0	(379)	0
Reversed unused	<b>(189)</b>	(7)	(182)	0	0	0	0	0
Unwinding of discount	<b>21</b>	21	0	0	0	0	0	0
Change in discount rate	<b>345</b>	345	0	0	0	0	0	0
Transfers to NHS Foundation Trusts on being authorised as FT	<b>0</b>	0	0	0	0	0	0	0
Transfers (to)/from other public sector bodies under absorption accounting	<b>0</b>	0	0	0	0	0	0	0
<b>Balance at 31 March 2017</b>	<b>3,911</b>	<b>3,307</b>	<b>177</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>427</b>	<b>0</b>
<b>Expected Timing of Cash Flows:</b>								
No Later than One Year	<b>827</b>	223	177	0	0	0	427	0
Later than One Year and not later than Five Years	<b>890</b>	890	0	0	0	0	0	0
Later than Five Years	<b>2,194</b>	2,194	0	0	0	0	0	0

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

<b>As at 31 March 2017</b>	139,416
<b>As at 31 March 2016</b>	78,207

### 36. Contingencies

	31 March 2017	31 March 2016
	£000s	£000s
<b>Contingent liabilities</b>		
NHS Litigation Authority legal claims	(35)	(50)
Employment Tribunal and other employee related litigation	0	0
Redundancy	0	0
Other <i>[give details]</i>	0	0
<b>Net value of contingent liabilities</b>	<b>(35)</b>	<b>(50)</b>
<b>Contingent assets</b>		
Contingent assets <i>[give details]</i>	0	0
<b>Net value of contingent assets</b>	<b>0</b>	<b>0</b>

### 37. Analysis of charitable fund reserves

Charitable funds are not included in the accounts on the basis of materiality.

**38. 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 the PFI scheme covering the redevelopment of the Worcester Hospital site, facilities management services, PACS equipment, a managed equipment service and network and communications equipment.

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

The main PFI contract ends in December 2031. A monthly unitary payment will be paid up to that point. The unitary payment is subject to annual increases in line with RPI. Services are subject to market testing every 5 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.

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 and OFF SOFP PFI**

	2016-17 £000s	2015-16 £000s
Total charge to operating expenses in year - Off SoFP PFI	0	0
Service element of on SOFP PFI charged to operating expenses in year	14,258	13,393
<b>Total</b>	<b>14,258</b>	<b>13,393</b>

**Payments committed to in respect of off SOFP PFI and the service element of on SOFP PFI**

No		
Later than		
One		
Year	15,027	13,616
Later than One Year, No Later than Five Years	63,961	57,953
Later than		
Five		
Years	185,771	187,599
<b>Total</b>	<b>264,759</b>	<b>259,168</b>

The estimated annual payments in future years are not expected to be materially different from those which the Trust had recognised in 2016/17.

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

	2016-17 £000s	2015-16 £000s
No Later than One Year	7,879	8,033
Later than One Year, No Later than Five Years	32,057	31,591
Later than Five Years	81,535	97,184
<b>Subtotal</b>	<b>121,471</b>	<b>136,808</b>
Less: Interest Element	(56,720)	(62,817)
<b>Total</b>	<b>64,751</b>	<b>73,991</b>

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

<b>Analysed by when PFI payments are due</b>	2016-17 £000s	2015-16 £000s
No Later than One Year	1,941	1,936
Later than One Year, No Later than Five Years	10,104	8,884
Later than Five Years	52,706	63,171
<b>Total</b>	<b>64,751</b>	<b>73,991</b>

**Number of on SOFP PFI Contracts**

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

**Number of off SOFP PFI Contracts**

Total Number of off PFI contracts	0
Number of off PFI contracts which individually have a total commitments value in excess of £500m	0

### 39. 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		2,375		2,442
Interest Expense		6,097		10,431
Impairment charge - AME		0		0
Impairment charge - DEL		0		0
Other Expenditure		14,113		18,663
Revenue Receivable from subleasing	(21,972)		(6,941)	
Impact on PDC dividend payable		(1,435)		1,597
<b>Total IFRS Expenditure (IFRIC12)</b>	<b>(21,972)</b>	<b>21,150</b>	<b>(6,941)</b>	<b>33,133</b>
Revenue consequences of PFI / LIFT schemes under UK GAAP / ESA95 (net of any sublease revenue)		1,175		26,129
<b>Net IFRS change (IFRIC12)</b>		<b>(1,997)</b>		<b>63</b>

