Worcestershire Acute Hospitals NHS Trust

To: The Directors of Worcestershire Acute Hospitals NHS Trust

You are required to attend the Annual General Meeting of the Worcestershire Acute Hospitals NHS Trust on Thursday 10 September 2020 at 3pm. The meeting will be held virtually.

The agenda is as set out below.

Sir David Nicholson
Chairman

Item	Title	Lead	Enclosure
1	**Welcome and apologies for absence**	Sir David Nicholson, Chairman	
2	**Declarations of Interest** *To declare any interest members may have in connection with the agenda.*		
3	**Minutes of the previous meeting** *To approve the Minutes of the AGM held on **19 September 2019** as a true and accurate record of discussions.*	Sir David Nicholson, Chairman	**Enc A**
4	**Introductions and Opening Remarks**	Sir David Nicholson, Chairman	
5	**Review of 2019/20**	Matthew Hopkins, Chief Executive	**Enc B Annual Report (separate attachment)**
6	**Quality Account 2019/20**	Vicky Morris, Chief Nursing Officer	**Enc C (to follow) Presentation**
7	**Annual Accounts 2019/20**	Robert Toole, Chief Finance Officer	**Enc D Presentation**
8	**Looking 4ward**	Matthew Hopkins, Chief Executive	**Presentation**
9	**Date of Next Meeting – to be confirmed**		
10	**Questions via zoom**		

WORCESTERSHIRE ACUTE HOSPITALS NHS TRUST

MINUTES OF THE ANNUAL GENERAL MEETING HELD ON

THURSDAY 19 SEPTEMBER 2019
CROMPTON ROOMS A&B, CHARLES HASTINGS EDUCATION CENTRE, WORCESTERSHIRE ROYAL HOSPITAL

Present:

Chairman	Sir David Nicholson	Chairman
Board Members	Paul Brennan	Deputy Chief Executive/COO
	Mike Hallissey	Chief Medical Officer
	Vicky Morris	Chief Nursing Officer
	Bill Tunnicliffe	Non-Executive Director
	Steve Williams	Non-Executive Director
	Mark Yates	Non-Executive Director
Board Attendees	Tina Ricketts	Director of People and Culture
	Richard Haynes	Director of Communications and Engagement
	Katie Osmond	Assistant Director of Finance
	Kimara Sharpe	Company Secretary
	Sarah Smith	Director of Strategy and Planning
Members of the public, press and staff	14	
Apologies for absence	Fleur Blakeman	Improvement Director
	Julie Moore	Non-Executive Director
	Richard Oosterom	Associate Non-Executive Director
	Robert Toole	Chief Finance Officer
	Matthew Hopkins	Chief Executive
	Anita Day	Non-Executive Director
	Colin Horwath	Associate Non-Executive Director

1/19 (AGM) **Introductions and Opening remarks**
Sir David Nicholson welcomed everyone to the Trust's AGM.

2/19 (AGM) **Declarations of interests**
There were no declarations of interest.

3/19 (AGM) **Minutes of the Annual General Meeting held on 17 July 2018**

Resolved: that
- **The Minutes of the meeting held on 17 July 2018 were agreed as a correct record and signed by the Chairman.**

4/19 (AGM) **Review of 2018/19**
Sir David stated that it was a huge privilege and pleasure to the Chairman of his local Trust. The Trust was now on a journey of improvement with

progress having been made in the last year. He observed that the Board was now more stable than it has been in the recent past and he welcomed this.

When he was appointed, Sir David identified three priorities, and these continued to be important. Urgent and emergency care was central to the performance of the Trust and he was pleased that there were plans in place to improve performance. This area was a focus for the whole health economy and he was pleased that partners were working with the Trust. His second priority was governance i.e. ensuring that we do what we say we will do and how the Board remains connected to the rest of the Trust. His final priority was strategy. It was of utmost importance to have a clear direction and ensuring there were sustainable services.

He stated that the NHS was under great pressure, with little growth in resources. There are many organisations with financial pressures, including the Trust. The demographics were changing with an increase in those over the age of 80 and living with long term conditions and increased morbidity. The Trust needs to review its relationship with the community it serves to enable people to live locally with the support needed. He welcomed the new technology that was being developed and he looked forward to the inevitable massive changes in this area in the future.

Sir David then turned to people. The NHS is all about people. The Trust puts patients first but cannot do this without the dedication of staff and volunteers who go above and beyond to ensure that patients have a good experience.

He then thanked members of the community who consistency support the Trust and the large number of volunteers including the Leagues of Friends, Charitable Trust. He also thanked Board members for their contribution.

Sir David then introduced a short film about the Trust.

Sir David then introduced Mr Paul Brennan, Deputy Chief Executive. He thanked Mr Brennan for his support, in particular over the recent months in the absence of the Chief Executive. He was pleased that Mr Hopkins had had a successful kidney transplant and was currently on a phased return to work.

Mr Brennan stated that there had been significant challenges over the year 2018/19. The Trust ended the year with £73m deficit. The biggest underlying cause of the deficit was the amount of money spent on bank and agency staff – £46m. The Trust needs to improve the recruitment and retention of staff in order to address this.

There was continued scrutiny by external organisations during the year. The CQC rating remained as inadequate and continued in Special Measures. He was keen that in 2019/20 the Trust exited special measures.

He then turned to the performance targets. During the year, there had been some improvements and some targets had declined in performance. There had been a focus on those patients waiting for a long time for elective care and he was pleased to report that there had been no patients waiting over 52 weeks by the end of March 2019. He was committed to ensuring that there was a maximum waiting time of 40 weeks.

The Quality Improvement Strategy had proved the driver for change in respect of ensuring patients were looked after in the most appropriate location. He was pleased that endoscopy and the discharge lounge were not being used for inpatients and more recently the ambulatory unit has now no inpatients.

He stated that there was more detail in relation to all the key performance indicators within the Annual Report

He then went onto the key achievements for 2018/19. The link bridge between Aconbury and the main site had opened. Additional capacity had been opened at the Alexandra Hospital (35 beds) and Worcestershire Royal (28 beds). The service for people with a fractured neck of femur was now centralised at the Alexandra Hospital and was now meeting the national standards. A frailty assessment unit had opened, also at the Alexandra Hospital. He confirmed that the Alexandra Hospital had a sustained long term future.

He was pleased that the simulation centre at Kidderminster Hospital and Treatment Centre was well used.

5/19 (AGM) **Quality Account 2018/19**

Sir David invited Mrs Morris to speak about the Quality Account for 2018/19.

Mrs Morris thanked Mrs Edwards for her work on the publication. The document reflects on the work during 2018/19 and sets out the clear trajectories for the forthcoming year.

The quality improvement strategy provided the framework for the quality work. She then outlined some of the achievements within the Quality Account. She stated that in a number of areas, the target was exceeded. There are areas for more focus and all the divisions have their own targets. She highlighted the pathway to platinum ward accreditation and described this work. She also stated that 'Back to the Floor' initiative was launched in November 2018 and this provided her and other senior nursing staff with the opportunity to work with front line staff.

There are posters around the Trust showing the quality journey and she urged people to review them.

She expressed her thanks to the quality improvement hub which had developed the systems and processes for monitoring the implementation of the quality improvement strategy.

She then turned to the CQC report. She was pleased that all the conditions on the Trust had lifted in 2018/19 and she was looking forward to the most recent report, due for publication the following day.

6/19 (AGM) **Annual Accounts 2018/19**

Sir David invited Mrs Osmond to speak to the Annual Accounts for 2018/19. He reminded those present that there were copies with the agenda.

Mrs Osmond stated that 2018/19 had been a challenging year. The Trust had signed up to the control total but did not meet it ending the year with a £73m deficit, prior to the provider sustainability fund distribution. The position of £73m had been agreed with NHS I in quarter 4.

She reported that £7.6m cost improvement plan (CIP) savings had been delivered during the year and invested £17.1m of capital resources in 2018/19 in line with its Capital Resource Limit. The External Finance Limit was also achieved with £2m in the bank at the year end.

The Trust was awarded indicative provider sustainability fund (PSF) of £4.922m as part of the year end general distribution.

She then went onto the key drivers of the 2018/19 deficit which included Premium Cost Workforce i.e. the Trust continues to spend a high proportion of the pay bill on temporary staff, increasing by approximately. £6m during the year totalling approximately £46m. The other main element is the Increased demand for emergency services and poor patient flow limiting the Trust’s ability to deliver planned activity levels and stifles productivity and efficiency gains.

The reasons for the non-delivery of the £41m control total was due to the inability to deliver elective activity that had been assumed; lower delivery of the CIP and a requirement to meet the extra demand such as additional spend on diagnostics.

The Annual Account and balance sheet show an accumulated deficit of £268.4m. This means that the Trust requires on going cash support to ensure that the liabilities can be met. The Trust borrowed approximately £70m for revenue in 2018/19.

The Trust borrowed £10.3m in capital loans making the total borrowing £80.3m. The total revenue loan support now received is £237.6m. The next significant loan repayments are £15.4m due in November 2019 & £38.8m due in December 2019 and the Trust is working with the Department of Health and Social Care to restructure the loans.

In year the Trust received PDC funding for the Link Bridge £3m and Health System Led Investment (HSLI) £0.8m. Loan funding for the Refurbishment of Aconbury East was received for £7m and emergency department/ward expansion £0.6m.

She was pleased to report that the Annual Accounts and Annual Report received an unqualified audit opinion. The Auditors recognised the positive engagement of the staff and the quality of the supporting documentation.

There was a qualified adverse value for money opinion which related to the CQC rating, financial deficit and the performance against the constitutional standards.

Mrs Osmond then turned to the 2019/20 plan. After the application of inflationary impacts, cost pressures and tariff changes, and before any efficiency savings assumptions, the Trust deficit would be approximately £96.5m deficit. NHS I have issued a control total of £64.4m deficit which the Trust has been unable to sign up to. The Board has committed to deliver no less than the out turn from last year.

7/19 (AGM) **Looking 4ward**

Mr Brennan stated that there was a lot of work to ensure that the Trust ensured that all patients had a good experience of care. He was pleased with the improvement in relation to closing the surge areas and he committed to maintain this position during the winter.

He then turned to the delivery of clinical strategy. This was a major piece of work which could only be delivered with the support from partners, stakeholders and patients. He stated that it was critically important to work in close alignment with the Health and Care Trust.

He was conscious of the need to ensure that staff turnover is improved. Staff must be proud to work at the Trust.

Sir David gave a commitment that the Board was conscious that there needed to be continuous improvement. He wanted faster progress.

8/19 (AGM) **Questions**

Sir David invited comments/questions from the public.

Mr Trigger (patient) asked how the Trust would improve survival rates for sepsis.

Mr Hallissey reminded those present about the sepsis work that is already seeing improvements. There is an education programme for clinical staff in respect of responsiveness. He was pleased with the progress made to date.

Mr Pinfield (HealthWatch) acknowledged that there had been improvements and he welcomed the commitment to continue the improvements. He wished that there was more capital available. He expressed unease about the financial figures within the annual report. He wondered how the financial situation impacted on the improvements required.

Mr Brennan stated that key to this was ensuring that the Trust employed all staff to reduce the spend on bank and agency. He admitted that the financial challenge was great but there were now significant control measures in place. He confirmed that the impact on quality through quality impact assessments was always assessed.

Sir David stated that the best organisations delivered both quality and money. He said that it would take the Trust 3-4 years to achieve this.

Dr Davies (Chair, Redditch and Bromsgrove CCG) asked what implications there was for the Trust with the Three Counties Medical School.

Mr Hallissey welcomed the development of the medical school. He stated that the impact of the medical school would be minimal in respect of staffing but the philosophy of the School was to recruit people from the local community and the hope was that they would return in the long term to work within the Trust. It gives excellent opportunities for individuals.

