East Lancashire Hospitals NHS Trust

East Lancashire Hospitals NHS Trust Financial Statements Year ended 31st March 2017

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Foreword to the accounts

These accounts for the year ended 31st March 2017 have been prepared by the East Lancashire Hospitals NHS Trust in accordance with schedule 15 of the National Health Service Act 2006

2016-17 Annual Accounts of East Lancashire Hospitals NHS Trust

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

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

- there are effective management systems in place to safeguard public funds and assets and assist in the implementation of corporate governance;

- value for money is achieved from the resources available to the Trust;

- the expenditure and income of the Trust has been applied to the purposes intended by Parliament and conform to the authorities which govern them;

- effective and sound financial management systems are in place; and

- annual statutory accounts are prepared in a format directed by the Secretary of State with the approval of the Treasury to give a true and fair view of the state of affairs as at the end of the financial year and the income and expenditure, recognised gains and losses and cash flows for the year.

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

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

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

Signed .... Chief Executive

Date 26 May 2017

2016-17 Annual Accounts of East Lancashire Hospitals NHS Trust

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

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

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

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

By order of the Board

Date 26 May 2017 .... Chief Executive

Date 26 May 2017 .... Director of Finance

Contents

Statement of comprehensive income for year ended 31 March 2017

	note	2016-17 £000s	Restated * 2015-16 £000s
Gross employee benefits	4	**(310,672)**	(298,592)
Other operating costs	5	**(147,717)**	(150,164)
Revenue from patient care activities	2	**435,430**	440,304
Other operating revenue	3	**42,089**	26,463
Operating surplus		**19,130**	18,011
Investment revenue		**168**	178
Other (losses)		**(54)**	(21)
Finance costs	9	**(9,096)**	(8,644)
Surplus for the financial year		**10,148**	9,524
Public dividend capital dividends payable		**(4,433)**	(4,780)
Retained surplus for the year		**5,715**	4,744

Other comprehensive income

Net gain/(loss) on revaluation of property, plant & equipment		**2,989**	(8,188)
New PDC received		**82**	30
PDC repaid in year		**(41)**	(3,700)
Total other comprehensive income for the year		**3,030**	(11,858)
Total comprehensive income for the year		**8,745**	(7,114)

Financial performance for the year

Retained surplus for the year	**5,715**	4,744
IFRIC 12 impairments and reversals	**(2,455)**	(11,262)
Non IFRIC12 impairments	**(234)**	14,358
Adjustments in respect of donated asset reserve elimination	**42**	47
Adjusted retained surplus	**3,068**	7,887

During 2016-17, the Trust received non-recurrent revenue of £16.7m from the Sustainability and Transformation Fund, approved by the Department of Health and HM Treasury (2015-16 £nil).

During 2015-16, the Trust received non-recurrent revenue of £19.3m following a capital to revenue exercise, supported by HM Treasury (2016-17 £nil).

* Comparatives have been restated to show the net revaluation gain/(loss) taken to the revaluation reserve.

Statement of financial position as at 31 March 2017

	note	31 March 2017 £000s	31 March 2016 £000s
Non-current assets			
Property, plant and equipment	10.1	**288,841**	282,650
Intangible assets	12	**4,263**	4,605
Trade and other receivables	16	**1,181**	1,172
Total non-current assets		**294,285**	288,427
Current assets			
Inventories	15	**2,442**	2,450
Trade and other receivables	16	**20,266**	21,021
Cash and cash equivalents	17	**23,423**	32,165
Total current assets		**46,131**	55,636
Total assets		**340,416**	344,063
Current liabilities			
Trade and other payables	18	**(43,978)**	(52,769)
Provisions	21	**(1,097)**	(1,322)
Borrowings	19	**(3,194)**	(3,399)
Capital loan from Department of Health	19	**(200)**	(200)
Total current liabilities		**(48,469)**	(57,690)
Net current assets / (liabilities)		**(2,338)**	(2,054)
Total assets less current liabilities		**291,947**	286,373
Non-current liabilities			
Trade and other payables	18	**(307)**	(307)
Provisions	21	**(3,881)**	(3,482)
Borrowings	19	**(108,445)**	(111,815)
Capital loan from Department of Health	19	**(1,400)**	(1,600)
Total non-current liabilities		**(114,033)**	(117,204)
Total assets employed		**177,914**	169,169
Financed by:			
Taxpayers' equity			
Public dividend capital		**174,214**	174,173
Retained earnings		**(38,788)**	(44,932)
Revaluation reserve		**42,488**	39,928
Total taxpayers' equity		**177,914**	169,169

The notes on pages 5 to 30 form part of this account.