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

Capital expenditure 2015-16		1,660		1,450
UK GAAP capital expenditure 2015-16 (Reversionary Interest)		1,781		1,667

#### Revenue costs of IFRS12 compared with ESA10

	2016-17 Income/ Expenditure IFRIC 12 YTD £000s	2016-17 Income/ Expenditure ESA 10 YTD £000s	2015-16 Income/ Expenditure IFRIC 12 YTD £000s	2015-16 Income/ Expenditure ESA 10 YTD £000s
Depreciation charges	2,375		2,442	
Interest Expense	6,097		10,431	
Impairment charge - AME	0		0	
Impairment charge - DEL	0		0	
<b>Other Expenditure</b>				
Service Charge	6,952	29,855	13,393	13,393
Contingent Rent	5,380		3,820	
Lifecycle	1,781		1,450	
Impact on PDC Dividend Payable	(1,435)		1,597	
<b>Total Revenue Cost under IFRIC12 vs ESA10</b>	<b>21,150</b>	<b>29,855</b>	<b>33,133</b>	<b>13,393</b>
Revenue Receivable from subleasing	(21,972)	(28,680)	(6,941)	12,736
<b>Net Revenue Cost/(income) under IFRIC12 vs ESA10</b>	<b>(822)</b>	<b>1,175</b>	<b>26,192</b>	<b>26,129</b>

## **40. Financial Instruments**

### **40.1. 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 Trust has with commissioners and the way those commissioners are financed, the 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 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 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. The 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 borrows from government for capital expenditure, subject to affordability as confirmed by the strategic health authority. The borrowings are for 1 – 25 years, in line with the life of the associated assets, and interest is charged at the National Loans Fund rate, fixed for the life of the loan. The Trust therefore has low exposure to interest rate fluctuations.

The Trust may also borrow from government for revenue financing subject to approval by NHS Improvement. Interest rates are confirmed by the Department of Health (the lender) at the point borrowing is undertaken. The Trust therefore has low exposure to interest rate fluctuations.

#### **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 Clinical Commissioning Groups, 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.

**40.2.**

	At 'fair value through profit and loss'	Loans and receivables	Available for sale	Total
	£000s	£000s	£000s	£000s
Embedded derivatives	0			0
Receivables - NHS		6,742		6,742
Receivables - non-NHS		2,606		2,606
Cash at bank and in hand		2,050		2,050
Other financial assets	0	0	0	0
<b>Total at 31 March 2017</b>	<b>0</b>	<b>11,398</b>	<b>0</b>	<b>11,398</b>
Embedded derivatives	0			0
Receivables - NHS		10,231		10,231
Receivables - non-NHS		665		665
Cash at bank and in hand		1,474		1,474
Other financial assets	0	0	0	0
<b>Total at 31 March 2016</b>	<b>0</b>	<b>12,370</b>	<b>0</b>	<b>12,370</b>

**40.3. Financial Liabilities**

	At 'fair value through profit and loss'	Other	Total
	£000s	£000s	£000s
Embedded derivatives	0		0
NHS payables		1,303	1,303
Non-NHS payables		8,397	8,397
Other borrowings		139,353	139,353
PFI & finance lease obligations		64,751	64,751
Other financial liabilities	0	0	0
<b>Total at 31 March 2017</b>	<b>0</b>	<b>213,804</b>	<b>213,804</b>
Embedded derivatives	0		0
NHS payables		3,236	3,236
Non-NHS payables		15,414	15,414
Other borrowings		95,249	95,249
PFI & finance lease obligations		73,991	73,991
Other financial liabilities	0	0	0
<b>Total at 31 March 2016</b>	<b>0</b>	<b>187,890</b>	<b>187,890</b>

**41. Events after the end of the reporting period**

The are no material events occurring after the reporting period.

#### 42. Related party transactions

During the year none of the Department of Health Ministers, Trust Board members or members of the key management staff, or parties related to any of them, has undertaken any material transactions with Worcestershire Acute Hospitals NHS Trust.

The Department of Health is regarded as a related party. During the year Worcestershire Acute Hospitals NHS 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. For example :

NHS England  
 NHS Redditch and Bromsgrove CCG  
 NHS South Worcestershire CCG  
 NHS Wyre Forest CCG  
 Worcestershire Health and Care NHS Trust  
 NHS Litigation Authority  
 NHS Business Services Authority

The Trust has also received revenue and capital payments from Worcestershire Acute Hospitals Charity amounting to £441,082 (£535,220 in 2015/16). A number of the trustees of Worcestershire Acute Hospitals Charity are also members of the Trust Board. The summary financial statements of the Funds Held on Trust are included in the annual report and accounts.