Sir David echoed Mr Hallissey's observations. He added that it would take a number of years to realise the benefits. A Trust being associated with a medical school ensured that it was a more attractive place to work. There would be more research. The Three Counties was also committed to recruit students from differing background and those with disabilities. It would add a richness to the medical fraternity. There would be a focus on general practitioners and general physicians as well as psychiatrics.

9/19 (AGM) **Date of next meeting**
July 2020

In closing the meeting, Sir David Nicholson thanked the pubic for attending.

The meeting closed at 15:06

Signed .... Date ....
Sir David Nicholson
Chairman

Worcestershire Acute Hospitals NHS Trust

Putting patients first May 2019

Meeting	Trust Board
Date of meeting	9 July 2020
Paper number	D1

Annual General Meeting - Accounts 2019/20

For approval:	x	For discussion:		For assurance:		To note:	

Accountable Director	Robert D Toole, Chief Finance Officer		
Presented by	Robert D Toole, Chief Finance Officer	**Author/s**	Katie Osmond, Deputy Director of Finance Lynne Walden, Head of Financial Planning and Financial Services

Alignment to the Trust's strategic objectives							
Best services for local people		Best experience of care and outcomes for our patients		Best use of resources	x	Best people	

Report previously reviewed by		
Committee/Group	Date	Outcome
Audit and Assurance Committee	15th June 2020	Approved for submission
Trust Board	9th July 2020	The Board noted: • the audited financial position at the end of the financial year 2019/20. • the draft Annual Report (to be designed before the AGM) • that the Audit and Assurance Committee reviewed and adopted the annual accounts on 15th June 2020 • that the Trust worked with external auditors to ensure the reports were produced in line with the Department of Health and Social Care (DHSC) requirements.

Recommendations	The Board is asked to formally accept and approve : • The Annual Accounts at this AGM.

Executive summary	The Department of Health and Social Care (DHSC) and bodies within the DHSC accounting boundary have a statutory requirement to produce an annual report and accounts following the end of the financial year. The Trust follows the Group Accounting Manual (GAM) guidance and instructions to prepare and publish the annual report and accounts. The accounts are

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	prepared in accordance with the International Financial Reporting Standards (IFRS) and the HM Treasury's Financial Reporting Manual (FReM). All documentation required to be submitted was provided to NHSI prior to the national deadline of 25th June 2020. The auditors have confirmed that the financial statements give a true and fair view of the Trust as at 31st March 2020 and of its Expenditure and Income for the year then ended. It should be noted however that there is a basis for, and a qualified opinion directly caused by the COVID-19 pandemic and with ISA501, *Audit Evidence – Specific Considerations for selected items* - external auditor's not being able to observe the counting of the inventories and as such being unable to obtain sufficient audit evidence regarding the physical inventory quantities held at 31st March 2020.

Risk								
Key Risks	Ensure the Trust is financially viable and makes the best use of resources for our patients.							
Assurance	The Trust produced the accounts in line with the GAM, and worked with the External Auditors to ensure they represented a true and fair view and were submitted in line with the national timetable.							
Assurance level	**Significant**		**Moderate**	*x*	**Limited**		**None**	
Financial Risk	BAF Risk 7 - If we fail to address the drivers of the underlying deficit then we will not achieve financial sustainability (as measured through achievement as a minimum of the structural level of deficit) resulting in the potential inability to transform the way in which services operate, and putting the Trust at risk of being placed into financial special measures. BAF Risk 8 - If we are not able to secure capital financing then we will not be able to maintain and modernise our estate, infrastructure, and facilities; equipment and digital technology resulting in a risk of business continuity and delivery of safe, effective and efficient care.							

Worcestershire Acute Hospitals NHS Trust

Putting patients first May 2019

Meeting	Trust Board
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Introduction/Background

The Department of Health and Social Care (DHSC) and bodies within the DHSC accounting boundary have a statutory requirement to produce an annual report and accounts following the end of the financial year. The Trust follows the Group Accounting Manual (GAM) guidance and instructions to prepare and publish the annual report and accounts. The accounts are prepared in accordance with the International Financial Reporting Standards (IFRS) and the HM Treasury's Financial Reporting Manual (FReM).

All documentation required to be submitted was provided to NHSI prior to the national deadline of 25th June 2020.

Issues and options

The Trust has recorded an audited Operational deficit of £(81.5)m in 2019/20 compared to a deficit of £(73.7)m in 2018/19. The performance against Control Total deficit measure excludes the impact of any impairment or donated asset accounting and is pre Provider and Sustainability Funding (PSF).

At the end of the 2019/20 financial year the reported deficit for the year after impairments was £(88.3)m.

Financial Position - Income & Expenditure	**Actual 2019/20 £000s**	**Actual 2018/19 £000s**
Operational (Adjusted) financial performance surplus/(deficit) excluding PSF, FRF, MRET funding and Impairments	**(81,466)**	**(73,712)**
Adjust Provider Sustainability Funding (PSF)		4,922
Performance Against Control Total / Plan adjusted to include PSF	**(81,466)**	**(68,790)**
Adjust Remove impact of prior year PSF post accounts reallocation	493	
Adjust Remove capital donations/grants I&E impact	(70)	(86)
Adjust I&E impairments/(reversals)	(7,288)	(6,828)
Surplus/(deficit) for the year including PSF, FRF and MRET funding and after Impairments	**(88,331)**	**(75,704)**

In the External Auditor's opinion, except for the possible effects of the matter described in the basis for qualified opinion section of their report (also see next paragraph), the financial statements:

- give a true and fair view of the financial position of the Trust as at 31 March 2020 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2019 to 2020; and
- have been prepared in accordance with the requirements of the National Health Service Act 2006.

The auditor's opinion is qualified in 2019/20. This is due to the national lockdown arising from the Covid-19 pandemic where the auditors could not fully observe the counting of physical inventories at the end of the year. The Trust's inventory balance of £8.9m is material to the Trust's accounts. The Trust is satisfied that its inventory balance is presented fairly in all material respects: the Trust has well-established stocktake procedures which are regularly reviewed. However the restrictions on movement in the United Kingdom in March 2020 meant that the Trust experienced constraints in accessing stock information and as such has made reasonable adjustment.

The Trust's auditor was unable to fully attend the relevant year-end inventory counts, and the auditor has been unable to gain sufficient audit evidence from alternative procedures. The auditor has

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therefore been unable to complete the procedures required by auditing standards, **and is required to issue a qualified opinion**.

We are aware that a number of Trusts in the country are affected by the same issue in 2019/20 and we understand NHS Improvement will disclose the extent to which this has impacted the sector in its consolidated provider accounts when published later in 2020. The auditor's opinion on the financial statements remains unmodified in all other respects.

Conclusion

The Trust produced the accounts in line with the GAM, and worked with the External Auditors to ensure they represented a true and fair view and were submitted in line with the national timetable. The auditors issued a qualified audit opinion as a result of a Limitation of Scope in respect of ISA501, *Audit Evidence – Specific Considerations for selected items* - Inventory. In all other regards the auditors confirmed the financial statements provided a true and fair view.

Recommendations

The Board is asked to formally accept and approve

- The Annual Accounts at this AGM.

Appendices

- Accounts
- Auditors' Opinion

Worcestershire Acute Hospitals NHS Trust

Annual accounts for the year ended 31 March 2020

Statement of Comprehensive Income

	Note	2019/20 £000	2018/19 £000
Operating income from patient care activities	3	416,176	381,078
Other operating income	4	27,546	30,888
Operating expenses	7, 9	(514,924)	(472,151)
Operating surplus/(deficit) from continuing operations		**(71,202)**	**(60,185)**
Finance income	12	191	134
Finance expenses	13.1	(17,349)	(15,693)
Net finance costs		**(17,158)**	**(15,559)**
Other gains / (losses)	14	29	40
Surplus / (deficit) for the year		**(88,331)**	**(75,704)**
Other comprehensive income			
Will not be reclassified to income and expenditure:			
Impairments	8	(2,217)	13,694
Revaluations		791	7,109
Total comprehensive income / (expense) for the period		**(89,757)**	**(54,901)**
Adjusted financial performance (control total basis):			
Surplus / (deficit) for the period		(88,331)	(75,704)
Remove net impairments not scoring to the Departmental expenditure limit		7,288	6,828
Remove (gains) / losses on transfers by absorption		-	-
Remove I&E impact of capital grants and donations		70	86
Remove 2018/19 post audit PSF reallocation (2019/20 only)		(493)	-
Adjusted financial performance surplus / (deficit)		**(81,466)**	**(68,790)**

The Trust deficit of £(88.331)m includes the exceptional items of £(7.288)m for asset impairments and transfers, which along with the donated asset impact of £70k. These items are due to the Trust requirement to report its assets at the current fair value over the appropriate life of the asset. This is a non cash technical adjustment. The adjusted financial deficit (against which our performance is measured) is £(81.466)m after these adjustments.

Financial Position - Income & Expenditure	**Actual 2019/20 £000s**	**Actual 2018/19 £000s**
Operational (Adjusted) financial performance surplus/(deficit) excluding PSF, FRF, MRET funding and Impairments	**(81,466)**	**(73,712)**
Adjust Provider Sustainability Funding (PSF)		4,922
Performance Against Control Total / Plan adjusted to include PSF	**(81,466)**	**(68,790)**
Adjust Remove impact of prior year PSF post accounts reallocation	493	
Adjust Remove capital donations/grants I&E impact	(70)	(86)
Adjust I&E impairments/(reversals)	(7,288)	(6,828)
Surplus/(deficit) for the year including PSF, FRF and MRET funding and after Impairments	**(88,331)**	**(75,704)**

Statement of Financial Position

	Note	31 March 2020 £000	31 March 2019 £000
Non-current assets			
Intangible assets	15.1	3,103	2,574
Property, plant and equipment	16.3	282,384	289,447
Receivables	19.1	2,766	2,987
Total non-current assets		**288,253**	**295,008**
Current assets			
Inventories	18	8,914	8,759
Receivables	19.1	35,125	28,927
Non-current assets for sale and assets in disposal groups	20	400	400
Cash and cash equivalents	21	2,017	2,002
Total current assets		**46,456**	**40,088**
Current liabilities			
Trade and other payables	22	(53,547)	(35,028)
Borrowings	24.1	(328,354)	(114,919)
Provisions	25.1	(2,071)	(784)
Other liabilities	23	(2,609)	(3,603)
Total current liabilities		**(386,581)**	**(154,334)**
Total assets less current liabilities		**(51,872)**	**180,762**
Non-current liabilities			
Borrowings	24.1	(71,362)	(219,384)
Provisions	25.1	(2,882)	(2,802)
Other liabilities	23	(3,278)	(2,840)
Total non-current liabilities		**(77,522)**	**(225,026)**
Total assets employed		**(129,394)**	**(44,264)**
Financed by			
Public dividend capital		195,884	191,257
Revaluation reserve		85,407	88,846
Other reserves		(861)	(861)
Income and expenditure reserve		(409,824)	(323,506)
Total taxpayers' equity		**(129,394)**	**(44,264)**

The notes on pages 7 to 53 form part of these accounts.

