Worcestershire Acute Hospitals NHS Trust

Annual Accounts for the year ended 31 March 2018

## Statement of Comprehensive Income

| | Note | 2017/18 £000 | 2016/17 £000 |
|---|---|---|---|
| Operating income from patient care activities | 3 | 369,226 | 355,605 |
| Other operating income | 4 | 31,692 | 47,743 |
| Operating expenses | 6.1 | (437,734) | (416,533) |
| **Operating surplus/(deficit) from continuing operations** | | **(36,816)** | **(13,185)** |
| Finance income | 11 | 48 | 53 |
| Finance expenses | 12.1 | (14,056) | (14,286) |
| PDC dividends payable | | (18) | (892) |
| **Net finance costs** | | **(14,026)** | **(15,125)** |
| Other gains / (losses) | 13 | (124) | (29) |
| **Surplus / (deficit) for the year** | | **(50,966)** | **(28,339)** |
| **Other comprehensive income** | | | |
| **Will not be reclassified to income and expenditure:** | | | |
| Impairments | 7 | 8,055 | 4,674 |
| Revaluations | 15.1 | 2,989 | 886 |
| **Total comprehensive income / (expense) for the period** | | **(39,922)** | **(22,779)** |
| **Adjusted financial performance** | | | |
| Surplus / (deficit) for the period (before consolidation of charity) | | (50,966) | (28,339) |
| Add back all I&E impairments / (reversals) | | (1,717) | (155) |
| Surplus / (deficit) before impairments and transfers | | (52,683) | (28,494) |
| Adjustments capital donations / grants I&E impact | | 121 | (254) |
| Remove impact of 1617 STF post accounts reallocation | | (419) | - |
| **Adjusted financial performance surplus / (deficit)** | | **(52,981)** | **(28,748)** |
| **Adjusted financial performance excluding STF** | | **(57,884)** | **(44,703)** |

The notes on the pages 7 to 28 form part of this account

| Statement of Financial Position | Note | 2017/18<br>£000 | 2016/17<br>£000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | 14.1 | 2,708 | 4,221 |
| Property, plant and equipment | 15.1 | 267,721 | 253,138 |
| Trade and other receivables | 18.1 | 2,725 | 2,723 |
| **Total non-current assets** | | **273,154** | **260,082** |
| **Current assets** | | | |
| Inventories | 17 | 10,118 | 8,527 |
| Trade and other receivables | 18.1 | 27,088 | 26,187 |
| Non-current assets held for sale / assets in disposal groups | | 400 | 570 |
| Cash and cash equivalents | 20 | 2,107 | 2,050 |
| **Total current assets** | | **39,713** | **37,334** |
| **Current liabilities** | | | |
| Trade and other payables | 21 | (37,808) | (37,671) |
| Borrowings | 23 | (44,516) | (5,968) |
| Provisions | 24.1 | (771) | (827) |
| Other liabilities | 22 | (1,755) | (2,203) |
| **Total current liabilities** | | **(84,850)** | **(46,669)** |
| **Total assets less current liabilities** | | **228,017** | **250,747** |
| **Non-current liabilities** | | | |
| Borrowings | 23 | (213,089) | (198,136) |
| Provisions | 24.1 | (3,013) | (3,084) |
| Other liabilities | 22 | (3,214) | (3,234) |
| **Total non-current liabilities** | | **(219,316)** | **(204,454)** |
| **Total assets employed** | | **8,701** | **46,293** |
| | | | |
| **Financed by** | | | |
| Public dividend capital | | 187,347 | 185,017 |
| Revaluation reserve | | 69,238 | 59,107 |
| Other reserves | | (861) | (861) |
| Income and expenditure reserve | | (247,023) | (196,970) |
| **Total taxpayers' equity** | | **8,701** | **46,293** |

The notes on pages 29 to 49 form part of this account.

The financial statements on pages 2 to 6 were approved by the Board on 24th May 2018 and signed on its behalf by

**Chief Executive:** 

Date: **24th May 2018**

## Statement of Changes in Equity for the year ended 31 March 2018

| | Public dividend capital £000 | Revaluation reserve £000 | Other reserves £000 | Income and expenditure reserve £000 | Total £000 |
|---|---|---|---|---|---|
| **Taxpayers' equity at 1 April 2017 - brought forward** | 185,017 | 59,107 | (861) | (196,970) | 46,293 |
| Surplus/(deficit) for the year | - | - | - | (50,966) | (50,966) |
| Other transfers between reserves | - | (913) | - | 913 | - |
| Impairments | - | 8,055 | - | - | 8,055 |
| Revaluations | - | 2,989 | - | - | 2,989 |
| Public dividend capital received | 2,330 | - | - | - | 2,330 |
| **Taxpayers' equity at 31 March 2018** | 187,347 | 69,238 | (861) | (247,023) | 8,701 |

## Statement of Changes in Equity for the year ended 31 March 2017

| | Public dividend capital £000 | Revaluation reserve £000 | Other reserves £000 | Income and expenditure reserve £000 | Total £000 |
|---|---|---|---|---|---|
| **Taxpayers' equity at 1 April 2016** | 184,564 | 54,320 | (861) | (169,404) | 68,619 |
| Surplus/(deficit) for the year | - | - | - | (28,339) | (28,339) |
| Other transfers between reserves | - | (773) | - | 773 | - |
| Impairments | - | 4,674 | - | - | 4,674 |
| Revaluations | - | 886 | - | - | 886 |
| Public dividend capital received | 453 | - | - | - | 453 |
| **Taxpayers' equity at 31 March 2017** | 185,017 | 59,107 | (861) | (196,970) | 46,293 |

## Information on reserves

**Public dividend capital**

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS organisation. Additional PDC may also be issued to Trusts by the Department of Health and Social Care. A charge, reflecting the cost of capital utilised by the Trust, is payable to the Department of Health as the public dividend capital dividend.

**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.

**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.

**Income and expenditure reserve**

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

| Statement of Cash Flows | Note | 2017/18 £000 | 2016/17 £000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Operating surplus / (deficit) | | (36,816) | (13,185) |
| **Non-cash income and expense:** | | | |
| Depreciation and amortisation | 6.1 | 10,668 | 10,697 |
| Net impairments | 7 | (1,717) | (155) |
| Income recognised in respect of capital donations | 4 | - | (300) |
| Amortisation of PFI deferred credit | | (1,084) | (433) |
| (Increase) / decrease in receivables and other assets | | (1,221) | (3,229) |
| (Increase) / decrease in inventories | | (1,591) | (1,446) |
| Increase / (decrease) in payables and other liabilities | | (2,296) | (1,464) |
| Increase / (decrease) in provisions | | (135) | 1,391 |
| **Net cash generated from / (used in) operating activities** | | **(34,192)** | **(8,124)** |
| **Cash flows from investing activities** | | | |
| Interest received | 11 | 48 | 53 |
| Purchase of intangible assets | | (359) | (5,277) |
| Purchase of property, plant, equipment and investment property | | (7,774) | (7,529) |
| Sales of property, plant, equipment and investment property | | 28 | - |
| Receipt of cash donations to purchase capital assets | | - | 254 |
| **Net cash generated from / (used in) investing activities** | | **(8,057)** | **(12,499)** |
| **Cash flows from financing activities** | | | |
| Public dividend capital received | | 2,330 | 453 |
| Movement on loans from the Department of Health and Social Care | | 55,442 | 44,104 |
| Capital element of PFI, LIFT and other service concession payments | | (1,941) | (9,240) |
| Interest paid on PFI, LIFT and other service concession obligations | | (11,542) | (11,477) |
| Other interest paid | | (2,267) | (2,809) |
| PDC dividend (paid) / refunded | | 193 | 168 |
| Cash flows from (used in) other financing activities | | 91 | - |
| **Net cash generated from / (used in) financing activities** | | **42,306** | **21,199** |
| **Increase / (decrease) in cash and cash equivalents** | | **57** | **576** |
| **Cash and cash equivalents at 1 April** | | **2,050** | **1,474** |
| **Cash and cash equivalents at 31 March** | 20 | **2,107** | **2,050** |

## Notes to the Accounts

### 1. Accounting Policies

The Department of Health and Social Care has directed that the financial statements of the Trust shall meet the accounting requirements of the Department of Health and Social Care Group Accounting Manual (GAM), which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the GAM 2017/18 issued by the Department of Health and Social Care. The accounting policies contained in the GAM 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 GAM permits a choice of accounting policy, the accounting policy that 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 are described below. These have been applied consistently in dealing with items considered material in relation to 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.