The financial statements on pages 1 to 4 and accompanying notes were approved by the Audit Committee on 26 May 2017 and were signed and authorised for issue on its behalf by:

Chief Executive: .... 26 May 2017

Mr Kevin McGee

Statement of changes in taxpayers' equity for the year ended 31 March 2017

	note	Public dividend capital	Retained earnings	Restated * Revaluation reserve	Restated * Total reserves
		£000s	£000s	£000s	£000s
Balance at 1 April 2016		**174,173**	**(44,932)**	**39,928**	**169,169**
Changes in taxpayers' equity for 2016-17					
Retained surplus for the year		**0**	**5,715**	**0**	**5,715**
Net gain on revaluation of property, plant and equipment	10.1	**0**	**0**	**2,989**	**2,989**
Transfers between reserves		**0**	**429**	**(429)**	**0**
Public Dividend Capital received - cash		**82**	**0**	**0**	**82**
Public Dividend Capital repaid in year		**(41)**	**0**	**0**	**(41)**
Net recognised revenue for the year		**41**	**6,144**	**2,560**	**8,745**
Balance at 31 March 2017		**174,214**	**(38,788)**	**42,488**	**177,914**

	note	Public dividend capital	Retained earnings	Restated * Revaluation reserve	Restated * Total reserves
Balance at 1 April 2015		**177,843**	**(51,679)**	**50,117**	**176,281**
Changes in taxpayers' equity for 2015-16					
Retained **surplus** for the year		0	4,744	0	**4,744**
Net gain on revaluation of property, plant and equipment	10.2	0	0	(8,188)	**(8,188)**
Transfers between reserves		0	2,861	(2,861)	**0**
Public Dividend Capital received - cash		30	0	0	**30**
Public Dividend Capital repaid in year		(3,700)	0	0	**(3,700)**
Other movements		0	(858)	860	**2**
Net recognised revenue for the year		**(3,670)**	**6,747**	**(10,189)**	**(7,112)**
Balance at 31 March 2016		**174,173**	**(44,932)**	**39,928**	**169,169**

* Comparatives have been restated to show the net revaluation gain/(loss) taken to the revaluation reserve.

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. Additional PDC may also be issued to NHS trusts by the Department of Health. A charge, reflecting the cost of capital utilised by the Trust, is payable to the Department of Health as an annual PDC dividend.

Retained earnings
The balance of this reserve represents the accumulated surpluses and deficits of the Trust.

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 expenses. Subsequent downward movements in asset valuations are charged to the revaluation reserve to the extent that a previous gain was recognised unless the downward movement represents a clear consumption of economic benefit or a reduction in service potential.

Statement of cash flows for the year ended 31 March 2017

	Note	2016-17 £000s	Restated * 2015-16 £000s
Cash flows from operating activities			
Operating surplus		**19,130**	18,011
Depreciation and amortisation	5	**11,892**	9,878
Net impairments and reversals	11	**(2,689)**	3,096
Donated assets received credited to revenue but non-cash		**(214)**	(192)
(Increase)/decrease in inventories		**8**	(202)
(Increase)/decrease in trade and other receivables		**(2,520)**	(6,573)
Increase/(decrease) in trade and other payables		**(8,190)**	3,752
Provisions utilised		**(612)**	(614)
Increase in movement in non cash provisions		**738**	1,925
Net cash inflow from operating activities		**17,543**	29,081
Cash flow from investing activities			
Interest received		**170**	178
Payments for property, plant and equipment		**(9,119)**	(5,584)
Payments for intangible assets		**(1,261)**	(1,992)
Proceeds of disposal of assets held for sale (PPE)		**140**	137
Net cash (outflow) from investing activities		**(10,070)**	(7,261)
Net cash inflow before financing		**7,473**	21,820
Cash flows from financing activities			
Public dividend capital received		**82**	30
Public dividend capital repaid		**(41)**	(3,700)
Loans repaid to DH - capital investment loans repayment of principal		**(200)**	(850)
Capital element of payments in respect of on-SoFP PFI		**(3,575)**	(1,826)
Interest paid		**(9,048)**	(8,611)
Dividend paid		**(3,433)**	(5,682)
Net cash (outflow) from financing activities		**(16,215)**	**(20,639)**
Net increase/(decrease) in cash and cash equivalents		**(8,742)**	1,181
Cash and cash equivalents at beginning of the period		**32,165**	30,984
Cash and cash equivalents at year end		**23,423**	32,165

* Comparatives have been restated following the reclassification of dividend and interest paid from the operating activities section to the financing activities section of the Statement of Cash Flows.

Notes to the accounts

1. Accounting policies

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

1.1 Accounting convention

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

Going Concern

These accounts have been prepared on a going concern basis.