The financial statements on pages 2 to 6 were approved by the Board on 15th June 2020 and signed on its behalf by

Matthew Hopkins

Position Chief Executive

Date 22nd June 2020

Statement of Changes in Equity for the year ended 31 March 2020

	Public dividend capital £000	Revaluation reserve £000	Other reserves £000	Income and expenditure reserve £000	Total £000
Taxpayers' and others' equity at 1 April 2019 - brought forward	**191,257**	**88,846**	**(861)**	**(323,506)**	**(44,264)**
Surplus/(deficit) for the year	-	-	-	(88,331)	**(88,331)**
Other transfers between reserves	-	(2,013)	-	2,013	**-**
Impairments	-	(2,217)	-	-	**(2,217)**
Revaluations	-	791	-	-	**791**
Public dividend capital received	4,627	-	-	-	**4,627**
Taxpayers' and others' equity at 31 March 2020	**195,884**	**85,407**	**(861)**	**(409,824)**	**(129,394)**

Statement of Changes in Equity for the year ended 31 March 2019

	Public dividend capital £000	Revaluation reserve £000	Other reserves £000	Income and expenditure reserve £000	Total £000
Taxpayers' and others' equity at 1 April 2018 - brought forward	**187,347**	**69,238**	**(861)**	**(247,023)**	**8,701**
Prior period adjustment	-	100	-	(100)	**-**
Taxpayers' and others' equity at 1 April 2018 - restated	**187,347**	**69,338**	**(861)**	**(247,123)**	**8,701**
Impact of implementing IFRS 15 on 1 April 2018	-	-	-	(1,974)	**(1,974)**
Surplus/(deficit) for the year	-	-	-	(75,704)	**(75,704)**
Other transfers between reserves	-	(1,295)	-	1,295	**-**
Impairments	-	13,694	-	-	**13,694**
Revaluations	-	7,109	-	-	**7,109**
Public dividend capital received	3,910	-	-	-	**3,910**
Taxpayers' and others' equity at 31 March 2019	**191,257**	**88,846**	**(861)**	**(323,506)**	**(44,264)**

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.

Financial assets reserve
This reserve comprises changes in the fair value of financial assets measured at fair value through other comprehensive income. When these instruments are derecognised, cumulative gains or losses previously recognised as other comprehensive income or expenditure are recycled to income or expenditure, unless the assets are equity instruments measured at fair value through other comprehensive income as a result of irrevocable election at recognition.

Other reserves
The Other reserves reflects the difference between the value of the fixed assets taken over by the Trust at inception and the corresponding figure in its originating debts.

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

Statement of Cash Flows

	Note	2019/20 £000	2018/19 £000
Cash flows from operating activities			
Operating surplus / (deficit)		(71,202)	(60,185)
Non-cash income and expense:			
Depreciation and amortisation	7.1	11,512	10,475
Net impairments	8	7,288	6,828
Amortisation of PFI deferred credit	4	(674)	(650)
(Increase) / decrease in receivables and other assets		(5,230)	(708)
(Increase) / decrease in inventories		(155)	1,359
Increase / (decrease) in payables and other liabilities		18,884	1,154
Increase / (decrease) in provisions		1,417	(248)
Net cash flows from / (used in) operating activities		**(38,160)**	**(41,975)**
Cash flows from investing activities			
Interest received	12	191	134
Purchase of intangible assets		(1,703)	(960)
Purchase of PPE and investment property		(13,053)	(21,161)
Sales of PPE and investment property		41	39
Net cash flows from / (used in) investing activities		**(14,524)**	**(21,948)**
Cash flows from financing activities			
Public dividend capital received		4,627	3,910
Movement on loans from DHSC		66,646	77,379
Capital element of PFI, LIFT and other service concession payments		(1,782)	(2,106)
Interest on loans		(4,901)	(3,183)
Interest paid on PFI, LIFT and other service concession obligations		(11,891)	(12,188)
PDC dividend (paid) / refunded		-	5
Cash flows from (used in) other financing activities		-	-
Net cash flows from / (used in) financing activities		**52,699**	**63,817**
Increase / (decrease) in cash and cash equivalents		**15**	**(106)**
Cash and cash equivalents at 1 April - brought forward		**2,002**	**2,107**
Prior period adjustments			-
Cash and cash equivalents at 1 April - restated		**2,002**	**2,107**
Unrealised gains / (losses) on foreign exchange		-	1
Cash and cash equivalents at 31 March	21	**2,017**	**2,002**

Notes to the Accounts

Note 1 Accounting policies and other information

1. Accounting policies and other information

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 2019/20 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 the accounts.

1.1 Accounting convention

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

1.2 Going concern

These accounts have been prepared on a going concern basis.

NHS Trusts are required to prepare their accounts in accordance with the relevant accounting rules, which are set out in the International Accounting Standards (IFRSs) and interpreted by the DHSC Annual Reporting Manual (GAM). IFRS1 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 agreed plan, the level of support already received, future cash flows, feedback from the ongoing engagement of NHS Improvement, the contractual position with commissioners, the 2019/20 CIP programme, financial plans, executive leadership and CQC inspections.

The Trust deficit of £(88.331)m includes the exceptional items of £(7.288)m for asset impairments and transfers, which along with the donated asset impact of £70k. These items are due to the Trust requirement to report its assets at the current fair value over the appropriate life of the asset. This is a non cash technical adjustment. The adjusted financial deficit (against which our performance is measured) is £(81.466)m after these adjustments.

The Trust has taken out a £326.3m of revenue loans over recent years (£65.5m) million in 2019/20 and signalled in its annual plan for 2020/21 that it will require further cash support in 2020/21 in line with the planned deficit of £(78.9) million. Of the existing loans, £107.7 million was due for repayment in 2019/20 relating to revenue loans; however £105.9m was agreed to be deferred until 2020/21. A further £4.622m relating to the capital loans was repaid

On 2 April 2020, the Department of Health and Social Care (DHSC) and NHS England and NHS Improvement announced reforms to the NHS cash regime for the 2020/21 financial year. During 2020/21 existing DHSC interim revenue and capital loans as at 31 March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC) to allow the repayment. Given this relates to liabilities that existed at 31 March 2020, DHSC has updated its Group Accounting Manual to advise this is considered an adjusting event after the reporting period for providers. Outstanding interim loans totalling £326.343m, interim loan principal of £324.892m and interest accrual of £1.451m as at 31 March 2020 in these financial statements have been classified as current as they will be repayable within 12 months.

Prior to the Covid-19 pandemic, the Board prepared and agreed the 2020/21 annual plan, which included productivity and efficiency improvements of £14.5 million. The Trust signalled in this annual plan that it will require further cash support in 2020/21 in line with the planned deficit of £(78.9) million. Despite the extinguishment of interim revenue and capital loans and their replacement with PDC, plus the impact of temporary funding arrangements to July 2020 due to Covid-19, the Trust still expects that it will require further cash support from DHSC in 2020/21. DHSC has not confirmed that this will be available, however in additional guidance on the new capital and cash regime (April 2020), DHSC has confirmed that temporary revenue support arrangements will continue, in order to support providers with demonstrable cash needs.

During the final weeks of the financial year, the Trust has been significantly impacted, as for the wider NHS, by COVID-19. This resulted in significantly changed activity levels and resource profiles. The Trust received funding in 2019/20 to mitigate the impact of costs incurred on COVID-19. Nationally, normal contractual processes have been suspended until end July 2020 at the earliest, and Providers are being funded through a block arrangement designed to mitigate the full costs during the period. This measure provides increased certainty to Providers and supports the assessment of Going Concern. Whilst the interim arrangements are in place, additional cash support is not anticipated to be required.

Although these factors represent material uncertainties that may cast significant doubt about the Trust's ability to continue as a going concern, the Directors, having made appropriate enquiries, still have reasonable expectations that the Trust will have adequate resources to continue in operational existence for the foreseeable future. As directed by the DHSC Group Accounting Manual 2019-20, the Directors have prepared the financial statements on a going concern basis as they consider that the services currently provided by the Trust will continue to be provided in the foreseeable future. Although COVID-19 has resulted in an interim contracting and payment approach, the assessment by the Board that there is an expectation of continuation in the provision of services remains valid and the interim arrangements provide greater certainty of cash flow in the short term. The Board has endorsed the preparation of the accounts on a going concern basis. The financial statements do not include the adjustments that would result if the Trust was unable to continue as a going concern.

1.3 Revenue from contracts with customers

Where income is derived from contracts with customers, it is accounted for under IFRS 15. The GAM expands the definition of a contract to include legislation and regulations which enables an entity to receive cash or another financial asset that is not classified as a tax by the Office of National Statistics (ONS).

Revenue in respect of goods/services provided is recognised when (or as) performance obligations are satisfied by transferring promised goods/services to the customer and is measured at the amount of the transaction price allocated to those performance obligations. At the year end, the Trust accrues income relating to performance obligations satisfied in that year. Where the Trust's entitlement to consideration for those goods or services is unconditional a contract receivable will be recognised. Where entitlement to consideration is conditional on a further factor other than the passage of time, a contract asset will be recognised. Where consideration received or receivable relates to a performance obligation that is to be satisfied in a future period, the income is deferred and recognised as a contract liability.

Education and Training Income

Education and Training income (note 4) relates to the Learning and Developments Agreement (LDA) of £11.911m. The Trust contracts with the LDA who provides all education training and learning activity commissioned by Health Education England from the Multi – professional Education and Training Levy (MPET) funding.
It establishes a framework for the delivery of practise learning and teaching to support the workforce development.

The agreement includes training for medical and dental students, non-medical professional and vocational students, postgraduate training for doctors, learning beyond registration, learning before registration and education and training infrastructure.

1.4 Revenue from NHS contracts

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 for health care services. A performance obligation relating to delivery of a spell of health care is generally satisfied over time as healthcare is received and consumed simultaneously by the customer as the Trust performs it. The customer in such a contract is the commissioner, but the customer benefits as services are provided to their patient. Even where a contract could be broken down into separate performance obligations, healthcare generally aligns with paragraph 22(b) of the Standard entailing a delivery of a series of goods or services that are substantially the same and have a similar pattern of transfer. At the year end, the Trust accrues income relating to activity delivered in that year, where a patient care spell is incomplete. This accrual is disclosed as a contract receivable as entitlement to payment for work completed is usually only dependent on the passage of time.
The Trust contracts have performance clauses which are reviewed with the commissioners. Where these clauses result in a financial penalty, the financial value of the penalty are reflected within its recognition of revenue.

The Trust does not receive income where a patient is readmitted within 30 days of discharge from a previous planned stay. This is considered an additional performance obligation to be satisfied under the original transaction price as per the contract.

The Trust receives income from commissioners under Commissioning for Quality and Innovation (CQUIN) schemes. The CQUIN payments are considered distinct performance obligations in their own right.

Where income is received for a specific activity which is to be delivered in a subsequent financial year, that income is deferred.
Accounting policy for maternity pathway income is in line with IFRS15 where income is recognised over the period of the patient pathway, and a deferred income amount calculated at the year end.

1.5 NHS injury cost recovery scheme

The 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, for instance by an insurer. The Trust recognises the income when performance obligations are satisfied. In practical terms this means that treatment has been given, it receives notification from the Department of Work and Pension's Compensation Recovery Unit, has completed the NHS2 form and confirmed there are no discrepancies with the treatment. The income is measured at the agreed tariff for the treatments provided to the injured individual, less an allowance for unsuccessful compensation claims and doubtful debts in line with IFRS 9 requirements of measuring expected credit losses over the lifetime of the asset.

1.6 Provider sustainability fund (PSF) and Financial recovery fund (FRF)

The PSF and FRF enable providers to earn income linked to the achievement of financial controls and performance targets. Income earned from the funds is accounted for as variable consideration.

The Trust, working with wider system partners was unable to sign up to its control total target in 2019/20 and therefore was ineligible to access PSF/FRF funding.
Note in respect of 2018/19 however, the Trust received **as a Post Balance Sheet Event** £493k of late disbursement of 2018/19 PSF during the year.

1.7 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. Where the grants is used to fund capital expenditure, it is credited to the consolidated statement of comprehensive income once conditions attached to the grant have been met. Donations are treated in the same way as government grants.

1.8 Apprenticeship service income

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 from the Trust's Digital Apprenticeship Service (DAS) account held by the Department for Education, the corresponding notional expense is also recognised at the point of recognition for the benefit.

1.9 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 two NHS Pension Schemes. Both schemes are unfunded, defined benefit schemes that cover NHS employers, general practices and other bodies, allowed under the direction of Secretary of State for Health and Social Care 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 scheme is accounted for as though it is a defined contribution scheme: the cost to the trust is taken as equal to the employer's pension contributions payable to the scheme for the accounting period. The 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.