### 1.2 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.

**Key considerations in assessing the Trust as a going concern**

• 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 the ongoing engagement of NHS Improvement, the contractual position with commissioners, the 2018/19 CIP programme, financial strategy, executive leadership and CQC inspections.

• The Trust incurred a deficit of £50.97 million during the year ended 31 March 2018 and at that date had net current liabilities of £45.14 million.

• The Trust has taken out a number of revenue loans over recent years (£57.07 million in 2017/18) and will require further loans in 2018/19 to support the planned deficit of £22.2 million (inclusive of provider Sustainability Funding) and planned principal repayments.

• Of the existing loans, £39.5 million is due for repayment in 2018/19 relating to revenue loans, and a further £2.947m relating to the capital loans. The schedule of repayments for existing Trust borrowing shows a requirement to repay principal of £69.0 million in 2019/20. The Trust is in discussion with NHS Improvement following guidance that it may be possible to renegotiate an extended repayment period for principal, rather than further increase borrowings.

• As the financial deficit is unlikely to be resolved within one year, ongoing cash support will be required into 2019/20.

• NHS Improvement has not formally confirmed this support to be available, which indicates there is a material uncertainty impacting on the Trusts ability to continue as a going concern. However, to date all requests have been approved and the Board has no reason to assume that this support will cease to be made available to the Trust.

• 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 the ongoing engagement of NHS Improvement, the contractual position with commissioners, the 2018/19 CIP programme, financial strategy, executive leadership and CQC inspections.

The Board has confirmed that the Trust is 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

## 1.3 Acquisitions and discounted 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.

## 1.4 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.

## 1.5 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.

## 1.6 Critical accounting judgements and key sources of estimation uncertainty

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

### 1.6.1 Critical judgements in applying accounting policies

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

**PFI**

In 2013 the PFI provider was found to be in default of the service agreement due to building defects. A settlement was reached between the Trust and the PFI provider in June 2016. 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 2016/17 the Trust recognised the revenue coming from future service price alterations in other operating revenue. The Trust looked at the reduction in future service provider margins that would not have been agreed without the building defects. The contractual value was 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 gain on the alteration to future service charges was recognised in other operating revenues to be consistent with the recognition of the lump sum compensation payment. This gain reduced the PFI liability as the settlement related to the compensation for the building defects.

By adopting this accounting treatment annual Unitary Payments from 2017/18 do not reflect the full value of the service received. The service element of the Unitary Payment is therefore adjusted by an amount equivalent to the full value of the service received and the PFI lability is increased. This adjustment will 'unwind' the 2016/17 revenue recognition over the remaining life of the PFI contract.

**LEASES**

Under IAS 17 a finance lease is one that transfers to the lessee 'substantially all the risks and rewards incidental to ownership of an asset'. This requires the consideration of a number of factors for each lease. The total outstanding commitment for operating leases at 31st March 2018 is £30.1m, and for finance leases £62.8m.

The Trust have reviewed its operating leases and re-classified rent of Charles Hastings Education Centre as operating lease from rentals, resulting in the increase of future commitments by £20.9m.

### 1.6.2 Key sources of estimation uncertainty

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

- Valuation of property, plant and equipment (see note 1.10) is based upon an assessment undertaken by professional property valuers which by its nature includes an element of subjectivity. Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation and maintenance programmes are taken into account. Residual value assessments consider issues such as the remaining life of the asset and projected disposal values;
- Accrued income for partially completed spells at the end of the financial year (see note 1.7) is based upon an estimate of income receivable at the completion of an episode of care apportioned between activity completed and activity to be completed in the next financial year;
- Provision for the impairment of receivables (see note 18.2) is estimated on a risk based assessment of the likelihood of non payment which by its nature includes an element of subjectivity.

### 1.7 Income

Income 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 income for the Trust is contracts with commissioners in respect of health care services. Income relating to patient care spells that are part-completed at the year end is apportioned across the financial years on the basis of length of stay at the end of the reporting period compared to the expected total length of stay.
Where income is received for a specific activity which is to be delivered in a subsequent financial year, that income is deferred.

Income from the sale of non-current assets is recognised only when all material conditions of sale have been met, and is measured as the sums due under the sale contract.
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.

**Revenue grants and other contributions to expenditure**

Government grants are grants from government bodies other than income from commissioners or Trusts for the provision of services. Where a grant is used to fund revenue expenditure it is taken to the Statement of Comprehensive Income to match that expenditure.

The value of the benefit received when accessing funds from the Government's apprenticeship service is recognised as income at the point of receipt of the training service. Where these funds are paid directly to an accredited training provider, the corresponding notional expense is also recognised at the point of recognition for the benefit.

## 1.8 Expenditure on employee benefits

**Short-term employee benefits**

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

**Pension costs**

NHS Pension Scheme: Past and present employees are covered by the provisions of the NHS Pension Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. The scheme is not designed in a way that would enable employers to identify their share of the underlying scheme assets and liabilities. Therefore, the schemes are accounted for as though they are defined contribution schemes.

Employer's pension cost contributions are charged to operating expenses as and when they become due.

Additional pension liabilities arising from early retirements are not funded by the scheme except where the retirement is due to ill-health. The full amount of the liability for the additional costs is charged to the operating expenses at the time the Trust commits itself to the retirement, regardless of the method of payment.

Some employees not entitled to join the NHS Pension Scheme are auto-enrolled in the National Employment Savings Trust (NEST) pension scheme. This is a defined contribution scheme.

## 1.9 Expenditure on other goods and services

Expenditure on goods and services is recognised when, and to the extent that they have been received, and is measured at the fair value of those goods and services. Expenditure is recognised in operating expenses except where it results in the creation of a non-current asset such as Property, Plant and Equipment.

## 1.10 Property, plant and equipment

**Recognition**

**Property, plant and equipment is capitalised where:**

- 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 be provided to, the Trust
- it is expected to be used for more than one financial year
- the cost of the item can be measured reliably
- the item has cost of at least £5,000, or
- collectively, a number of items have a cost of at least £5,000 and individually have cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have similar disposal dates and are under single managerial control; or
- items forming part of the initial equipping and setting-up cost of a new building, ward or unit, irrespective of their individual or collective cost.

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

**Measurement**

**Valuation**

All property, plant and equipment assets are measured initially at cost, representing the costs 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. An item of property, plant and equipment which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 of IFRS 5.

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 currently adopts 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 can be valued. At the end of 2017/18 the Trust engaged a professional property adviser to undertake a desktop revaluation. The Trust will next undertake a full revaluation in 2018/19.

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.

**Useful economic lives of property, plant and equipment**

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The range of useful economic lives are shown in the table below:

| | Min life Years | Max life Years |
|---|---|---|
| Land | - | - |
| Buildings, excluding dwellings | 17 | 90 |
| Dwellings | 59 | 67 |
| Plant & machinery | 1 | 20 |
| Transport equipment | 4 | 8 |
| Information technology | 3 | 9 |
| Furniture & fittings | 5 | 10 |

The Trusts average building life is 53 years although the minimum and maximum lives are shown above.

**Subsequent expenditure**

Subsequent expenditure relating to an item of property, plant and equipment is recognised as an increase in the carrying amount of the asset when it is probable that additional future economic benefits or service potential deriving from the cost incurred to replace a component of such item will flow to the enterprise and the cost of the item can be determined reliably. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised. Other expenditure that does not generate additional future economic benefits or service potential, such as repairs and maintenance, is charged to the Statement of Comprehensive Income in the period in which it is incurred.

## 1.11 Intangible assets

**Recognition**

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Trust's business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the Trust and where the cost of the asset can be measured reliably and at least £5,000.

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets.