Management has collated evidence covering the two subsequent financial reporting periods which is considered to provide sufficient assurance that there will be no material uncertainties related to the events or conditions that may cast significant doubt upon the Trust’s ability to continue as a going concern for the purposes of preparing these accounts.

1.2 Acquisitions and discontinued operations

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

1.3 Charitable funds

Under the provisions of IAS27 '*Consolidated and Separate Financial Statements'*, those Charitable Funds that fall under common control with NHS bodies are consolidated within the entity's financial statements. The Trust has not consolidated the accounts of the ELHT&Me (the charity the Trust is a corporate trustee) on the basis of immateriality.

1.4 Critical accounting judgements and key sources of estimation uncertainty

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

1.4.1 Critical judgements in applying accounting policies

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

Segmental reporting

The Trust has one material segment, being the provision of healthcare, primarily to NHS patients. Divisions within the Trust all have similar economic characteristics with healthcare activity being undertaken via ward-based hospital care and through a range of primary care and community services. Segmental reporting is not considered necessary for private patient activity on materiality grounds.

Fair value of PFI liabilities

The PFI liability is rebased on an annual basis using the most current applicable RPI indices. On this basis, the Trust does not consider the fair value of these liabilities to differ materially from the reported carrying value.

1.4.2 Key sources of estimation uncertainty

Non-current asset valuations

Valuation services are provided to the Trust by Cushman & Wakefield, a property services firm whose valuers are registered with the Royal Institute of Chartered Surveyors (RICS), the regulatory body for the valuation services industry. Following a full valuation of land and buildings as at 1 April 2015, Cushman & Wakefield has since provided desktop valuations of these assets as at the end of each financial year to ensure that the carrying amount of these assets does not differ materially from their fair value. These valuations reflect the current economic conditions and the location factor for the North West of England. The valuation for PFI buildings excludes VAT on the basis that the replacement of these assets would be carried out under a special purchase vehicle where VAT would be recoverable.

Private Finance Initiative (PFI) - unitary payment

The PFI unitary payment is split between three elements, the payment for services, payment for property (comprising repayment of the liability, finance cost and contingent rental) and lifecycle replacement. The Trust has adopted the national PFI accounting guidance to determine the split between these elements.

1.5 Revenue

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

Where income is received for a specific activity that is to be delivered in the following year, that income is deferred. Where the Trust has received monies in full in respect of the maternity pathway, where the birth will take place in the following year, a proportion of this income has been deferred.

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 e.g. by an insurer. The Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts. For 2016-17, a rate of 22.94% has been applied (2015-16 21.99%).

1.6 Employee benefits

Short-term employee benefits

Salaries, wages and employment related payments are recognised in the period in which the service is received from employees.

Retirement benefit costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

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

1.7 Other expenses

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

1.8 Property, plant and equipment

Recognition

Property, plant and equipment is capitalised if:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential will be supplied to the Trust;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably; and
- 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 a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
- Items form part of the initial equipping and setting-up cost of a new building, ward or unit, irrespective of their individual or collective cost.

Valuation

All property, plant and equipment are measured initially at cost, representing the cost directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management. Assets that are held for their service potential and are in use are measured subsequently at their current value in existing use. Assets that were most recently held for their service potential but are surplus are measured at fair value where there are no restrictions preventing access to the market at the reporting date.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Current values in existing use are determined as follows:

- Land and non-specialised buildings – market value for existing use.
- Specialised buildings – depreciated replacement cost, modern equivalent asset basis.

HM Treasury has adopted a standard approach to depreciated replacement cost valuations based on modern equivalent assets and, where it would meet the location requirements of the service being provided, an alternative site can be valued.

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees but not borrowing costs, which are recognised as expenses immediately, as allowed by *IAS23 Borrowing Costs* for assets held at fair value. Assets are revalued and depreciation commences when they are brought into use.

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

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

Subsequent expenditure

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

1.9 Intangible assets

Recognition

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

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

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

Measurement

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

Following initial recognition, intangible assets are carried at depreciated historic cost as a proxy for fair value on materiality grounds.

1.10 Depreciation, amortisation and impairments

Freehold land, properties under construction, and assets held for sale are not depreciated.

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

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

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

1.11 Donated assets

Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

1.12 Non-current assets held for sale

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

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

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

1.13 Leases

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

The Trust as lessee

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

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

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

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

The Trust as lessor

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 so as to reflect a constant periodic rate of return on the Trust's net investment outstanding in respect of the leases.

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

1.14 Private finance initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of *IFRIC12 Service Concession Arrangements* . The Trust therefore recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

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

Services received

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

PFI asset

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

PFI liability
A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with *IAS17* .