The Trust has accounted for the increase in the 2019-20 employer pension contributions increase 6.3% to 20.6%

The contribution rates have increased from 6.3% to 20.6% where the difference is being funded by DHSC and that the full amount of the cost is included in the employee costs and the DHSC funding included in operating income.

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.

1.10 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.

Note 1.11 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.

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

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.

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 are measured subsequently at valuation. Assets which are held for their service potential and are in use (ie operational assets used to deliver either front line services or back office functions) are measured at their current value in existing use. Assets that were most recently held for their service potential but are surplus with no plan to bring them back into use are measured at fair value where there are no restrictions on sale at the reporting date and where they do not meet the definitions of investment properties or assets held for sale.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying values 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 on a modern equivalent asset basis.

For specialised assets, current value in existing use is interpreted as the present value of the asset's remaining service potential, which is assumed to be at least equal to the cost of replacing that service potential. Specialised assets are therefore valued at their depreciated replacement cost (DRC) on a modern equivalent asset (MEA) basis. An MEA basis assumes that the asset will be replaced with a modern asset of equivalent capacity and meeting the location requirements of the services being provided. Assets held at depreciated replacement cost have been valued on an alternative site basis where this would meet the location requirements.

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. The Trust engaged a professional property adviser to undertake a desktop valuation in 2019/20 following a full revaluation in 2018/19.

Valuation guidance issued by the Royal Institute of Chartered Surveyors states that valuations are performed net of VAT where the VAT is recoverable by the entity. This basis has been applied to the trust’s Private Finance Initiative (PFI) scheme where the construction is completed by a special purpose vehicle and the costs have recoverable VAT for the trust.

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, borrowings costs. Assets are revalued and depreciation commences when the assets 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 lives or low values or both, as this is not considered to be materially different from current value in existing use.

Depreciation

Items of property, plant and equipment are depreciated over their useful lives in a manner consistent with the consumption of economic or service delivery benefits. Revalued building assets are depreciated across their remaining useful lives as at the year of revaluation. Freehold land is considered to have an infinite life and is not depreciated.

Property, plant and equipment which has been reclassified as 'held for sale' cease to be depreciated upon the reclassification. Assets in the course of construction and residual interests in off-Statement of Financial Position PFI contract assets are not depreciated until the asset is brought into use or reverts to the trust, respectively.

Useful lives of property, plant and equipment

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

	Min life	Max life
	Years	Years
Land	-	-
Buildings, excluding dwellings	2	81
Dwellings	48	55
Plant & machinery	1	50
Transport equipment	4	8
Information technology	3	9
Furniture & fittings	5	10

Finance-leased assets (including land) are depreciated over the shorter of the useful 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.

Revaluation gains and losses

Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they reverse a revaluation decrease that has previously been recognised in operating expenses, in which case they are recognised in operating income.

Revaluation losses are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

Gains and losses recognised in the revaluation reserve are reported in the Statement of Comprehensive Income as an item of 'other comprehensive income'.

Impairments

In accordance with the GAM, impairments that arise from a clear consumption of economic benefits or of service potential in the asset are charged to operating expenses. A compensating transfer is made from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment.

An impairment that arises from a clear consumption of economic benefit or of service potential is reversed when, and to the extent that, the circumstances that gave rise to the loss is reversed. Reversals are recognised in operating expenditure to the extent that the asset is restored to the carrying amount it would have had if the impairment had never been recognised. Any remaining reversal is recognised in the revaluation reserve. Where, at the time of the original impairment, a transfer was made from the revaluation reserve to the income and expenditure reserve, an amount is transferred back to the revaluation reserve when the impairment reversal is recognised.
Other impairments are treated as revaluation losses. Reversals of 'other impairments' are treated as revaluation gains.

De-recognition

Assets intended for disposal are reclassified as 'held for sale' once all of the following criteria are met. The sale must be highly probable and the asset available for immediate sale in its present condition.

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.

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 useful life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

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.

Note 1.12 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 HM Treasury's FReM, the underlying assets are recognised as property, plant and equipment, together with an equivalent liability. Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as appropriate.

The annual contract payments are apportioned between the repayment of the liability, a finance cost, the charges for services and lifecycle replacement of components of the asset. The element of the annual unitary payment increase due to cumulative indexation is treated as contingent rent and is expensed as incurred.

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

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.

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 £7.3m 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 2018/19 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.

Note 1.13 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.

Internally generated intangible assets

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

Expenditure on research is not capitalised.
Expenditure on development is capitalised where it meets the requirements set out in IAS 38:
• 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.

Software

Software which is integral to the operation of hardware, e.g. an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software which is not integral to the operation of hardware, e.g. application software, is capitalised as an intangible asset.

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.

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 where there are no restrictions on sale at the reporting date and where they do not meet the definitions of investment properties or assets held for sale.

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

Amortisation

Intangible assets are amortised over their expected useful lives in a manner consistent with the consumption of economic or service delivery benefits.

Useful lives of intangible assets

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

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

Note 1.14 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.

The Trust's inventory balance of £8.9m is material to the Trust's accounts. The Trust is satisfied that its inventory balance is presented fairly in all material respects: the Trust has well-established stocktake procedures which are regularly reviewed. However the restrictions on movement in the United Kingdom in March 2020 meant that the Trust has experienced constraints in accessing stock information and as such has made reasonable adjustment. The Trust's auditor was unable to fully attend the relevant year-end inventory counts, and the auditor has been unable to gain sufficient audit evidence from alternative procedures. The auditor has therefore been unable to complete the procedures required by auditing standards, and is required to issue a qualified opinion. We are aware that a number of trusts in the country are affected by the same issue in 2019/20 and we understand NHS Improvement will disclose the extent to which this has impacted the sector in its consolidated provider accounts when published later in 2020. The auditor's opinion on the financial statements remains unmodified in all other respects.

Note 1.15 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 Trust's cash management. Cash, bank and overdraft balances are recorded at current values.

Note 1.16 Carbon Reduction Commitment scheme (CRC)

The Climate Change Levy (CCL) has replaced the Carbon Reduction Commitment (CRC) Energy Efficiency scheme. Any fees associated with the CCL are accounted for as an operating expense.

Note 1.17 Financial assets and financial liabilities

Recognition

Financial assets and financial liabilities arise where the Trust is party to the contractual provisions of a financial instrument, and as a result has a legal right to receive or a legal obligation to pay cash or another financial instrument. The GAM expands the definition of a contract to include legislation and regulations which give rise to arrangements that in all other respects would be a financial instrument and do not give rise to transactions classified as a tax by ONS.

This includes 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 and are recognised when, and to the extent which, performance occurs, ie, when receipt or delivery of the goods or services is made.

Classification and measurement

Financial assets and financial liabilities are initially measured at fair value plus or minus directly attributable transaction costs except where the asset or liability is not measured at fair value through income and expenditure. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices or valuation techniques.

Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described below.
• Financial assets are categorises as loans and receivables.
• Financial liabilities are classified as other financial liabilities.

Financial assets are classified as subsequently measured at amortised cost
Financial liabilities classified as subsequently measured at amortised cost

Financial assets and financial liabilities at amortised cost

Financial assets and financial liabilities at amortised cost are those held with the objective of collecting contractual cash flows and where cash flows are solely payments of principal and interest. This includes cash equivalents, contract and other receivables, trade and other payables, rights and obligations under lease arrangements and loans receivable and payable.

After initial recognition, these financial assets and financial liabilities are measured at amortised cost using the effective interest method less any impairment (for financial assets). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Interest revenue or expense is calculated by applying the effective interest rate to the gross carrying amount of a financial asset or amortised cost of a financial liability and recognised in the Statement of Comprehensive Income and a financing income or expense. In the case of loans held from the Department of Health and Social Care, the effective interest rate is the nominal rate of interest charged on the loan.

Impairment of financial assets

For all financial assets measured at amortised cost including lease receivables, contract receivables and contract assets, the Trust recognises an allowance for expected credit losses.

The Trust adopts the simplified approach to impairment for contract and other receivables, contract assets and lease receivables, measuring expected losses as at an amount equal to lifetime expected losses. For other financial assets, the loss allowance is initially measured at an amount equal to 12-month expected credit losses (stage 1) and subsequently at an amount equal to lifetime expected credit losses if the credit risk assessed for the financial asset significantly increases (stage 2).

For financial assets that have become credit impaired since initial recognition (stage 3), expected credit losses at the reporting date are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Expected losses are charged to operating expenditure within the Statement of Comprehensive Income and reduce the net carrying value of the financial asset in the Statement of Financial Position.

Derecognition

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

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

Note 1.18 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 a 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 implicit interest rate is that which produces a constant periodic rate of interest on the outstanding liability.

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 charge 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 in other liabilities on the statement of financial position 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 a lessor

Finance leases

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

Note 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 HM Treasury's discount rates effective for 31 March 2020:

		Nominal rate
Short-term	Up to 5 years	0.51%
Medium-term	After 5 years up to 10 years	0.55%
Long-term	Exceeding 10 years	1.99%

HM Treasury provides discount rates for general provisions on a nominal rate basis. Expected future cash flows are therefore adjusted for the impact of inflation before discounting using nominal rates. The following inflation rates are set by HM Treasury, effective 31 March 2020:

	Inflation rate
Year 1	1.90%
Year 2	2.00%
Into perpetuity	2.00%

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.

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of minus 0.5% in real terms.

Note 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 25.2 but is not recognised in the Trust's accounts.

Note 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.

Note 1.22 Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note 26 where an inflow of economic benefits is probable.
Contingent liabilities are not recognised, but are disclosed in note 26, unless the probability of a transfer of economic benefits is remote.

Contingent liabilities are defined as:

• possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or

• present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

Note 1.23 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.

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
(i) donated and grant funded assets,
(ii) 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
(iii) 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 calculated is not revised should any adjustment to net assets occur as a result the audit of the annual accounts.

Department of Health and Social Care (DHSC) and NHS England and NHS Improvement announced reforms to the NHS capital and cash regime from 1st April 2020. During 2020/21 existing DHSC interim revenue and capital loans as at 31 March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC) to allow the repayment.

Note 1.24 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.

Note 1.25 Corporation tax

Under the Corporation Tax Act 2010, a Health Service body is not liable to corporation tax, section 986.

Note 1.26 Foreign exchange

The functional and presentational currency of the trust is sterling.

A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

Where the trust has assets or liabilities denominated in a foreign currency at the Statement of Financial Position date:

• monetary items are translated at the spot exchange rate on 31 March
• non-monetary assets and liabilities measured at historical cost are translated using the spot exchange rate at the date of the transaction and
• non-monetary assets and liabilities measured at fair value are translated using the spot exchange rate at the date the fair value was determined.

Exchange gains or losses on monetary items (arising on settlement of the transaction or on re-translation at the Statement of Financial Position date) are recognised in income or expense in the period in which they arise.

Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

Note 1.27 Third party assets

Assets belonging to third parties in which the Trust has no beneficial interest (such as money held on behalf of patients) are not recognised in the accounts. However, they are disclosed in a separate note to the accounts in accordance with the requirements of HM Treasury's *FReM* .

Note 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.

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.

Note 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.

Note 1.30 Early adoption of standards, amendments and interpretations

No new accounting standards or revisions to existing standards have been early adopted in 2019/20.

Note 1.31 Standards, amendments and interpretations in issue but not yet effective or adopted

IFRS 16 Leases
IFRS 16 Leases will replace *IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease* and other interpretations and is applicable in the public sector for periods beginning 1 April 2021. The standard provides a single accounting model for lessees, recognising a right of use asset and obligation in the statement of financial position for most leases: some leases are exempt through application of practical expedients explained below. For those recognised in the statement of financial position the standard also requires the remeasurement of lease liabilities in specific circumstances after the commencement of the lease term. For lessors, the distinction between operating and finance leases will remain and the accounting will be largely unchanged.

IFRS 16 changes the definition of a lease compared to IAS 17 and IFRIC 4. The trust will apply this definition to new leases only and will grandfather its assessments made under the old standards of whether existing contracts contain a lease.