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

- the project is technically feasible to the point of completion and will result in an intangible asset for sale or use
- the Trust intends to complete the asset and sell or use it
- the Trust has the ability to sell or use the asset
- how the intangible asset will generate probable future economic or service delivery benefits, e.g., the presence of a market for it or its output, or where it is to be used for internal use, the usefulness of the asset;
- adequate financial, technical and other resources are available to the Trust to complete the development and sell or use the asset and
- the Trust can measure reliably the expenses attributable to the asset during development.

**Measurement**

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management. Where no internally-generated intangible asset can be recognised, the expenditure is recognised in the period in which it is incurred.

Subsequently intangible assets are measured at current value in existing use. Where no active market exists, intangible assets are valued at the lower of depreciated replacement cost and the value in use where the asset is income generating. Revaluations gains and losses and impairments are treated in the same manner as for property, plant and equipment. An intangible asset which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 of IFRS 5.

Intangible assets held for sale are measured at the lower of their carrying amount or "fair value less costs to sell".

**Useful economic lives of intangible assets**

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The range of useful economic lives are shown in the table below:

| | Min life Years | Max life Years |
|---|---|---|
| Information technology | 5 | 5 |
| Software licences | 5 | 5 |

As per the Trust policy all intangibles are depreciated over 5 years unless there is a more approriate asset life.

## 1.12 Depreciation, amortisation and impairments

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

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

At each financial year-end, the NHS Trust checks whether there is any indication that its property, plant and equipment or intangible noncurrent 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.

Finance-leased assets (including land) are depreciated over the shorter of the useful economic life or the lease term, unless the Trust expects to acquire the asset at the end of the lease term in which case the assets are depreciated in the same manner as owned assets above.

### 1.13 Derecognition

Assets intended for disposal are reclassified as 'held for sale' once all of the following criteria are met:

- the asset is available for immediate sale in its present condition subject only to terms which are usual and customary for such sales;
- the sale must be highly probable i.e.:
    - management are committed to a plan to sell the asset
    - an active programme has begun to find a buyer and complete the sale
    - the asset is being actively marketed at a reasonable price
    - the sale is expected to be completed within 12 months of the date of classification as 'held for sale' and
    - the actions needed to complete the plan indicate it is unlikely that the plan will be dropped or significant changes made to it.

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged. Assets are de-recognised when all material sale contract conditions have been met.
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 which is to be scrapped or demolished does not qualify for recognition as 'held for sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

### 1.14 Donated and grant funded assets

Donated and grant funded property, plant and equipment assets are capitalised at their fair value on receipt. The donation/grant is credited to income at the same time, unless the donor has imposed a condition that the future economic benefits embodied in the grant are to be consumed in a manner specified by the donor, in which case, the donation/grant is deferred within liabilities and is carried forward to future financial years to the extent that the condition has not yet been met.

The donated and grant funded assets are subsequently accounted for in the same manner as other items of property, plant and equipment.

## 1.15 Private Finance Initiative (PFI) and Local Improvement Finance Trust (LIFT) transactions

PFI and LIFT transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's *FReM*, are accounted for as 'on-Statement of Financial Position' by the trust. In accordance with IAS 17, the underlying assets are recognised as property, plant and equipment, together with an equivalent finance lease liability. Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as appropriate.

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

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

The service charge is recognised in operating expenses and the finance cost is charged to finance costs in the Statement of Comprehensive Income.

**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 in accordance with the principles of IAS 17. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Trust's approach for each relevant class of asset in accordance with the principles of IAS 16.

**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 fair 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.

**Lifecycle replacement**

Components of the asset replaced by the operator during the contract ('lifecycle replacement') are capitalised where they meet the 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 finance lease liability 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 the operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

## 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***

**Finance leases**

Where substantially all risks and rewards of ownership of a leased asset are borne by the Trust, the asset is recorded as property, plant and equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease.

The asset and liability are recognised at the commencement of the lease. Thereafter the asset is accounted for an item of property plant and equipment.

The annual rental is split between the repayment of the liability and a finance cost so as to achieve a constant rate of finance over the life of the lease. The annual finance cost is charged to Finance Costs in the Statement of Comprehensive Income. The lease liability, is de-recognised when the liability is discharged, cancelled or expires.

**Operating leases**

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.

**Leases of land and buildings**

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately.

***The Trust as lessor***

**Finance leases**

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

**Operating 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 as an expense on a straight-line basis over the lease term.

## 1.17 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 using the weighted average cost method.

## 1.18 Cash and cash equivalents

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.
In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and that form an integral part of the NHS Trust's cash management. Cash, bank and overdraft balances are recorded at current values.

## 1.19 Provisions

The Trust recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources 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 discount rates published and mandated by HM Treasury.

Early retirement provisions are discounted using HM Treasury's pension discount rate of positive 0.10% (2016-17: positive 0.24%) 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 2.42% (2016-17: negative 2.70%) for expected cash flows up to and including 5 years
- A medium term rate of negative 1.85% (2016-17: negative 1.95%) for expected cash flows over 5 years up to and including 10 years
- A long term rate of negative 1.56% (2016-17: 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.

## 1.20 Clinical negligence costs

NHS Resolution operates a risk pooling scheme under which the Trust pays an annual contribution to NHS Resolution, which, in return, settles all clinical negligence claims. Although NHS Resolution is administratively responsible for all clinical negligence cases, the legal liability remains with the Trust. The total value of clinical negligence provisions carried by NHS resolution on behalf of the Trust is disclosed at note 24.2 but is not recognised in the Trust's accounts.

## 1.21 Non-clinical risk pooling

The Trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the Trust pays an annual contribution to NHS Resolution 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 when the liability arises.

## 1.22 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.

## 1.23 Financial instruments and financial liabilities

**Recognition**

Financial assets and financial liabilities which arise from contracts for the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the Trust's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs, i.e., when receipt or delivery of the goods or services is made.

**De-recognition**

All financial assets are de-recognised when the rights to receive cash flows from the assets have expired or the Trust has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are de-recognised when the obligation is discharged, cancelled or expires.

**Classification and measurement**

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.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market.

The Trust's loans and receivables comprise: revenue and capital loans of £152.3m, NHS receivables of £8.9m, accrued income and other receivables of £18.1m.

Loans and receivables are recognised initially at fair value, net of transactions costs, and are measured subsequently at amortised cost, using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

Interest on loans and receivables is calculated using the effective interest method and credited to the Statement of Comprehensive Income.

**Other financial liabilities**

All other financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability. They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to finance costs. Interest on financial liabilities taken out to finance property, plant and equipment or intangible assets is not capitalised as part of the cost of those assets.

**Impairment of financial assets**

At the Statement of Financial Position date, the Trust assesses whether any financial assets, other than those held at "fair value through income and expenditure" are impaired. Financial assets are impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

### 1.25 Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of the predecessor NHS organisation. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32. 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.

A charge, reflecting the cost of capital utilised by the trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for

- donated assets (including lottery funded assets),
- average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and
- any PDC dividend balance receivable or payable.

In accordance with the requirements laid down by the Department of Health and Social Care (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.

### 1.26 Value added tax

Most of the activities of the trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

### 1.27 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. However, they are disclosed in a separate note to the accounts in accordance with the requirements of HM Treasury's *FReM* .

### 1.28 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 trust not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

However the losses and special payments note is compiled directly from the losses and compensations register which reports on an accrual basis with the exception of provisions for future losses.

## 1.29 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.

## 1.30 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'.

## 1.31 Early adoption of standards, amendments and interpretations

No new accounting standards or revisions to existing standards have been early adopted in 2017/18.

## 1.32 Amendments and interpretations in issue but not yet effective or 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.

The Trust has considered the impact of these accounting standards and has concluded that these are immaterial to the financial statements.