#### 43. Losses and special payments

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

	<b>Total Value of Cases £s</b>	<b>Total Number of Cases</b>
Losses	246,463	383
Special payments	162,466	88
Gifts	0	0
<b>Total losses and special payments and gifts</b>	<b>408,929</b>	<b>471</b>

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

	<b>Total Value of Cases £s</b>	<b>Total Number of Cases</b>
Losses	187,575	12
Special payments	100,102	84
<b>Total losses and special payments</b>	<b>287,677</b>	<b>96</b>

#### Details of cases individually over £300,000

There were no individual cases in 2016/17 which exceeded £300,000.

**44. 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.

**44.1. Breakeven performance**

	2006-07 £000s	2007-08 £000s	2008-09 £000s	2009-10 £000s	2010-11 £000s	2011-12 £000s	2012-13 £000s	2013-14 £000s	2014-15 £000s	2015-16 £000s	2016-17 £000s
Turnover	263,801	293,859	299,601	312,889	321,829	336,594	348,763	346,029	364,656	368,981	403,348
Retained surplus/(deficit) for the year	53	5,193	5,833	(2,179)	(1,193)	(1,193)	(312)	(14,271)	(32,939)	(72,681)	(28,339)
Adjustment for:											
Timing/non-cash impacting distortions:											
Pre FDL(97)24 agreements	0	0	0	0	0	0	0	0	0	0	0
Prior Period Adjustments	(1,059)	0	0	0	0	0	0	0	0	0	0
Adjustments for impairments	0	0	0	3,020	1,126	634	181	189	6,950	13,261	(155)
Adjustments for impact of policy change re donated/government grants assets						172	148	(109)	71	(474)	(254)
Consolidated Budgetary Guidance - adjustment for dual accounting under IFRIC12*				2,294	354	475	0	0	0	63	0
Absorption accounting adjustment							0	0	0	0	0
Other agreed adjustments	0	0	0	0	0	0	0	0	0	0	0
Break-even in-year position	<b>(1,006)</b>	<b>5,193</b>	<b>5,833</b>	<b>3,135</b>	<b>287</b>	<b>88</b>	<b>17</b>	<b>(14,191)</b>	<b>(25,918)</b>	<b>(59,831)</b>	<b>(28,748)</b>
Break-even cumulative position	<b>(32,880)</b>	<b>(27,687)</b>	<b>(21,854)</b>	<b>(18,719)</b>	<b>(18,432)</b>	<b>(18,344)</b>	<b>(18,327)</b>	<b>(32,518)</b>	<b>(58,436)</b>	<b>(118,267)</b>	<b>(147,015)</b>

\* 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 to IFRIC 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. The SOFP Retained Earnings state £196.9m, this note states £147m. The variance relates mainly to Income and Expenditure reserve prior to the transition to IFRS and non-breakeven performance of £37.3m. In accordance with the guidance this is not included in the Note 44.1 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.

	2006-07 %	2007-08 %	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %	2013-14 %	2014-15 %	2015-16 %	2016-17 %
Materiality test (I.e. is it equal to or less than 0.5%):											
Break-even in-year position as a percentage of turnover	-0.38	1.77	1.95	1.00	0.09	0.03	0.00	-4.10	-7.11	-16.22	-7.13
Break-even cumulative position as a percentage of turnover	-12.46	-9.42	-7.29	-5.98	-5.73	-5.45	-5.25	-9.40	-16.02	-32.05	-36.45

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.

**44.2. 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%.

**44.3. External financing**

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

	<b>2016-17</b>	2015-16
	<b>£000s</b>	£000s
External financing limit (EFL)	42,163	59,658
Cash flow financing	34,741	59,191
Finance leases taken out in the year	0	0
Other capital receipts	0	0
External financing requirement	<b>34,741</b>	59,191
<b>Under/(over) spend against EFL</b>	<b><u>7,422</u></b>	<u>467</u>