On transition to IFRS 16 on 1 April 2021, the trust will apply the standard retrospectively with the cumulative effect of initially applying the standard recognised in the income and expenditure reserve at that date. For existing operating leases with a remaining lease term of more than 12 months and an underlying asset value of at least £5,000, a lease liability will be recognised equal to the value of remaining lease payments discounted on transition at the trust's incremental borrowing rate. The trust's incremental borrowing rate will be a rate defined by HM Treasury. Currently this rate is 1.27% but this may change between now and adoption of the standard. The related right of use asset will be measured equal to the lease liability adjusted for any prepaid or accrued lease payments. No adjustments will be made on 1 April 2021 for existing finance leases.

For leases commencing in 2021/22, the trust will not recognise a right of use asset or lease liability for short term leases (less than or equal to 12 months) or for leases of low value assets (less than £5,000). Right of use assets will be subsequently measured on a basis consistent with owned assets and depreciated over the length of the lease term.

The Trust has not disclosed the estimated financial impact of applying IFRS 16 in 2020/21 due to the levels of uncertainty involved in forecasting a year into the future. It is expected that the revenue impact of the implementation of IFRS 16 will be immaterial.

Note 1.32 Critical judgements in applying accounting policies

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

1.32.1 PFI

Valuation guidance issued by the Royal Institute of Chartered Surveyors states that valuations are performed net of VAT where the VAT is recoverable by the entity. This basis has been applied to the trust's Private Finance Initiative (PFI) scheme where the construction is completed by a special purpose vehicle and the costs have recoverable VAT for the trust.

Note 1.33 Sources of estimation uncertainty

The following are assumptions about the future and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Valuation of Property, Plant and Equipment

• Valuation of property, plant and equipment (see note 16.1) is based upon an assessment undertaken by professional property valuers which by its nature includes an element of subjectivity.

• The Trust engaged a professional property adviser to undertake a desktop revaluation in 2019/20 after having a full revaluation in 2018/19.

• The valuation exercise was carried out between December 2019 and March 2020 with a valuation date of 31 March 2020. All property inspections were completed in advance of the COVID 19 lockdown. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), the valuer has declared a 'material valuation uncertainty' in the valuation report. This is on the basis of uncertainties in markets caused by COVID-19. The valuer considers that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The values in the report have been used to inform the measurement of property assets at valuation in these financial statements. With the valuer having declared this material valuation uncertainty, the valuer has continued to exercise professional judgement in providing the valuation and this remains the best information available to the Trust.

• The valuation report recommends that given the unknown future impact that COVID-19 might have on the real estate market, the valuation of the Trust is kept under frequent review.

96.8% of the value of the Trust property assets is in respect of specialised properties, and therefore valued on a Depreciated Replacement Cost basis. The valuation for such assets, with the exception of the Land component, is based on comparable build cost information published by the RICS Building Cost Information Service (BCIS), up to and including the valuation date of 31 March 2020. Whilst these published build costs remain 'provisional' and therefore subject to fluctuation, it is not anticipated that there would be a significant change.

It is possible that the COVID-19 pandemic will affect the Trust's future assessment of what would be required in a modern equivalent asset, but as yet there is insufficient evidence to affect the assumptions used in the valuation.

The PPE valuation would need to change by more than 3% for it to become material uncertainty.

Note 2 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 the requirements of IFRS 8 and whilst it does receive budgetary performance information at a specialty group level based upon groups of services (including for example medical specialties, 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 concludes that 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 interconnected with 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, diagnostic tests, medical 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 different healthcare 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 aggregated for the 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 adjusted in accordance with HM Treasury rules on measuring financial performance. These adjustments are set out below the Statement of Comprehensive Income (or Net Expenditure) and in note 41 relating to breakeven performance.

Income Sources

Key information on the Trust’s sources of income is as follows:
- Clinical Commissioning Groups (CCGs) from which £330 million (£307.9 million in 2018/19) was received; and
- NHS England from which £70.1 million (£64.2 million in 2018/19) 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 United Kingdom, the Isle of Man or from overseas visitors who are treated in the Trust’s hospitals. However, income from such sources is not material.

Note 3 Operating income from patient care activities

All income from patient care activities relates to contract income recognised in line with accounting policy 1.4

Note 3.1 Income from patient care activities (by nature)	**2019/20**	**2018/19**
	£000	**£000**
Elective income	66,326	60,377
Non elective income	143,762	123,983
First outpatient income	28,046	26,941
Follow up outpatient income	24,281	20,985
A & E income	25,856	21,755
High cost drugs income from commissioners (excluding pass-through costs)	37,129	36,168
Other NHS clinical income	77,449	86,282
Private patient income	401	456
Agenda for Change pay award central funding*	-	3,927
Additional pension contribution central funding**	11,207	-
Other clinical income	1,719	204
Total income from activities	**416,176**	**381,078**

**Additional costs of the Agenda for Change pay reform in 2018/19 received central funding. From 2019/20 this funding is incorporated into tariff for individual services.*

***The employer contribution rate for NHS pensions increased from 14.3% to 20.6% (excluding administration charge) from 1 April 2019. For 2019/20, NHS providers continued to pay over contributions at the former rate with the additional amount being paid over by NHS England on providers' behalf. The full cost and related funding have been recognised in these accounts.*

Of the total income figure, contracted income in 2019 is £392.6m (£363.3m 2018/19) and non contract income is £23.5m (£17.8m 2018/19).

Note 3.2 Income from patient care activities (by source)		
	2019/20	**2018/19**
Income from patient care activities received from:	**£000**	**£000**
NHS England	81,285	64,206
Clinical commissioning groups	329,979	307,872
Department of Health and Social Care	-	3,927
Other NHS providers	2,443	2,324
NHS other	204	204
Non-NHS: private patients	345	389
Non-NHS: overseas patients (chargeable to patient)	56	67
Injury cost recovery scheme	1,129	1,308
Non NHS: other	735	781
Total income from activities	**416,176**	**381,078**
Of which:		
Related to continuing operations	416,176	381,078

Note 3.3 Overseas visitors (relating to patients charged directly by the provider)	2019/20 £000	2018/19 £000
Income recognised this year	56	67
Cash payments received in-year	21	25
Amounts added to provision for impairment of receivables	-	10
Amounts written off in-year	15	-

Note 4 Other operating income	2019/20			2018/19		
	Contract income £000	Non-contract income £000	Total £000	Contract income £000	Non-contract income £000	Total £000
Research and development	1,036	-	**1,036**	910	-	**910**
Education and training	12,237	-	**12,237**	12,041	-	**12,041**
Non-patient care services to other bodies	6,572	-	**6,572**	7,708	-	**7,708**
Provider sustainability fund (PSF)	493	-	**493**	4,922	-	**4,922**
Charitable and other contributions to expenditure		254	**254**		340	**340**
Rental revenue from operating leases		114	**114**		42	**42**
Amortisation of PFI deferred income / credits		674	**674**		650	**650**
Other income	6,166	-	**6,166**	4,167	108	**4,275**
Total other operating income	**26,504**	**1,042**	**27,546**	**29,748**	**1,140**	**30,888**
Of which:						
Related to continuing operations			**27,546**			**30,888**

The income in 2019/20 includes £0.493m relates to an adjustment for 2018/19 post accounts STF reallocation.

Non Patient care Services to other bodies includes items such as Mortuary Services, Transport Services and Occupational Health services.

Education and Training is mainly from the Learning and Developments Agreement (LDA) £11.9m. Note 1.3

Note 5.1 Additional information on contract revenue (IFRS 15) recognised in the period	2019/20	2018/19
	£000	£000
Revenue recognised in the reporting period that was included in within contract liabilities at the previous period end	1,977	1,974
Revenue recognised from performance obligations satisfied (or partially satisfied) in previous periods	3,139	2,518

Note 5.2 Transaction price allocated to remaining performance obligations		
Revenue from existing contracts allocated to remaining performance obligations is expected to be recognised:	**31 March 2020**	**31 March 2019**
	£000	**£000**
within one year	-	- *
Total revenue allocated to remaining performance obligations	**-**	**-**

The Trust has excluded these details in 2019/20 as our health care contracts are for a duration of under one year. In addition the partial completed spells excluded. The 2018/19 details have therefore been amended to reflect the guidance *

Note 6 Fees and charges

HM Treasury requires disclosure of fees and charges income. The following disclosure is of income from charges to service users where income from that service exceeds £1 million and is presented as the aggregate of such income. The cost associated with the service that generated the income is also disclosed.

	2019/20	2018/19
	£000	£000
Income	2,435	2,479
Full cost	(2,251)	(1,974)
Surplus / (deficit)	**184**	**505**

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

Note 7.1 Operating expenses

	2019/20	2018/19
	£000	£000
Purchase of healthcare from NHS and DHSC bodies	4,440	5,313
Purchase of healthcare from non-NHS and non-DHSC bodies	4,328	1,960
Staff and executive directors costs	314,915	282,327
Remuneration of non-executive directors	103	83
Supplies and services - clinical (excluding drugs costs)	44,808	43,951
Supplies and services - general	17,753	17,736
Drug costs (drugs inventory consumed and purchase of non-inventory drugs)	46,555	44,477
Inventories written down	228	336
Consultancy costs	450	1,904
Establishment	5,649	4,125
Premises	13,165	15,184
Transport (including patient travel)	1,504	1,790
Depreciation on property, plant and equipment	10,630	9,253
Amortisation on intangible assets	882	1,222
Net impairments	7,288	6,828
Movement in credit loss allowance: contract receivables / contract assets	468	350
Increase/(decrease) in other provisions	-	426
Change in provisions discount rate(s)	(59)	-
Audit fees payable to the external auditor		
audit services- statutory audit	61	68
other auditor remuneration (external auditor only)	-	-
Internal audit costs	67	75
Clinical negligence	13,361	14,117
Legal fees	295	291
Insurance	214	257
Education and training	905	800
Rentals under operating leases	4,413	3,156
Redundancy	2	9
Charges to operating expenditure for on-SoFP IFRIC 12 schemes (e.g. PFI / LIFT)	20,724	16,034
Other	1,775	79
Total	**514,924**	**472,151**
Of which:		
Related to continuing operations	514,924	472,151

Note 7.2 Other auditor remuneration	2019/20 £000	2018/19 £000
Other auditor remuneration paid to the external auditor:		
Audit-related assurance services	-	-
Total	**-**	**-**

Note 7.3 Limitation on auditor's liability

The limitation on auditor's liability for external audit work is £1m (2018/19: £1m).

Note 8 Impairment of assets	2019/20 £000	2018/19 £000
Net impairments charged to operating surplus / deficit resulting from:		
Changes in market price	7,288	6,828
Total net impairments charged to operating surplus / deficit	**7,288**	**6,828**
Impairments charged to the revaluation reserve	2,217	(13,694)
Total net impairments	**9,505**	**(6,866)**

The Trust engaged a professional property advisor to undertake a desk top revaluation in in 2019/20, following a full revaluation in 2018/19. All land and buildings have been assessed for physical depreciation and obsolescence which has resulted in changes in valuation of the Trusts assets. Any buildings assets which reduced in value were impaired to either the revaluation reserve or to I&E .

Note 9 Employee benefits	2019/20 Total £000	2018/19 Total £000
Salaries and wages	206,009	192,653
Social security costs	21,916	19,020
Apprenticeship levy	1,056	1,001
Employer's contributions to NHS pensions	36,860	23,395
Pension cost - other	62	34
Termination benefits	-	71
Temporary staff (including agency)	49,228	46,269
Total staff costs	**315,131**	**282,443**
Of which		
Costs capitalised as part of assets	216	116

During 2019/20 there were 6 early retirements from the trust agreed on the grounds of ill-health (6 in the year ended 31 March 2019). The estimated additional pension liabilities of these ill-health retirements is £783k (£254k in 2018/19).