## 2. Operating Segments

The Trust Board is considered to be the chief operating decision maker of the organisation. The Trust Board is of the view that whilst it receives limited fina broken down by division, the information received does not show the full trading position of that division. Furthermore the activities undertaken by these ‹ high degree of interdependence and therefore the Trust Board has determined that is appropriate to aggregate these divisions for segmental reporting pur

The rationale for determining the chief operating decision maker and for aggregating segments is as follows:

**Chief operating decision maker:**

International Financial Reporting Standard 8: Operating Segments; states that the chief operating decision maker will have responsibility for allocating reso assessing the performance of the entity's operating segments.
For the Worcestershire Acute Hospitals NHS Trust, responsibility for these functions is set out in the Trust's Scheme of Reservation and Delegation. This do‹ (amongst others) the following key decisions which are reserved to the Trust Board:

- The approval of strategies, plans and budgets;
- The agreement of the organisational structures, processes and procedures to facilitate the discharge of business by the Trust;
- The monitoring and review of financial performance;

Consequently it has been determined that the Trust Board is the Chief operating decision maker.

**Operating Segments:**

IFRS 8 sets out the criteria for identifying operating segments and for reporting individual or aggregated segmental data. The Trust Board has considered th of IFRS 8 and whilst it does receive budgetary performance information at a specialty group level based upon groups of services (including for example me‹ surgical specialties etc.), this information is limited in that:

- Costs associated with any one specialty or service provided by the Trust are split across several specialty groups;
- Cross charging for services between specialty groups is not widely undertaken; and
- Many services provided by the Trust are not operationally independent.

In addition to the above key factors, consideration has also been given to the principles around aggregation of operating segments set out in IFRS 8 which ‹ segments may be aggregated if the segments have similar economic characteristics, and the segments are similar in each of the following respects:

(a) the nature of the products and services:
The services provided are very similar in that they represent the provision of healthcare to ill/vulnerable people. Furthermore many of the services are inte care for an individual being shared across different specialties and departments.

(b) the nature of the production processes:
Services are provided in very similar ways (albeit to differing extents) to the majority of patients including outpatient consultations, inpatient care, diagnos and surgical interventions.

(c) the type or class of customer for their products and services:
The Trust's customers are similar across all services in that they are ill/vulnerable people – whilst certain patient groups may be more susceptible to differe needs, most services are provided to customers of all ages, gender etc.

(d) the methods used to distribute their products or provide their services:
The majority of services are delivered to customers through attendance at hospital as outpatients, day cases or inpatients.

(e) if applicable, the nature of the regulatory environment:
The regulatory environment in which the Trust's services are provided is NHS healthcare.

The Trust Board has therefore concluded that further segmental analysis is not appropriate and that the specialty financial information should be aggregat‹ purpose of segmental reporting.

**Financial Performance Reporting**

The Trust Board receives reports on the Trust's financial performance based upon the Statement of Comprehensive Income (or Net Expenditure) which is a accordance with HM Treasury rules on measuring financial performance. These adjustments are set out below the Statement of Comprehensive Income (o Expenditure) and in note 35 relating to breakeven performance.

**Income Sources**

Key information on the Trust's sources of income is as follows:
- Clinical Commissioning Groups (CCGs) from which £297.1 million (£287.3 million in 2016-17) was received; and
- NHS England from which £67.1 million (£62.6 million in 2016-17) was received.

There are no other sources of income which exceed 10% of the Trust's total revenue.

All income derives from services provided in England, although the source of a small part of this income will come from NHS bodies in other parts of the Ur the Isle of Man or from overseas visitors who are treated in the Trust's hospitals. However, income from such sources is not material.

## 3. Operating income from patient care activities

| 3.1 Income from patient care activities (by nature) | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Acute services** | | |
| Elective income | 59,661 | 60,012 |
| Non elective income | 116,993 | 105,925 |
| First outpatient income | 25,715 | 24,821 |
| Follow up outpatient income | 20,415 | 24,167 |
| A & E income | 20,821 | 18,697 |
| High cost drugs income from commissioners (excluding pass-through costs) | 36,075 | 34,678 |
| Other NHS clinical income | 88,964 | 86,710 |
| **All services** | | |
| Private patient income | 582 | 595 |
| **Total income from activities** | **369,226** | **355,605** |

| 3.2 Income from patient care activities (by source)<br>*Income from patient care activities received from:* | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| NHS England | 67,107 | 62,559 |
| Clinical commissioning groups | 297,082 | 287,324 |
| Other NHS providers | 2,136 | 2,570 |
| NHS other | 815 | 70 |
| Local authorities | - | 149 |
| Non-NHS: private patients | 497 | 529 |
| Non-NHS: overseas patients (chargeable to patient) | 85 | 66 |
| NHS injury scheme | 1,430 | 1,367 |
| Non NHS: other | 74 | 971 |
| **Total income from activities** | **369,226** | **355,605** |
| **Of which:** | | |
| Related to continuing operations | 369,226 | 355,605 |

| 3.3 Overseas visitors (relating to patients charged directly by the provider) | 2017/18 | 2016/17 |
|---|---|---|
| | £000 | £000 |
| Income recognised this year | 85 | 66 |
| Cash payments received in-year | 23 | 30 |
| Amounts added to provision for impairment of receivables | 11 | 34 |
| Amounts written off in-year | 4 | - |

| 4. Other operating income | 2017/18 | 2016/17 |
|---|---|---|
| | £000 | £000 |
| Research and development | 727 | 500 |
| Education and training | 11,912 | 11,725 |
| Receipt of capital grants and donations | - | 300 |
| Charitable and other contributions to expenditure | 658 | 444 |
| Non-patient care services to other bodies | 7,366 | 7,065 |
| Sustainability and transformation fund income | 5,322 | 15,955 |
| Rental revenue from operating leases | 110 | 108 |
| Other income | 5,597 | 11,646 |
| **Total other operating income** | **31,692** | **47,743** |
| **Of which:** | | |
| Related to continuing operations | 31,692 | 47,743 |

The income above includes sustainability and transformation fund income of £ 5.322m of which £0.419m relates to an adjustment for 2016/17 post accounts STF reallocation.

The decrease in 2017/18 for other income compared to 2016/17, is due to the recognition of £7.304m estimated net present value of changes to future PFI unitary charge. These were the reductions to the unitary payments relating to Facilities Management, additional volume payments and rent receipts as per the agreement in June 2016.

| 5. Fees and charges | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Income | 2,619 | 2,551 |
| Full cost | (1,953) | (2,027) |
| **Surplus / (deficit)** | **666** | **524** |

The income and costs relate to the Trust car parking which are included in other income note 4

| 6.1 Operating expenses | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| Purchase of healthcare from NHS and DHSC bodies | 4,978 | 2,830 |
| Purchase of healthcare from non-NHS and non-DHSC bodies | 2,031 | 1,410 |
| Staff and executive directors costs | 267,417 | 253,589 |
| Remuneration of non-executive directors | 84 | 70 |
| Supplies and services - clinical (excluding drugs costs) | 41,622 | 39,453 |
| Supplies and services - general | 16,238 | 18,028 |
| Drug costs (drugs inventory consumed and purchase of non-inventory drugs) | 44,902 | 42,605 |
| Inventories written down | 300 | 213 |
| Consultancy costs | 1,493 | 1,284 |
| Establishment | 3,802 | 4,174 |
| Premises | 12,118 | 10,743 |
| Transport (including patient travel) | 1,869 | 2,296 |
| Depreciation on property, plant and equipment | 8,796 | 7,908 |
| Amortisation on intangible assets | 1,872 | 2,789 |
| Net impairments | (1,717) | (155) |
| Increase/(decrease) in provision for impairment of receivables | 354 | (348) |
| Increase/(decrease) in other provisions | 523 | - |
| Change in provisions discount rate(s) | 46 | 345 |
| Audit fees payable to the external auditor | | |
| audit services- statutory audit | 54 | 117 |
| other auditor remuneration (external auditor only) | 63 | 45 |
| Internal audit costs | 80 | 74 |
| Clinical negligence | 11,706 | 8,338 |
| Legal fees | 675 | 805 |
| Insurance | 214 | 267 |
| Education and training | 852 | 1,047 |
| Rentals under operating leases | 2,650 | 2,287 |
| Charges to operating expenditure for on-SoFP IFRIC 12 schemes (e.g. PFI / LIFT) on IFRS basis | 14,700 | 14,258 |
| Hospitality | - | 18 |
| Other | 12 | 2,043 |
| **Total** | **437,734** | **416,533** |
| **Of which:** | | |
| Related to continuing operations | 437,734 | 416,533 |

| 6.2 Other auditor remuneration | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Other auditor remuneration paid to the external auditor:** | | |
| 2. Audit-related assurance services | 63 | 45 |
| **Total** | **63** | **45** |