**44.4. Capital resource limit**

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

	<b>2016-17</b>	2015-16
	<b>£000s</b>	£000s
Gross capital expenditure	11,483	12,739
Less: book value of assets disposed of	0	0
In 2013 the PFI provider was found to in default of the service agreement due to building defects. The Deed of Variation included two broad elements, a lump sum compensation payment and alterations to future service charges. The lump sum payment of £6.5m was credited to other operating revenue.	0	0
Less: donations towards the acquisition of non-current assets	<u>(300)</u>	<u>(1,098)</u>
The 2016/17 gain on the alteration to future service charges has been recognised in other operating revenues to be consistent with the recognition of the lump sum compensation payment. This gain has reduced the PFI liability as the settlement related to the compensation for the building defects. The economic benefit of this transaction is recorded in the Statement of Comprehensive Income, the reduction in liability can be seen in Borrowings in the Statement of Financial Performance and note 30.	<b>11,183</b>	11,641
Capital resource limit	<u>11,224</u>	<u>11,698</u>
<b>(Over)/underspend against the capital resource limit</b>	<b><u>41</u></b>	<u>57</u>

**45. Third party assets**

As at 31st March 2017 the Trust held no cash and cash equivalents which relate to third parties.

**2016-17 Annual Accounts of Worcestershire Acute Hospitals NHS Trust**

**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.

**NB: sign and date in any colour ink except black**

Signed..........Chief Executive  
MICHELLE MCKAY

Date.....26/5/17.....

**2016-17 Annual Accounts of Worcestershire Acute Hospitals NHS Trust**

**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:

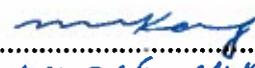
- apply on a consistent basis accounting policies laid down by the Secretary of State with the approval of the Treasury;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and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

**NB: sign and date in any colour ink except black**

26/5/17 .....Date.....  .....Chief Executive  
MICHELLE MCKAY

26/5/17 .....Date.....  .....Finance Director  
JILL ROBINSON

## **INDEPENDENT AUDITOR'S REPORT TO THE DIRECTORS OF WORCESTERSHIRE ACUTE HOSPITALS NHS TRUST**

We have audited the financial statements of Worcestershire Acute Hospitals 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 single total figure of remuneration for each director;
- CETV disclosures for each director;
- the table of exit packages;
- the analysis of staff numbers and costs; and
- the table of fair pay (pay multiples) disclosures.

This report is made solely to the Directors of Worcestershire Acute Hospitals 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 Chief Executive's responsibilities, as the Accountable Officer of the Trust, 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 Worcestershire Acute Hospitals NHS Trust 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 retained deficit of £28,339,000 during the year ended 31 March 2017 and at that date had net current liabilities of £9,335,000. The Directors are seeking additional support from NHS Improvement for 2017/18 of £31,300,000. As explained in note 1.1 to the financial statements, 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**

On 22 April 2016 we referred a matter to the Secretary of State under section 30 of the Act in relation to the Trust's failure to achieve its breakeven duty under Paragraph 2(1) of Schedule 5 of the National Health Service Act 2006, taking into account the NHS Finance Manual "Guidance on Breakeven Duty and Provisions". We reported that the Trust had not achieved its breakeven duty in 2015/16 and submitted a deficit 2016/17 financial plan for 2016/17.

We 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 conclusion**

Our review of the Trust's arrangements identified the follow matters:

- The Trust's outturn position for 2016/17 was a £28.75 million deficit;
- The Trust has set a deficit budget of £42.7 million for 2017/18; and
- The Trust's adjusted retained cumulative deficit is £147 million and it does not yet have a financial recovery plan in place.
- During the year the Trust has reported that it has failed to meet the national priority targets in relation to A&E 4 hour waits, 18 week Referral to Treatment and 62 day cancer waits; and
- Following a re-inspection visit by the CQC in November 2016, the Trust was issued with a warning notice by CQC on 27 January 2017. The notice, issued under section 29A of the Health and Social Care Act 2008, requires the Trust to demonstrate significant improvement in the quality of healthcare it provides.

This demonstrates that the Trust still has weaknesses in its arrangements for setting and agreeing its budget, monitoring and managing delivery of its budget, and responding to service delivery issues raised by regulators.

These issues are evidence of weaknesses in proper arrangements for sustainable resource deployment and informed decision making in:

- planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; and
- understanding and using appropriate cost and performance information to support informed decision making and performance management.

## **Adverse value for money conclusion**

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in November 2016, we are not satisfied that, in all significant respects, Worcestershire Acute Hospitals NHS Trust put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We have nothing to report in respect of the following matters which we are required to report by exception if:

- in our opinion the Governance Statement 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.

## **Certificate**

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

*J D Roberts*

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

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30 May 2017