These estimated costs are calculated on an average basis and will be borne by the NHS Pension Scheme.

Note 10 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 for Health and Social Care 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 2020, is based on valuation data as at 31 March 2019, updated to 31 March 2020 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 latest actuarial valuation undertaken for the NHS Pension Scheme was completed as at 31 March 2016. The results of this valuation set the employer contribution rate payable from April 2019 to 20.6%, and the Scheme Regulations were amended accordingly.

The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap set following the 2012 valuation. Following a judgment from the Court of Appeal in December 2018 Government announced a pause to that part of the valuation process pending conclusion of the continuing legal process.

Note 11 Operating leases

This note discloses income generated in operating lease agreements where Worcestershire Acute Hospitals NHS Trust is the lessor or lessee.

Note 11.1 Worcestershire Acute Hospitals NHS Trust as a lessor

This note discloses income generated in operating lease agreements where Worcestershire Acute Hospitals NHS Trust is the lessor.

The Trust receives operating rental income from leasing of accommodation space at KTC.

	2019/20 £000	2018/19 £000
Operating lease revenue		
Minimum lease receipts	114	42
Total	**114**	**42**

	31 March 2020 £000	31 March 2019 £000
Future minimum lease receipts due:		
- not later than one year;		
- of which buildings	114	
- of which other		42
- later than one year and not later than five years;	-	-
- later than five years.	-	-
Total	**114**	**42**

Note 11.2 Worcestershire Acute Hospitals NHS Trust as a lessee

This note discloses costs and commitments incurred in operating lease arrangements where Worcestershire Acute Hospitals NHS Trust is the lessee.

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 and Kings Court as the agreement is more than a 5 years commitment.

	2019/20 £000	2018/19 £000
Operating lease expense		
Minimum lease payments	4,413	3,156
Total	**4,413**	**3,156**

	31 March 2020 £000	31 March 2019 £000
Future minimum lease payments due:		
- not later than one year;		
- of which land	108	-
- of which buildings	1,008	1,377
- of which other	2,292	1,532
- later than one year and not later than five years;		
- of which land	430	-
- of which buildings	3,113	3,067
- of which other	2,800	2,654
- later than five years.		
- of which land	2,959	-
- of which buildings	17,739	18,506
- of which other	89	-
Total	**30,538**	**27,136**

Note 12 Finance income

	2019/20 £000	2018/19 £000
Interest on bank accounts	191	134
Total finance income	**191**	**134**

Finance income represents interest received on assets and investments in the period.
The Trust benefited from the timing of the capital receipts in advance of capital payables during 2019/20.

Note 13.1 Finance expenditure

	2019/20 £000	2018/19 £000
Interest expense:		
Loans from the Department of Health and Social Care	5,450	3,457
Interest on late payment of commercial debt	-	44
Main finance costs on PFI and LIFT schemes obligations	5,595	5,774
Contingent finance costs on PFI and LIFT scheme obligations	6,295	6,415
Total interest expense	**17,340**	**15,690**
Unwinding of discount on provisions	9	3
Total finance costs	**17,349**	**15,693**

Finance expenditure represents interest and other charges involved in the borrowing of money including obligations under the PFI contracts.
The Trust's financial deficit position results in an ongoing requirement for revenue loan support which increases the interest charges.

Note 13.2 The late payment of commercial debts (interest) Act 1998 / Public Contract Regulations 2015

	2019/20 £000	2018/19 £000
Amounts included within interest payable arising from claims made under this legislation	-	44

The Trust has not incurred any late payment interest charges in 2019/20.

Note 14 Other gains / (losses)

	2019/20 £000	2018/19 £000
Gains on disposal of assets	41	39
Losses on disposal of assets	(12)	-
Total gains / (losses) on disposal of assets	**29**	**39**
Gains / (losses) on foreign exchange	-	1
Total other gains / (losses)	**29**	**40**

Note 15.1 Intangible assets - 2019/20

	Software licences £000	Internally generated information technology £000	Intangible assets under construction £000	Total £000
Valuation / gross cost at 1 April 2019 - brought forward	**7,818**	**2,507**	**1,024**	**11,349**
Additions	246	-	1,165	**1,411**
Valuation / gross cost at 31 March 2020	**8,064**	**2,507**	**2,189**	**12,760**
Amortisation at 1 April 2019 - brought forward	**6,725**	**2,050**	**-**	**8,775**
Provided during the year	643	239	-	**882**
Amortisation at 31 March 2020	**7,368**	**2,289**	**-**	**9,657**
Net book value at 31 March 2020	**696**	**218**	**2,189**	**3,103**
Net book value at 1 April 2019	**1,093**	**457**	**1,024**	**2,574**

Note 15.2 Intangible assets - 2018/19

	Software licences £000	Internally generated information technology £000	Intangible assets under construction £000	Total £000
Valuation / gross cost at 1 April 2018 - as previously stated	**7,691**	**2,392**	**178**	**10,261**
Additions	97	115	966	**1,178**
Reclassifications	30	-	(120)	**(90)**
Valuation / gross cost at 31 March 2019	**7,818**	**2,507**	**1,024**	**11,349**
Amortisation at 1 April 2018 - as previously stated	**5,970**	**1,583**	**-**	**7,553**
Provided during the year	755	467	-	**1,222**
Amortisation at 31 March 2019	**6,725**	**2,050**	**-**	**8,775**
Net book value at 31 March 2019	**1,093**	**457**	**1,024**	**2,574**
Net book value at 1 April 2018	**1,721**	**809**	**178**	**2,708**

Note 16.1 Property, plant and equipment - 2019/20	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construction £000	Plant & machinery £000	Transport equipment £000	Information technology £000	Furniture & fittings £000	Total £000
Valuation/gross cost at 1 April 2019 - brought forward	**40,015**	**222,627**	**901**	**11,691**	**42,957**	**302**	**23,140**	**136**	**341,769**
Valuation/gross cost at start of period as FT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions	-	6,123	-	4,006	2,088	-	76	-	**12,293**
Impairments	-	(10,833)	-	-	-	-	-	-	**(10,833)**
Reversals of impairments	-	1,316	12	-	-	-	-	-	**1,328**
Revaluations	-	(5,361)	(29)	-	-	-	-	-	**(5,390)**
Reclassifications	-	8,680	-	(8,680)	-	-	-	-	**-**
Disposals / derecognition	-	-	-	-	(210)	-	-	-	**(210)**
Valuation/gross cost at 31 March 2020	**40,015**	**222,552**	**884**	**7,017**	**44,835**	**302**	**23,216**	**136**	**338,957**
Accumulated depreciation at 1 April 2019 - brought forward	**-**	**444**	**-**	**-**	**33,249**	**302**	**18,204**	**123**	**52,322**
Depreciation at start of period as FT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Provided during the year	-	6,392	29	-	2,308	-	1,896	5	**10,630**
Revaluations	-	(6,152)	(29)	-	-	-	-	-	**(6,181)**
Disposals / derecognition	-	-	-	-	(198)	-	-	-	**(198)**
Accumulated depreciation at 31 March 2020	**-**	**684**	**-**	**-**	**35,359**	**302**	**20,100**	**128**	**56,573**
Net book value at 31 March 2020	**40,015**	**221,868**	**884**	**7,017**	**9,476**	**-**	**3,116**	**8**	**282,384**
Net book value at 1 April 2019	**40,015**	**222,183**	**901**	**11,691**	**9,708**	**-**	**4,936**	**13**	**289,447**

Note 16.2 Property, plant and equipment - 2018/19	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construction £000	Plant & machinery £000	Transport equipment £000	Information technology £000	Furniture & fittings £000	Total £000
Valuation / gross cost at 1 April 2018 - as previously stated	**37,316**	**207,275**	**893**	**4,654**	**44,146**	**302**	**22,771**	**133**	**317,490**
Prior period adjustments	-	-	-	-	-	-	-	-	**-**
Valuation / gross cost at 1 April 2018 - restated	**37,316**	**207,275**	**893**	**4,654**	**44,146**	**302**	**22,771**	**133**	**317,490**
Valuation / gross cost at start of period as FT	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Additions	-	6,098	-	9,453	769	-	591	3	**16,914**
Impairments	-	(13,884)	(4)	-	-	-	-	-	**(13,888)**
Reversals of impairments	896	19,824	34	-	-	-	-	-	**20,754**
Revaluations	1,821	808	(22)	-	-	-	-	-	**2,607**
Reclassifications	(18)	2,506	-	(2,416)	-	-	-	-	**72**
Disposals / derecognition	-	-	-	-	(1,958)	-	(222)	-	**(2,180)**
Valuation/gross cost at 31 March 2019	**40,015**	**222,627**	**901**	**11,691**	**42,957**	**302**	**23,140**	**136**	**341,769**
Accumulated depreciation at 1 April 2018 - as previously stated	**18**	**181**	**-**	**-**	**32,727**	**302**	**16,432**	**109**	**49,769**
Provided during the year	-	4,743	22	-	2,480	-	1,994	14	**9,253**
Revaluations	-	(4,480)	(22)	-	-	-	-	-	**(4,502)**
Reclassifications	(18)	-	-	-	-	-	-	-	**(18)**
Disposals / derecognition	-	-	-	-	(1,958)	-	(222)	-	**(2,180)**
Accumulated depreciation at 31 March 2019	**-**	**444**	**-**	**-**	**33,249**	**302**	**18,204**	**123**	**52,322**
Net book value at 31 March 2019	**40,015**	**222,183**	**901**	**11,691**	**9,708**	**-**	**4,936**	**13**	**289,447**
Net book value at 1 April 2018	**37,298**	**207,094**	**893**	**4,654**	**11,419**	**-**	**6,339**	**24**	**267,721**

Note 16.3 Property, plant and equipment financing - 2019/20	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construction £000	Plant & machinery £000	Transport equipment £000	Information technology £000	Furniture & fittings £000	Total £000
Net book value at 31 March 2020									
Owned - purchased	40,015	137,134	884	7,017	4,435	-	3,005	8	**192,498**
On-SoFP PFI contracts and other service concession arrangements	-	84,495	-	-	5,041	-	-	-	**89,536**
Owned - donated	-	239	-	-	-	-	111	-	**350**
NBV total at 31 March 2020	**40,015**	**221,868**	**884**	**7,017**	**9,476**	**-**	**3,116**	**8**	**282,384**

Note 16.4 Property, plant and equipment financing - 2018/19	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construction £000	Plant & machinery £000	Transport equipment £000	Information technology £000	Furniture & fittings £000	Total £000
Net book value at 31 March 2019									
Owned - purchased	40,015	134,255	901	11,691	4,887	-	4,936	13	**196,698**
On-SoFP PFI contracts and other service concession arrangements	-	87,685	-	-	4,821	-	-	-	**92,506**
Owned - donated	-	243	-	-	-	-	-	-	**243**
NBV total at 31 March 2019	**40,015**	**222,183**	**901**	**11,691**	**9,708**	**-**	**4,936**	**13**	**289,447**

Note 17 Revaluations of property, plant and equipment

A desk top valuation of the Trust's land and buildings was undertaken by Cushman and Wakefield (RICS Registered Valuers), as at 31st March 2020, as part of the five year agreement with them.

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 DHSC and HM Treasury.

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 2020 was based on the 'Modern Equivalent Asset' approach to valuation.

The Trust commissioned a full revaluation in 2018/19. The Valuers reviewed the Trusts asset base including a condition survey. Each site is defined as the "property asset" with the 3 significant components defined as land, buildings and external works.

Note 18 Inventories	31 March 2020 £000	31 March 2019 £000
Drugs	3,712	3,421
Work In progress	90	90
Consumables	5,087	5,223
Energy	25	25
Total inventories	**8,914**	**8,759**

Inventories recognised in expenses for the year were £50,274k (2018/19: £49,657k). Write-down of inventories recognised as expenses for the year were £228k (2018/19: £336k).