**6.3 Limitation on auditor's liability**

The limitation on auditor's liability for external audit work is £0.5m (2016/17: £0.5m).

| 7. Impairment of assets | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Net impairments charged to operating surplus / deficit resulting from:** | | |
| Changes in market price | (1,717) | (155) |
| Other | - | - |
| **Total net impairments charged to operating surplus / deficit** | **(1,717)** | **(155)** |
| Impairments charged to the revaluation reserve | (8,055) | (4,674) |
| **Total net impairments** | **(9,772)** | **(4,829)** |

The net impairments relates to buildings and assets held for sale.

| 8.1 Employee benefits | 2017/18 Total £000 | 2016/17 Total £000 |
|---|---|---|
| Salaries and wages | 185,134 | 180,500 |
| Social security costs | 20,505 | 18,134 |
| Apprenticeship levy | 980 | - |
| Employer's contributions to NHS pensions | 23,347 | 22,206 |
| Pension cost - other | 17 | 13 |
| Temporary staff (including agency) | 37,827 | 34,175 |
| **Total staff costs** | 267,810 | 255,028 |
| **Of which** | | |
| Costs capitalised as part of assets | 393 | 1,439 |

## 8.2 Retirements due to ill-health

During 2017/18 there were 4 early retirements from the trust agreed on the grounds of ill-health (9 in the year ended 31 March 2017). The estimated additional pension liabilities of these ill-health retirements is £222k (£571k in 2016/17).

The cost of these ill-health retirements will be borne by the NHS Business Services Authority - Pensions Division.

## 9. Pension costs

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

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

**a) Accounting valuation**

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and is accepted as providing suitably robust figures for financial reporting purposes. The valuation of the scheme liability as at 31 March 2018, is based on valuation data as 31 March 2017, updated to 31 March 2018 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 report of the scheme actuary, which forms part of the annual NHS Pension Scheme 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 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. A further actuarial valuation is yet to be published for the year ending 31 March 2016. 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 employee and employer representatives as deemed appropriate.

## 10. Operating leases

| 10.1 The Trust as a lessor | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Operating lease revenue** | | |
| Minimum lease receipts | 110 | 108 |
| **Total** | **110** | **108** |

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| **Future minimum lease receipts due:** | | |
| - not later than one year; | 110 | 108 |
| **Total** | **110** | **108** |

This note discloses income generated in operating lease agreements where Worcestershire Acute Hospitals NHS Trust is the lessor. The rental income relates to a building at Kidderminster Hospital.

| 10.2 The Trust as a lessee | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| **Operating lease expense** | | |
| Minimum lease payments | 2,650 | 2,287 |
| Contingent rents | - | - |
| Less sublease payments received | - | - |
| **Total** | **2,650** | **2,287** |

| | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| **Future minimum lease payments due:** | | |
| - not later than one year; | 1,506 | 592 |
| - later than one year and not later than five years; | 4,890 | 2,959 |
| - later than five years. | 19,392 | 5,623 |
| **Total** | **25,788** | **9,174** |

The Trust's operating leases for short term fixed leases include equipment and premises. The increase in lease payments due later than five years relates to the Charles Hasting Education Centre as the agreement is more than a 5 years commitment.

| 11. Finance income | 2017/18 | 2016/17 |
|---|---|---|
| | £000 | £000 |
| Interest on bank accounts | 18 | 53 |
| Other finance income | 30 | - |
| **Total** | 48 | 53 |

Finance income represents interest received on assets and investments in the period.

| 12.1 Finance expenditure | 2017/18 | 2016/17 |
|---|---|---|
| | £000 | £000 |
| **Interest expense:** | | |
| Loans from the Department of Health and Social Care | 2,506 | 2,788 |
| Main finance costs on PFI and LIFT schemes obligations | 5,938 | 6,097 |
| Contingent finance costs on PFI and LIFT scheme obligations | 5,604 | 5,380 |
| **Total interest expense** | 14,048 | 14,265 |
| Unwinding of discount on provisions | 8 | 21 |
| **Total finance costs** | 14,056 | 14,286 |

Finance expenditure represents interest and other charges involved in the borrowing of money including obligations under PFI contracts.

| 13. Other gains / (losses) | 2017/18 | 2016/17 |
|---|---|---|
| | £000 | £000 |
| Gains on disposal of assets | 28 | 6 |
| Losses on disposal of assets | (152) | (35) |
| **Total gains / (losses) on disposal of assets** | (124) | (29) |

| 14.1 Intangible assets - 2017/18 | Software licences £000 | Internally generated information technology £000 | Intangible assets under construction £000 | Total £000 |
|---|---|---|---|---|
| **Valuation / gross cost at 1 April 2017 - brought forward** | 9,335 | 2,260 | - | 11,595 |
| Additions | 139 | 132 | 88 | 359 |
| Reclassifications | (90) | - | 90 | - |
| Disposals / derecognition | (1,693) | - | - | (1,693) |
| **Gross cost at 31 March 2018** | 7,691 | 2,392 | 178 | 10,261 |
| | | | | |
| **Amortisation at 1 April 2017 - brought forward** | 6,292 | 1,082 | - | 7,374 |
| Provided during the year | 1,371 | 501 | - | 1,872 |
| Disposals / derecognition | (1,693) | - | - | (1,693) |
| **Amortisation at 31 March 2018** | 5,970 | 1,583 | - | 7,553 |
| | | | | |
| **Net book value at 31 March 2018** | 1,721 | 809 | 178 | 2,708 |
| **Net book value at 1 April 2017** | 3,043 | 1,178 | - | 4,221 |

| 14.2 Intangible assets - 2016/17 | Software licences £000 | Internally generated information technology £000 | Intangible assets under construction £000 | Total £000 |
|---|---|---|---|---|
| **Valuation / gross cost at 1 April 2016 - as previously stated** | 707 | 2,762 | - | 3,469 |
| Prior period reclassification | 1,007 | (1,007) | - | - |
| **Valuation / gross cost at 1 April 2016 - restated** | 1,714 | 1,755 | - | 3,469 |
| Additions | 1,383 | 508 | - | 1,891 |
| Reclassifications | 6,241 | (2) | - | 6,239 |
| Disposals / derecognition | (3) | (1) | - | (4) |
| **Valuation / gross cost at 31 March 2017** | 9,335 | 2,260 | - | 11,595 |
| | | | | |
| **Amortisation at 1 April 2016 - as previously stated** | 109 | 1,627 | - | 1,736 |
| Prior period reclassification | 976 | (976) | - | - |
| **Amortisation at 1 April 2016 - restated** | 1,085 | 651 | - | 1,736 |
| Provided during the year | 2,357 | 432 | - | 2,789 |
| Reclassifications | 2,854 | - | - | 2,854 |
| Disposals / derecognition | (4) | (1) | - | (5) |
| **Amortisation at 31 March 2017** | 6,292 | 1,082 | - | 7,374 |
| | | | | |
| **Net book value at 31 March 2017** | 3,043 | 1,178 | - | 4,221 |
| **Net book value at 1 April 2016** | 629 | 1,104 | - | 1,733 |

| 15.1 Property, plant and equipment - 2017/18 | Land | Buildings excluding dwellings | Dwellings | Assets under construction | Plant & machinery | Transport equipment | Information technology | Furniture & fittings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Valuation/gross cost at 1 April 2017 - brought forward** | 36,798 | 194,770 | 937 | 538 | 47,405 | 320 | 21,675 | 160 | 302,603 |
| Additions | - | 3,682 | - | 4,116 | 1,685 | - | 1,108 | 9 | 10,600 |
| Impairments | - | (135) | (56) | - | - | - | - | - | (191) |
| Reversals of impairments | - | 8,174 | 72 | - | - | - | - | - | 8,246 |
| Revaluations | - | 1,302 | (60) | - | - | - | - | - | 1,242 |
| Reclassifications | 518 | (518) | - | - | - | - | - | - | - |
| Disposals / derecognition | - | - | - | - | (4,944) | (18) | (12) | (36) | (5,010) |
| **Valuation/gross cost at 31 March 2018** | 37,316 | 207,275 | 893 | 4,654 | 44,146 | 302 | 22,771 | 133 | 317,490 |
| | | | | | | | | | |
| **Accumulated depreciation at 1 April 2017 - brought forward** | - | 45 | - | - | 34,627 | 320 | 14,341 | 132 | 49,465 |
| **Depreciation at start of period as FT** | - | - | - | - | - | - | - | - | - |
| Provided during the year | - | 3,767 | 21 | - | 2,892 | - | 2,103 | 13 | 8,796 |
| Impairments | - | 102 | 41 | - | - | - | - | - | 143 |
| Reversals of impairments | - | (2,028) | (2) | - | - | - | - | - | (2,030) |
| Revaluations | - | (1,687) | (60) | - | - | - | - | - | (1,747) |
| Reclassifications | 18 | (18) | - | - | - | - | - | - | - |
| Disposals / derecognition | - | - | - | - | (4,792) | (18) | (12) | (36) | (4,858) |
| **Accumulated depreciation at 31 March 2018** | 18 | 181 | - | - | 32,727 | 302 | 16,432 | 109 | 49,769 |
| | | | | | | | | | |
| **Net book value at 31 March 2018** | 37,298 | 207,094 | 893 | 4,654 | 11,419 | - | 6,339 | 24 | 267,721 |
| **Net book value at 1 April 2017** | 36,798 | 194,725 | 937 | 538 | 12,778 | - | 7,334 | 28 | 253,138 |

| 15.2 Property, plant and equipment - 2016/17 | Land<br>£000 | Buildings excluding dwellings<br>£000 | Dwellings<br>£000 | Assets under construction<br>£000 | Plant & machinery<br>£000 | Transport equipment<br>£000 | Information technology<br>£000 | Furniture & fittings<br>£000 | Total<br>£000 |
|---|---|---|---|---|---|---|---|---|---|
| **Valuation / gross cost at 1 April 2016** | 36,798 | 182,485 | 902 | 6,970 | 48,348 | 312 | 24,349 | 1,447 | 301,611 |
| Additions | - | 5,109 | - | 3,077 | 1,361 | - | 78 | - | 9,625 |
| Impairments | - | (48) | 48 | - | - | - | - | - | - |
| Reversals of impairments | - | 4,674 | - | - | - | - | - | - | 4,674 |
| Revaluations | - | (1,927) | (13) | - | - | - | - | - | (1,940) |
| Reclassifications | - | 4,477 | - | (9,509) | 1,109 | 21 | (1,206) | (1,131) | (6,239) |
| Disposals / derecognition | - | - | - | - | (3,413) | (13) | (1,546) | (156) | (5,128) |
| **Valuation/gross cost at 31 March 2017** | 36,798 | 194,770 | 937 | 538 | 47,405 | 320 | 21,675 | 160 | 302,603 |
| | | | | | | | | | |
| **Accumulated depreciation at 1 April 2016** | - | - | - | - | 34,511 | 312 | 17,143 | 788 | 52,754 |
| Provided during the year | - | 3,277 | 19 | - | 3,007 | - | 1,592 | 13 | 7,908 |
| Impairments | - | 1,611 | (6) | - | - | - | - | - | 1,605 |
| Reversals of impairments | - | (2,030) | - | - | - | - | - | - | (2,030) |
| Revaluations | - | (2,813) | (13) | - | - | - | - | - | (2,826) |
| Reclassifications | - | - | - | - | 491 | 21 | (2,853) | (513) | (2,854) |
| Disposals/ derecognition | - | - | - | - | (3,382) | (13) | (1,541) | (156) | (5,092) |
| **Accumulated depreciation at 31 March 2017** | - | 45 | - | - | 34,627 | 320 | 14,341 | 132 | 49,465 |
| | | | | | | | | | |
| **Net book value at 31 March 2017** | 36,798 | 194,725 | 937 | 538 | 12,778 | - | 7,334 | 28 | 253,138 |
| **Net book value at 1 April 2016** | 36,798 | 182,485 | 902 | 6,970 | 13,837 | - | 7,206 | 659 | 248,857 |

| 15.3 Property, plant and equipment financing - 2017/18 | Land | Buildings excluding dwellings | Dwellings | Assets under construction | Plant & machinery | Transport equipment | Information technology | Furniture & fittings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Owned - purchased | 37,298 | 123,885 | 893 | 4,654 | 5,800 | - | 6,102 | 24 | **178,656** |
| On-SoFP PFI contracts and other service concession arrangements | - | 82,950 | - | - | 5,600 | - | - | - | **88,550** |
| Owned - donated | - | 259 | - | - | 19 | - | 237 | - | **515** |
| **Net Book Value total at 31 March 2018** | **37,298** | **207,094** | **893** | **4,654** | **11,419** | **-** | **6,339** | **24** | **267,721** |

| 15.4 Property, plant and equipment financing - 2016/17 | Land | Buildings excluding dwellings | Dwellings | Assets under construction | Plant & machinery | Transport equipment | Information technology | Furniture & fittings | Total |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Owned - purchased | 36,798 | 116,567 | 937 | 538 | 6,978 | - | 7,034 | 28 | **168,880** |
| On-SoFP PFI contracts and other service concession arrangements | - | 77,869 | - | - | 5,746 | - | - | - | **83,615** |
| Owned - donated | - | 289 | - | - | 54 | - | 300 | - | **643** |
| **Net Book Value total at 31 March 2017** | **36,798** | **194,725** | **937** | **538** | **12,778** | **-** | **7,334** | **28** | **253,138** |

## 16. Revaluations of property, plant and equipment

Land and building assets are all held at revalued amount, with specialised properties valued on a modern equivalent depreciated replacement cost (DRC) basis.

A valuation of the Trust's land and buildings was undertaken by Cushman and Wakefield (RICS Registered Valuers), as at 31st March 2018.

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 2018 as at the prospective valuation date of 31 March 2018.

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

In line with HM Treasury guidance, the revaluation as at 31st March 2018 was based on the 'Modern Equivalent Asset' approach to valuation.

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 2018 valuation exercise, these asset lives were checked and revised where necessary.

| 17. Inventories | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £000 | £000 |
| Drugs | 3,663 | 3,459 |
| Work in progress | 108 | 82 |
| Consumables | 6,333 | 4,975 |
| Energy | 14 | 11 |
| Other | - | - |
| **Total inventories** | **10,118** | **8,527** |

Inventories recognised in expenses for the year were £50,134k (2016/17: £43,495k). Write-down of inventories recognised as expenses for the year were £300k (2016/17: £213k).

| 18.1 Trade receivables and other receivables | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| **Current** | | |
| Trade receivables | 12,104 | 9,259 |
| Capital receivables (including accrued capital related income) | - | 89 |
| Accrued income | 8,396 | 10,099 |
| Provision for impaired receivables | (1,746) | (1,829) |
| Deposits and advances | 6 | 30 |
| Prepayments (non-PFI) | 2,155 | 2,580 |
| PFI lifecycle prepayments | 3,264 | 2,408 |
| PDC dividend receivable | 23 | 1,108 |
| VAT receivable | 2,224 | 1,927 |
| Other receivables | 662 | 516 |
| **Total current trade and other receivables** | **27,088** | **26,187** |
| | | |
| **Non-current** | | |
| Trade receivables | 2,725 | 2,723 |
| **Total non-current trade and other receivables** | **2,725** | **2,723** |
| | | |
| **Of which receivables from NHS and DHSC group bodies:** | | |
| Current | 18,181 | 17,800 |

| 18.2 Provision for impairment of receivables | 2017/18 | 2016/17 |
|---|---|---|
| | £000 | £000 |
| **At 1 April** | 1,829 | 2,350 |
| Increase in provision | 354 | (348) |
| Amounts utilised | (437) | (173) |
| **At 31 March** | 1,746 | 1,829 |

The Trust's policy for the impairment of receivables is as follows:

- Injury cost recovery income: subject to a provision for impairment of receivables of 22.84% (22.94% 2016/17) as per DH guidance.
- Non-NHS receivables that are over 3 months old: subject to a provision for impairment of receivables of 100%
- Non-NHS receivables less than 3 months old: individually assessed and an appropriate provision made

- NHS receivables: individually assessed and an appropriate provision made (taking account of the NHS agreement of balances exercise)

| 18.3 Credit quality of financial assets | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| | Trade and other receivables | Investments & Other financial assets | Trade and other receivables | Investments & Other financial assets |
| Ageing of impaired financial assets | £000 | £000 | £000 | £000 |
| 0 - 30 days | - | - | - | - |
| 30-60 Days | - | - | - | - |
| 60-90 days | - | - | - | - |
| 90- 180 days | 181 | - | 259 | - |
| Over 180 days | 1,565 | - | 1,570 | - |
| **Total** | 1,746 | - | 1,829 | - |

| 18.4 Ageing of non-impaired financial assets past their due date | | | | |
|---|---|---|---|---|
| 0 - 30 days | 1,806 | - | 2,038 | - |
| 30-60 Days | 665 | - | 1,189 | - |
| 60-90 days | 707 | - | 151 | - |
| 90- 180 days | 633 | - | 125 | - |
| Over 180 days | 1,853 | - | 924 | - |
| **Total** | 5,664 | - | 4,427 | - |

## 19. Events after the end of the reporting period

The Trust has not identified any events after the end of the accounting period that require disclosure.

| 20. Cash and cash equivalents movements | 2017/18 | 2016/17 |
|---|---|---|
| | £000 | £000 |
| **At 1 April** | **2,050** | **1,474** |
| Net change in year | 57 | 576 |
| **At 31 March** | **2,107** | **2,050** |
| **Broken down into:** | | |
| Cash at commercial banks and in hand | 30 | 35 |
| Cash with the Government Banking Service | 2,077 | 2,015 |
| **Total cash and cash equivalents as in SoCF** | **2,107** | **2,050** |

Cash and cash equivalents comprise cash at bank, in hand and cash equivalents. Cash equivalents are readily convertible investments of known value which are subject to an insignificant risk of change in value.

| 21. Trade and other payables | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| **Current** | | |
| Trade payables | 10,420 | 7,889 |
| Capital payables | 5,493 | 1,811 |
| Accruals | 12,335 | 18,944 |
| Receipts in advance (including payments on account) | 28 | 20 |
| Social security costs | 3,285 | 2,090 |
| VAT payables | - | - |
| Other taxes payable | 5,448 | 5,591 |
| PDC dividend payable | 18 | 892 |
| Accrued interest on loans | 630 | 389 |
| Other payables | 151 | 45 |
| **Total current trade and other payables** | **37,808** | **37,671** |
| | | |
| **Of which payables from NHS and DHSC group bodies:** | | |
| Current | 4,270 | 7,017 |

| 22. Other liabilities | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £000 | £000 |
| **Current** | | |
| Deferred income | 1,105 | 1,156 |
| PFI deferred income / credits | 650 | 1,047 |
| **Total other current liabilities** | **1,755** | **2,203** |
| | | |
| **Non-current** | | |
| PFI deferred income / credits | 3,214 | 3,234 |
| **Total other non-current liabilities** | **3,214** | **3,234** |

| 23. Borrowings | 31 March 2018 | 31 March 2017 |
|---|---|---|
| | £000 | £000 |
| **Current** | | |
| Loans from the Department of Health and Social Care | 42,410 | 4,027 |
| Obligations under PFI, LIFT or other service concession contracts (excl. lifecycle) | 2,106 | 1,941 |
| **Total current borrowings** | **44,516** | **5,968** |
| | | |
| **Non-current** | | |
| Loans from the Department of Health and Social Care | 152,386 | 135,326 |
| Obligations under PFI, LIFT or other service concession contracts | 60,703 | 62,810 |
| **Total non-current borrowings** | **213,089** | **198,136** |

The Trust continues to rely on borrowing from government, with material amounts due for repayment within 12 months. The Trust is in discussion with NHS Improvement following guidance that it may be possible to renegotiate an extended repayment period for principal, rather than further increase borrowings.

| 24.1 Provisions for liabilities and charges analysis | Pensions - early departure costs £000 | Legal claims £000 | Other £000 | Total £000 |
|---|---|---|---|---|
| **At 1 April 2017** | **3,307** | **177** | **427** | **3,911** |
| Change in the discount rate | 46 | - | - | **46** |
| Arising during the year | 323 | 99 | 400 | **822** |
| Utilised during the year | (219) | (106) | (379) | **(704)** |
| Reversed unused | (239) | (2) | (58) | **(299)** |
| Unwinding of discount | 8 | - | - | **8** |
| **At 31 March 2018** | **3,226** | **168** | **390** | **3,784** |
| **Expected timing of cash flows:** | | | | |
| - not later than one year; | 213 | 168 | 390 | **771** |
| - later than one year and not later than five years; | 850 | - | - | **850** |
| - later than five years. | 2,163 | - | - | **2,163** |
| **Total** | **3,226** | **168** | **390** | **3,784** |

- Early departure costs are pensions relating to former staff are based upon actuarial estimates and are reviewed annually. Payments are made quarterly to the NHS Pensions Agency in respect of the Trust's liability.
- Legal claims relate to employers'/third party liability claims. Cost estimates and timings are provided by the NHS Litigation Authority.
- Other provisions include Carbon Reduction Charge (CRC).

## 24.2 Clinical negligence liabilities

At 31 March 2018 £164.769 million was included in provisions of NHS Resolution in respect of clinical negligence liabilities of Worcestershire Acute Hospitals NHS Trust, (31 March 2017: £139.416 million).

| **25. Contingent assets and liabilities** | **31 March 2018** | **31 March 2017** |
|---|---|---|
| | **£000** | **£000** |
| **Value of contingent liabilities** | | |
| NHS Resolution legal claims | (59) | (35) |
| **Gross value of contingent liabilities** | **(59)** | **(35)** |
| Amounts recoverable against liabilities | - | - |
| **Net value of contingent liabilities** | **(59)** | **(35)** |
| **Net value of contingent assets** | - | - |

| **26. Contractual capital commitments** | **31 March 2018** | **31 March 2017** |
|---|---|---|
| | **£000** | **£000** |
| Property, plant and equipment | 1,955 | 1,860 |
| Intangible assets | - | 72 |
| **Total** | **1,955** | **1,932** |

## 27. On-SoFP PFI, LIFT or other service concession arrangements

The information below is required by the Department of Heath 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 retains existing estates at the Worcester Site including Aconbury East and West which were not part of PFI originally 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.

| 28.1 Imputed finance lease obligations | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| **Gross PFI, LIFT or other service concession liabilities** | 113,591 | 121,471 |
| **Of which liabilities are due** | | |
| - not later than one year; | 7,879 | 7,879 |
| - later than one year and not later than five years; | 33,212 | 32,057 |
| - later than five years. | 72,500 | 81,535 |
| Finance charges allocated to future periods | (50,782) | (56,720) |
| **Net PFI, LIFT or other service concession arrangement obligation** | 62,809 | 64,751 |
| - not later than one year; | 2,106 | 1,941 |
| - later than one year and not later than five years; | 12,138 | 10,104 |
| - later than five years. | 48,565 | 52,706 |
| **Total finance lease obligations** | 62,809 | 64,751 |

Worcestershire Acute Hospitals NHS Trust has the following obligations in respect of the finance lease element of on-Statement of Financial Position PFI and LIFT schemes:

| 28.2 Total on-SoFP PFI, LIFT and other service concession arrangement commitments | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| Total future payments committed in respect of the PFI, LIFT or other service concession arrangements | 500,193 | 530,733 |
| **Of which liabilities are due:** | | |
| - not later than one year; | 31,302 | 30,539 |
| - later than one year and not later than five years; | 133,231 | 129,982 |
| - later than five years. | 335,660 | 370,212 |

| 28.3 Analysis of amounts payable to service concession operator | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| This note provides an analysis of the Trust's payments in 2017/18: | | |
| **Consisting of:** | | |
| - Interest charge | 5,938 | 6,097 |
| - Repayment of finance lease liability | 1,941 | 1,936 |
| - Service element and other charges to operating expenditure | 14,700 | 14,258 |
| - Capital lifecycle maintenance | 1,872 | 1,660 |
| - Revenue lifecycle maintenance | - | - |
| - Contingent rent | 5,604 | 5,380 |
| - Addition to lifecycle prepayment | 189 | 121 |
| **Total amount paid to service concession operator** | 30,244 | 29,452 |

## 29. Financial instruments

### 29.1 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.

**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 31st March 2018 are in receivables from customers, as disclosed in the trade and other receivables note.