Note 19.1 Receivables	31 March 2020 £000	31 March 2019 £000
Current		
Contract receivables	15,248	21,847
Allowance for impaired contract receivables / assets	(1,972)	(1,999)
Deposits and advances	(130)	1
Prepayments (non-PFI)	2,275	1,940
PFI lifecycle prepayments	5,427	4,680
VAT receivable	2,532	1,391
Other receivables	11,745	1,067
Total current receivables	**35,125**	**28,927**
Non-current		
Contract assets	2,766	2,987
Total non-current receivables	**2,766**	**2,987**
Of which receivable from NHS and DHSC group bodies:		
Current	6,447	18,454

Note 19.2 Allowances for credit losses	2019/20		2018/19	
	Contract receivables and contract assets	All other receivables	Contract receivables and contract assets	All other receivables
	£000	£000	£000	£000
Allowances as at 1 April - brought forward	**1,999**	**-**	**-**	**1,746**
Impact of implementing IFRS 9 (and IFRS 15) on 1 April 2018			1,746	(1,746)
New allowances arising	468	-	350	-
Utilisation of allowances (write offs)	(495)	-	(97)	-
Allowances as at 31 Mar 2020	**1,972**	**-**	**1,999**	**-**

The Trust's policy for allowances for credit losses is as follows:

Injury cost recovery income: subject to a provision for credit losses of 21.79% (21.89% 2018/19) as per DHSC guidance.

Non-NHS receivables that are over 3 months old: subject to a provision for credit losses 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)

Note 19.3 Exposure to 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 2020 are in receivables from customers, as disclosed in the trade and other receivables note.

Note 20 Non-current assets held for sale and assets in disposal groups	2019/20	2018/19
	£000	£000
NBV of non-current assets for sale and assets in disposal groups at 1 April	400	400
Prior period adjustment		-
NBV of non-current assets for sale and assets in disposal groups at 1 April - restated	400	400
NBV of non-current assets for sale and assets in disposal groups at 31 March	400	400

Note 21 Cash and cash equivalents movements

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.

	2019/20 £000	2018/19 £000
At 1 April	**2,002**	**2,107**
Net change in year	15	(105)
At 31 March	**2,017**	**2,002**
Broken down into:		
Cash at commercial banks and in hand	127	51
Cash with the Government Banking Service	1,890	1,951
Total cash and cash equivalents as in SoFP	**2,017**	**2,002**

Note 22 Trade and other payables	31 March 2020 £000	31 March 2019 £000
Current		
Trade payables	10,954	14,409
Capital payables	2,661	2,880
Accruals	37,511	17,318
Receipts in advance and payments on account	160	-
Social security costs	149	92
Other taxes payable	39	95
Other payables	2,073	234
Total current trade and other payables	**53,547**	**35,028**
Of which payables from NHS and DHSC group bodies:		
Current	4,857	10,088

Note 23 Other liabilities	31 March 2020 £000	31 March 2019 £000
Current		
Deferred income: contract liabilities	2,609	2,953
Deferred PFI credits / income	-	650
Total other current liabilities	**2,609**	**3,603**
Non-current		
Deferred PFI credits / income	3,278	2,840
Total other non-current liabilities	**3,278**	**2,840**

Trust Deferred Income Contract Liabilities include the maternity pathway deferred element where the provision of service will continue into 2020/21.

Note 24.1 Borrowings	31 March 2020 £000	31 March 2019 £000
Current		
Loans from DHSC	326,343	113,136
Obligations under PFI, LIFT or other service concession contracts	2,011	1,783
Total current borrowings	**328,354**	**114,919**
Non-current		
Loans from DHSC	13,929	159,941
Obligations under PFI, LIFT or other service concession contracts	57,433	59,443
Total non-current borrowings	**71,362**	**219,384**

On 2 April 2020, the Department of Health and Social Care (DHSC) and NHS England and NHS Improvement announced reforms to the NHS cash regime for the 2020/21 financial year. During 2020/21 existing DHSC interim revenue and capital loans as at 31 March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC) to allow the repayment. The affected loans totalling £326m are classified as current liabilities within these financial statements. As the repayment of these loans will be funded through the issue of PDC, this does not present a going concern risk for the Trust.

Note 24.2 Reconciliation of liabilities arising from financing activities - 2019/20

	Loans from DHSC £000	PFI and LIFT schemes £000	Total £000
Carrying value at 1 April 2019	**273,077**	**61,226**	**334,303**
Cash movements:			
Financing cash flows - payments and receipts of principal	66,646	(1,782)	**64,864**
Financing cash flows - payments of interest	(4,901)	(5,595)	**(10,496)**
Non-cash movements:			
Application of effective interest rate	5,450	5,595	**11,045**
Other changes	-	-	**-**
Carrying value at 31 March 2020	**340,272**	**59,444**	**399,716**

Note 24.3 Reconciliation of liabilities arising from financing activities - 2018/19

	Loans from DHSC £000	PFI and LIFT schemes £000	Total £000
Carrying value at 1 April 2018	**194,796**	**62,809**	**257,605**
Prior period adjustment	**-**	**-**	**-**
Carrying value at 1 April 2018 - restated	**194,796**	**62,809**	**257,605**
Cash movements:			
Financing cash flows - payments and receipts of principal	77,379	(2,106)	**75,273**
Financing cash flows - payments of interest	(3,183)	(5,774)	**(8,957)**
Non-cash movements:			
Impact of implementing IFRS 9 on 1 April 2018	630	-	**630**
Application of effective interest rate	3,455	5,774	**9,229**
Other changes	-	523	**523**
Carrying value at 31 March 2019	**273,077**	**61,226**	**334,303**

Note 25.1 Provisions for liabilities and charges analysis

	Pensions: early departure costs £000	Legal claims £000	Other £000	Total £000
At 1 April 2019	**3,015**	**181**	**390**	**3,586**
Change in the discount rate	(59)	-	-	**(59)**
Arising during the year	354	82	1,781	**2,217**
Utilised during the year	(211)	(22)	(299)	**(532)**
Reversed unused	(57)	(120)	(91)	**(268)**
Unwinding of discount	9	-	-	**9**
At 31 March 2020	**3,051**	**121**	**1,781**	**4,953**
Expected timing of cash flows:				
- not later than one year;	212	121	1,738	**2,071**
- later than one year and not later than five years;	847	-	-	**847**
- later than five years.	1,992	-	43	**2,035**
Total	**3,051**	**121**	**1,781**	**4,953**

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 based on information held by the Legal Services team who work closely with the NHS Litigation Authority.

Other provisions include exit costs for major contract.

Note 25.2 Clinical negligence liabilities

At 31 March 2020, £121k was included in provisions of NHS Resolution in respect of clinical negligence liabilities of Worcestershire Acute Hospitals NHS Trust (31 March 2019: £181k).

Note 26 Contingent assets and liabilities

	31 March 2020 £000	31 March 2019 £000
Value of contingent liabilities		
NHS Resolution legal claims	(34)	(27)
Gross value of contingent liabilities	**(34)**	**(27)**
Amounts recoverable against liabilities	-	-
Net value of contingent liabilities	**(34)**	**(27)**

Note 27 Other financial commitments

The trust is committed to making payments under non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangement), analysed by the period during which the payment is made:

	31 March 2020 £000	31 March 2019 £000
not later than 1 year	10,993	9,283
after 1 year and not later than 5 years	10,936	11,757
paid thereafter	592	-
Total	**22,521**	**21,040**

Note 28 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.

Note 28.1 On-SoFP PFI, LIFT or other service concession arrangement obligations

The following obligations in respect of the PFI, LIFT or other service concession arrangements are recognised in the statement of financial position:

	31 March 2020 £000	31 March 2019 £000
Gross PFI, LIFT or other service concession liabilities	**98,857**	**106,235**
Of which liabilities are due		
- not later than one year;	7,411	7,378
- later than one year and not later than five years;	33,367	32,263
- later than five years.	58,079	66,594
Finance charges allocated to future periods	(39,413)	(45,009)
Net PFI, LIFT or other service concession arrangement obligation	**59,444**	**61,226**
- not later than one year;	2,011	1,783
- later than one year and not later than five years;	14,581	12,240
- later than five years.	42,852	47,203

Note 28.2 Total on-SoFP PFI, LIFT and other service concession arrangement commitments

Total future commitments under these on-SoFP schemes are as follows:

	31 March 2020 £000	31 March 2019 £000
Total future payments committed in respect of the PFI, LIFT or other service concession arrangements	**424,651**	**483,919**
Of which payments are due:		
- not later than one year;	31,408	32,521
- later than one year and not later than five years;	133,817	138,553
- later than five years.	259,426	312,845

Note 28.3 Analysis of amounts payable to service concession operator

This note provides an analysis of the unitary payments made to the service concession operator:

	2019/20 £000	2018/19 £000
Unitary payment payable to service concession operator	**36,247**	**31,302**
Consisting of:		
- Interest charge	5,595	5,774
- Repayment of balance sheet obligation	1,783	2,106
- Service element and other charges to operating expenditure	20,724	16,034
- Capital lifecycle maintenance	1,850	973
- Contingent rent	6,295	6,415
Total amount paid to service concession operator	**36,247**	**31,302**

Revenue lifecycle costs are included in the service element of the unitary payments.

Note 29 Financial instruments

Note 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 2020 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 UK and sterling based. The Trust has no overseas operations. The Trust therefore has low exposure to currency rate fluctuations.

Interest Rate risk

The Trust borrows from government for capital expenditure, subject to affordability. 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. The interest rate on these loans remained fixed during 2019/20.

Note 29.2 Carrying values of financial assets

Carrying values of financial assets as at 31 March 2020	Held at amortised cost £000	Held at fair value through I&E £000	Held at fair value through OCI £000	Total book value £000
Trade and other receivables excluding non financial assets	27,657	-	-	**27,657**
Cash and cash equivalents	2,017	-	-	**2,017**
Total at 31 March 2020	**29,674**	**-**	**-**	**29,674**

Carrying values of financial assets as at 31 March 2019	Held at amortised cost £000	Held at fair value through I&E £000	Held at fair value through OCI £000	Total book value £000
Trade and other receivables excluding non financial assets	23,902	-	-	**23,902**
Cash and cash equivalents	2,002	-	-	**2,002**
Total at 31 March 2019	**25,904**	**-**	**-**	**25,904**

Note 29.3 Carrying values of financial liabilities

Carrying values of financial liabilities as at 31 March 2020	Held at amortised cost £000	Held at fair value through I&E £000	Total book value £000
Loans from the Department of Health and Social Care	340,272	-	**340,272**
Obligations under PFI, LIFT and other service concession contracts	59,444	-	**59,444**
Trade and other payables excluding non financial liabilities	53,199	-	**53,199**
Total at 31 March 2020	**452,915**	**-**	**452,915**

Carrying values of financial liabilities as at 31 March 2019	Held at amortised cost £000	Held at fair value through I&E £000	Total book value £000
Loans from the Department of Health and Social Care	273,077	-	**273,077**
Obligations under PFI, LIFT and other service concession contracts	61,226	-	**61,226**
Trade and other payables excluding non financial liabilities	34,841	-	**34,841**
Total at 31 March 2019	**369,144**	**-**	**369,144**

Note 29.4 Maturity of financial liabilities	31 March 2020 £000	31 March 2019 £000
In one year or less	381,553	149,760
In more than one year but not more than two years	4,388	64,460
In more than two years but not more than five years	15,433	91,002
In more than five years	51,541	63,922
Total	**452,915**	**369,144**

NHSE&I agreed to defer £105.9m of the £107.7m existing loans due for repayment in 2019/20 relating to revenue loans to 2020/21. The total amount due for repayment in 2020/21 has been subsequently increased to include all of the interim loans for both capital and revenue following the announcement of the reforms to the NHS cash and capital regimes. As a result, the Trust borrowing shows a requirement to repay the principal of £324.9 million in 2020/21 for revenue and capital loans in accordance with the guidance from DHSC.