**Liquidity risk**

The Trust's operating costs are incurred under contract 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.

**Currency risk**

The Trust is principally a domestic organisation with the majority of transactions, assets and liabilities being in the Up 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. 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 also borrows from government to support the financial deficit and ensure sufficient cash flow to maintain day to day operations.

| 29.2 Carrying values of financial assets | Loans and receivables £000 | Assets at fair value through the I&E £000 | Held to maturity at £000 | Available-for-sale £000 | Total book value £000 |
|---|---|---|---|---|---|
| **Assets as per SoFP as at 31 March 2018** | | | | | |
| Trade and other receivables excluding non financial assets | 19,422 | - | - | - | 19,422 |
| Cash and cash equivalents at bank and in hand | 2,107 | - | - | - | 2,107 |
| **Total at 31 March 2018** | 21,529 | - | - | - | 21,529 |

| | Loans and receivables £000 | Assets at fair value through the I&E £000 | Held to maturity £000 | Available-for-sale £000 | Total book value £000 |
|---|---|---|---|---|---|
| **Assets as per SoFP as at 31 March 2017** | | | | | |
| Trade and other receivables excluding non financial assets | 18,164 | - | - | - | 18,164 |
| Cash and cash equivalents at bank and in hand | 2,050 | - | - | - | 2,050 |
| **Total at 31 March 2017** | 20,214 | - | - | - | 20,214 |

| 29.3 Carrying value of financial liabilities | Other financial liabilities £000 | Liabilities at fair value through the I&E £000 | Total book value £000 |
|---|---|---|---|
| **Liabilities as per SoFP as at 31 March 2018** | | | |
| Borrowings excluding finance lease and PFI liabilities | 194,796 | - | 194,796 |
| Obligations under PFI, LIFT and other service concession contracts | 62,809 | - | 62,809 |
| Trade and other payables excluding non financial liabilities | 29,051 | - | 29,051 |
| **Total at 31 March 2018** | 286,656 | - | 286,656 |

| | Other financial liabilities £000 | Liabilities at fair value through the I&E £000 | Total book value £000 |
|---|---|---|---|
| **Liabilities as per SoFP as at 31 March 2017** | | | |
| Borrowings excluding finance lease and PFI liabilities | 139,353 | - | 139,353 |
| Obligations under PFI, LIFT and other service concession contracts | 64,751 | - | 64,751 |
| Trade and other payables excluding non financial liabilities | 29,098 | - | 29,098 |
| **Total at 31 March 2017** | 233,202 | - | 233,202 |

| 29.4. Maturity of financial liabilities | 31 March 2018 £000 | 31 March 2017 £000 |
|---|---|---|
| In one year or less | 73,567 | 35,066 |
| In more than one year but not more than two years | 74,713 | 44,516 |
| In more than two years but not more than five years | 75,875 | 86,385 |
| In more than five years | 62,501 | 67,235 |
| **Total** | 286,656 | 233,202 |

| 30. Losses and special payments | 2017/18 Total number of cases Number | 2017/18 Total value of cases £000 | 2016/17 Total number of cases Number | 2016/17 Total value of cases £000 |
|---|---|---|---|---|
| **Losses** | | | | |
| Cash losses | 2 | 0 | 2 | 0 |
| Bad debts and claims abandoned | 140 | 44 | 369 | 33 |
| Stores losses and damage to property | 13 | 360 | 12 | 213 |
| **Total losses** | **155** | **404** | **383** | **246** |
| **Special payments** | | | | |
| Compensation under court order or legally binding arbitration award | - | - | 3 | 4 |
| Ex-gratia payments | 82 | 281 | 85 | 158 |
| Extra-statutory and extra-regulatory payments | 1 | 116 | - | - |
| **Total special payments** | **83** | **397** | **88** | **162** |
| **Total losses and special payments** | **238** | **801** | **471** | **408** |

## 31.Related parties

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 £514,668 (£441,082 in 2016/17). All of these payments relate to expenditure made by the Trust on behalf of the Worcestershire Acute Hospitals Charity. All Board Member are Trustees of the Trust's Charitable Funds. The summary financial statements of the Funds Held on Trust are included in the annual report and accounts.

| 32. Better Payment Practice code | 2017/18 Number | 2017/18 £000 | 2016/17 Number | 2016/17 £000 |
|---|---|---|---|---|
| **Non-NHS Payables** | | | | |
| Total non-NHS trade invoices paid in the year | 95,966 | 200,703 | 101,040 | 209,074 |
| Total non-NHS trade invoices paid within target | 61,872 | 127,916 | 86,806 | 171,678 |
| Percentage of non-NHS trade invoices paid within target | 64.47% | 63.73% | 85.91% | 82.11% |
| **NHS Payables** | | | | |
| Total NHS trade invoices paid in the year | 2,857 | 33,423 | 3,149 | 35,334 |
| Total NHS trade invoices paid within target | 1,466 | 24,506 | 2,387 | 28,711 |
| Percentage of NHS trade invoices paid within target | 51.31% | 73.32% | 75.80% | 81.26% |

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 valid invoice, whichever is later.

| 33. External financing | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| The trust is given an external financing limit against which it is permitted to underspend: | | |
| Cash flow financing | 55,774 | 34,741 |
| Charge against external financing limit | **55,774** | **34,741** |
| External financing limit (EFL) | 56,745 | 42,163 |
| Under / (over) spend against EFL | 971 | 7,422 |

The trust is given an external financing limit against which it is permitted to underspend:

| 34. Capital Resource Limit | 2017/18 £000 | 2016/17 £000 |
|---|---|---|
| The trust is given a capital resource limit which it is not permitted to exceed. | | |
| Gross capital expenditure | 10,959 | 11,483 |
| Less: book value of assests disposed of | (152) | - |
| Less: Donated and granted capital additions | - | (300) |
| **Charge against Capital Resource Limit** | 10,807 | 11,183 |
| Capital Resource Limit | 10,959 | 11,224 |
| **Under / (over) spend against CRL** | 152 | 41 |

| 35. Breakeven duty financial performance | 2017/18 £000 |
|---|---|
| Adjusted financial performance surplus / (deficit) (control total basis) | (52,981) |
| Add back income for impact of 2016/17 post-accounts STF reallocation | 419 |
| Breakeven duty financial performance surplus / (deficit) | (52,562) |

| 36. Breakeven duty rolling assessment | 2009/10 £000 | 2010/11 £000 | 2011/12 £000 | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|---|---|---|---|---|---|---|---|---|---|
| Breakeven duty in-year financial performance | 3,135 | 287 | 88 | 17 | (14,191) | (25,918) | (59,831) | (28,748) | (52,562) |
| Breakeven duty cumulative position | (18,719) | (18,432) | (18,344) | (18,327) | (32,518) | (58,436) | (118,267) | (147,015) | (199,577) |
| Operating income | 312,889 | 321,829 | 336,594 | 348,763 | 346,029 | 364,656 | 368,981 | 403,348 | 400,918 |
| Cumulative breakeven position as a percentage of operating income | -5.98% | -5.73% | -5.45% | -5.25% | -9.40% | -16.02% | -32.05% | -36.45% | -49.78% |

* 2017/18 is adjusted to include the impact of the 1617 STF post accounts reallocation

The Department of Health and Social Care has previously agreed with HM Treasury that the breakeven duty will be assumed to have been met if expenditure is covered by income over a three year period. 2009/10 is assume to be  the first year of International Financial Reporting Standards (IFRS) implementation is a suitable point from which the breakeven duty should now be assessed. *(NHS Improvement April 2018 Publication code: CG 57/18)*