Note 30 Losses and special payments

	2019/20 Total number of cases Number	2019/20 Total value of cases £000	2018/19 Total number of cases Number	2018/19 Total value of cases £000
Losses				
Cash losses	1	0	-	-
Bad debts and claims abandoned	350	204	126	44
Stores losses and damage to property	12	253	12	337
Total losses	**363**	**456**	**138**	**381**
Special payments				
Ex-gratia payments	42	17	75	92
Total special payments	**42**	**17**	**75**	**92**
Total losses and special payments	**405**	**474**	**213**	**473**

Note 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 DHSC 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
- NHS South Warwickshire CCG
- Worcestershire Health and Care NHS Trust
- NHS Litigation Authority
- Local Authorities
- NHS Business Services Authority

The Trust has also received revenue and capital payments from Worcestershire Acute Hospitals Charity amounting to £515,186k (£527,622 in 2018/19). All of these payments relate to expenditure made by the Trust on behalf of the Worcestershire Acute Hospitals Charity. As at 31 March 2020, Worcestershire Acute Hospitals Charity owed the Trust £100,082. The Trust Board is Corporate Trustee of the Trust's Charitable Funds. The summary financial statements of the funds held on Trust are included in the annual report and accounts.

Note 32 Prior Period adjustments

The accounts includes a Prior Period Adjustment to the transfer between reserves of £100k to restate the opening balance of the revaluation reserve.

Note 33 Events after the reporting date

On 2 April 2020, the Department of Health and Social Care (DHSC) and NHS England and NHS Improvement announced reforms to the NHS cash regime for the 2020/21 financial year. During 2020/21 existing DHSC interim revenue and capital loans as at 31 March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC) to allow the repayment. Given this relates to liabilities that existed at 31 March 2020, DHSC has updated its Group Accounting Manual to advise this is considered an adjusting event after the reporting period for providers. Outstanding interim loans totalling £326m as at 31 March 2020 in these financial statements have been classified as current as they will be repayable within 12 months.

Note 34 Better Payment Practice code	2019/20 Number	2019/20 £000	2018/19 Number	2018/19 £000
Non-NHS Payables				
Total non-NHS trade invoices paid in the year	101,681	232,318	102,230	226,631
Total non-NHS trade invoices paid within target	98,244	216,409	82,637	176,310
Percentage of non-NHS trade invoices paid within target	96.6%	93.2%	80.8%	77.8%
NHS Payables				
Total NHS trade invoices paid in the year	2,936	16,513	3,029	12,136
Total NHS trade invoices paid within target	2,221	7,741	1,823	4,626
Percentage of NHS trade invoices paid within target	75.6%	46.9%	60.2%	38.1%

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.

Note 35 External financing limit	2019/20 £000	2018/19 £000
Cash flow financing	69,476	79,289
External financing requirement	**69,476**	**79,289**
External financing limit (EFL)	69,491	79,359
Under / (over) spend against EFL	**15**	**70**

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

Note 36 Capital Resource Limit	2019/20 £000	2018/19 £000
Gross capital expenditure	13,704	18,092
Less: Disposals	(12)	-
Charge against Capital Resource Limit	**13,692**	**18,092**
Capital Resource Limit	16,343	18,970
Under / (over) spend against CRL	**2,651**	**878**

As a result of the operational impact of COIVID-19, the Trust was unable to complete all of its planned capital schemes, resulting in an underspend against the CRL. The Trust is working with the National Team to ensure that its planned capital programme can be completed in 2020/21.

Note 37 Breakeven duty financial performance	2019/20 £000
Adjusted financial performance surplus / (deficit) (control total basis)	(81,466)
Add back income for impact of 2018/19 post-accounts PSF reallocation	493
Breakeven duty financial performance surplus / (deficit)	**(80,844)**

Note 38 Breakeven duty rolling assessment

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)*

	1997/98 to 2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Breakeven duty in-year financial performance		3,135	287	88	17	(14,191)
Breakeven duty cumulative position	(21,854)	(18,719)	(18,432)	(18,344)	(18,327)	(32,518)
Operating income		312,889	321,829	336,594	348,763	346,029
Cumulative breakeven position as a percentage of operating income		(6.0%)	(5.7%)	(5.4%)	(5.3%)	(9.4%)

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Breakeven duty in-year financial performance	(25,918)	(59,831)	(28,748)	(52,562)	(68,790)	(80,844)
Breakeven duty cumulative position	(58,436)	(118,267)	(147,015)	(199,577)	(268,367)	(349,211)
Operating income	364,656	368,981	403,348	400,918	411,966	443,722
Cumulative breakeven position as a percentage of operating income	(16.0%)	(32.1%)	(36.4%)	(49.8%)	(65.1%)	(78.7%)

Independent auditor's report to the Directors of Worcestershire Acute Hospitals NHS Trust

Report on the Audit of the Financial Statements

Qualified opinion

We have audited the financial statements of Worcestershire Acute Hospitals NHS Trust (the 'Trust') for the year ended 31 March 2020, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2019 to 2020.

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, the financial statements:

- give a true and fair view of the financial position of the Trust as at 31 March 2020 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2019 to 2020; and
- have been prepared in accordance with the requirements of the National Health Service Act 2006.

Basis for qualified opinion

Due to the national lockdown arising from the Covid-19 pandemic we did not fully observe the counting of physical inventories at the end of the year. We were unable to obtain sufficient appropriate audit evidence regarding the inventory quantities held at 31 March 2020, which have a carrying amount in the Statement of Financial Position of £8.914 million, by performing other audit procedures. Related balances such as drug costs and supplies and services may be materially misstated for the same reason.

Consequently, we were unable to determine whether any adjustment to these amounts were necessary. In addition, were any adjustment to these amounts to be required, the Annual Report would also need to be amended.

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Trust's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Trust's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an entity associated with these particular events.

Material uncertainty related to going concern

We draw attention to note 1.2 in the financial statements, which indicates that the Trust incurred a deficit of £88.331 million during the year ended 31 March 2020. As stated in note 1.2, the Trust has taken out a number of revenue loans over recent years (£65.5 million in 2019/20). On 2 April 2020, the Department of Health and Social Care (DHSC) and NHS England and NHS Improvement announced reforms to the NHS cash regime for the 2020/21 financial year. During 2020/21, existing DHSC interim revenue and capital loans as at 31 March 2020 will be extinguished and replaced with the issue of Public Dividend Capital (PDC) to allow the repayment. Note 1.2 also states that nationally, normal contractual processes have been suspended until end July 2020 at the earliest, and providers are being funded through a block arrangement designed to mitigate the full costs during the period. Whilst the interim arrangements are in place, additional cash support is not anticipated to be required. Prior to the Covid-19 pandemic, the Board prepared and agreed the 2020/21 annual plan, which included productivity and efficiency improvements of £14.5 million. The Trust signalled in this annual plan that it will require further cash support in 2020/21 in line with the planned deficit of £78.9 million. Despite the extinguishment of interim revenue and capital loans and their replacement with PDC, plus the impact of temporary funding arrangements due to Covid-19, the Trust still expects that it will require further cash support from DHSC in 2020/21. DHSC has not confirmed that this will be available.

These events or conditions, along with the other matters as set forth in note 1.2, indicate that a material uncertainty exists that may cast significant doubt about the Trust's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 1.33 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of land and buildings as at 31 March 2020. The valuation exercise was carried out between December 2019 and March 2020 with a valuation date of 31 March 2020. As, disclosed in Note 1.33 to the financial statements, in applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), the valuer has declared a 'material valuation uncertainty' in the valuation report. This is on the basis of uncertainties in markets caused by COVID-19. The valuer considers that they can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. The values in the report have been used to inform the measurement of property assets at valuation in these financial statements. Our opinion is not modified in respect of this matter.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

As described in the basis for qualified opinion section of our report, we were unable to obtain sufficient appropriate audit evidence regarding the inventory quantities, which have a carrying amount in the Statement of Financial Position of £8.914 million at 31 March 2020, and related balances. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2015 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the guidance issued by NHS Improvement or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion:

- the parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Department of Health and Social Care Group Accounting Manual 2019 to 2020 and the requirements of the National Health Service Act 2006; and
- except for the possible effects of the matter described in the basis for qualified opinion section of our report, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Trust gained through our work in relation to the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we refer a matter to the Secretary of State under Section 30 of the Local Audit and Accountability Act 2014 because we have reason to believe that the Trust, or an officer of the Trust, is about to make, or has made, a decision which involves or would involve the body incurring unlawful expenditure, or is about to take, or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or
- we make a written recommendation to the Trust under Section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters except on 28 March 2019 we referred a matter to the Secretary of State under section 30(a) of the Local Audit and Accountability Act in relation to the Trust not setting a budget for the year ended 31 March 2020 and not having a formal plan to achieve cumulative financial balance. On 2 April 2020 we referred a matter to the Secretary of State under section 30(b) of the Local Audit and Accountability Act 2014 in relation to the Trust's ongoing breach of its break-even duty for the three-year period ending 31 March 2020.

Responsibilities of the Directors and Those Charged with Governance for the financial statements

The Directors are responsible for the preparation of the financial statements in the form and on the basis set out in the Accounts Directions, for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Trust without the transfer of its services to another public sector entity.

The Audit and Assurance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Trust's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements – Conclusion on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources

Adverse conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, because of the significance of the matters described in the basis for adverse conclusion section of our report, we are not satisfied that, in all significant respects Worcestershire Acute Hospitals NHS Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for adverse conclusion

Our review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources identified the following matters:

- For 2019/20 the Trust delivered an adjusted financial deficit of £81.5 million after excluding valuation impairments of £7.3 million, which was within its planned deficit of £82.8 million.
- The Trust delivered cost and efficiency savings totalling £12.0 million. The 2019/20 financial plan included a savings requirement of £13.7m, although the Board set a more challenging target of £22.5 million.
- The Trust's adjusted retained cumulative deficit is £349.3 million at 31 March 2020 and it does not yet have a financial recovery plan in place to achieve an in-year break-even position.

These matters identify weaknesses in the Trust's arrangements for setting and agreeing a sustainable budget and delivery of that budget.

- The Care Quality Commission (CQC) made unannounced visits to the Trust's Emergency Departments in December 2019 and subsequently rated them as "inadequate" and issued statutory improvement notices.
- The CQC published a Use of Resources report for the Trust in September 2019, which assessed whether the Trust was using its resources productively to maximise patient benefit. The CQC rated the Trust as "inadequate" in this assessment.
- The Trust remains in "Special Measures" which started in November 2015 due to concerns over quality and patient care.
- The Trust's performance against national standards continued to be below the required level throughout 2019/20. Planned performance improvement trajectories were not achieved for Emergency Access, Diagnostics Six Week Waits, Referral to Treatment in 18 Weeks and All Cancer 62 Day Waits.

These matters identify weaknesses in the Trust's arrangements for responding to service delivery issues raised by regulators.

These matters are evidence of weaknesses in proper arrangements for sustainable resource deployment and informed decision making in planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions, planning, organising and developing the workforce effectively to deliver strategic priorities and for understanding and using appropriate and reliable financial and performance information to support informed decision making and performance management including where relevant, business cases supporting significant investment decisions.

Responsibilities of the Accountable Officer

The Accountable Officer is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in the use of the Trust's resources.

Auditor's responsibilities for the review of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 21(1)(c) and Schedule 13 paragraph 10(a) of the Local Audit and Accountability Act 2014 to be satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report where we have not been able to satisfy ourselves that it has done so. We are not required to consider, nor have we considered, whether all aspects of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects, the Trust had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Trust put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020, and to report by exception where we are not satisfied.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Trust has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of Worcestershire Acute Hospitals NHS Trust in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the Directors of the Trust, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our audit work has been undertaken so that we might state to the Trust's Directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trust and the Trust's Directors, as a body, for our audit work, for this report, or for the opinions we have formed.

Richard Percival

Richard Percival, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

22 June 2020