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

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

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. In accordance with *IAS17* , this amount is not included in the minimum lease payments, but is instead treated as contingent rent and is expensed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is presented as a contingent finance cost in the Statement of Comprehensive Income.

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

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

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

Assets contributed by the Trust to the operator for use in the scheme
Assets contributed for use in the scheme continue to be recognised as items of property, plant and equipment in the Trust’s Statement of Financial Position.

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

1.15 Inventories
Inventories are valued at current cost. This is considered to be a reasonable approximation to determine fair value due to the high turnover of stocks. Where stock levels have remained stable year on year the Trust has taken a decision to no longer carry out stock takes in these areas in the interests of efficiency.

1.16 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.

1.17 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Post-employment benefits provisions, the most significant of which is the Trust's injury benefit provision, have been measured by discounting the cash flows estimated to settle the obligation, using the discount rate issued by HM Treasury of 0.24% (2015-16 1.37%). The period over which future cash flows will be paid is estimated using the life expectancy tables for England published by the Office of National Statistics.

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

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

1.18 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Trust pays an annual contribution to the NHSLA which, in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the Trust.

1.19 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 the NHSLA and, in return, receives assistance with the costs of claims arising. The annual membership contributions, and any excesses payable in respect of particular claims are charged to operating expenses as and when they become due.

1.20 Contingencies

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

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

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

1.21 Financial assets

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

Classification

The classification of financial assets is determined at the time of initial recognition. While this is dependent on their nature and purpose, all of the Trust's financial assets are classified as loans and receivables.

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

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

At the end of the reporting period, the Trust assesses whether any financial assets are impaired. Financial assets which are considered to be individually significant are impaired and impairment losses recognised if there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset. For other financial assets, an impairment provision is made, which estimates the likelihood of recovery, based on the age of the debt.

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

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

1.23 Financial liabilities

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

Classification

The classification of financial liabilities is determined at the time of initial recognition. While this is dependent on their nature and purpose, all of the Trust's financial liabilities are classified as other financial liabilities.

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

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

1.24 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.

1.25 Foreign currencies

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

1.26 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Trust has no beneficial interest in them.

1.27 Public Dividend Capital (PDC) and PDC dividend

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

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

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.

1.29 Subsidiaries

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

1.30 Research and development

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

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

The Treasury FReM does not require the following Standards and Interpretations to be applied in 2016-17. These standards are still subject to HM Treasury FReM interpretation, with IFRS 9 and IFRS 15 scheduled for implementation in 2018-19 and IFRS 16 scheduled for implementation in 2019-20.
IFRS 9 Financial Instruments - subject to consultation
IFRS 15 Revenue from Contracts with Customers - subject to consultation
IFRS 16 Leases - subject to consultation

1.32 Gifts

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

2. Revenue from patient care activities

	2016-17	Restated * 2015-16
	£000s	£000s
NHS England	43,488	39,918
Clinical Commissioning Groups	387,285	372,758
Additional income for delivery of healthcare services	0	19,300
Other NHS bodies	953	931
Local authorities	1,285	3,547
Injury costs recovery	1,984	2,262
Other non-NHS	435	1,588
Total revenue from patient care activities	**435,430**	440,304

* During 2015-16, the Trust received non-recurrent revenue of £19.3m following a capital to revenue exercise, approved by the HM Treasury (2016-17 £nil)

3. Other operating revenue

	2016-17	Restated * 2015-16
	£000s	£000s
Education, training and research	12,844	12,636
Charitable contributions	226	220
Non-patient care services to other bodies	8,349	9,625
Sustainability & Transformation Fund income	16,733	0
Income generation	3,937	3,982
Total other operating revenue	**42,089**	26,463
Total operating revenue	**477,519**	466,767

Revenue is almost totally from the supply of services. Revenue from the sale of goods is immaterial.

* During 2016-17, the Trust received non-recurrent revenue of £16.7m from the Sustainability and Transformation Fund, approved by the Department of Health and HM Treasury (2015-16 £nil).

4. Employee benefits

4.1 Employee benefits

	2016-17	2015-16
	£000s	£000s
Salaries and wages	258,482	252,519
Social security costs	24,541	19,048
NHS Pensions Scheme	28,234	27,344
Other pension costs	3	4
Termination benefits	0	267
Total employee benefits	**311,260**	299,182
Employee costs capitalised	**588**	590
Gross employee benefits excluding capitalised costs	**310,672**	298,592

4.2 Retirements due to ill-health

	2016-17	2015-16
	Number	Number
Number of persons retired early on ill health grounds	13	8
	£000s	£000s
Total additional pensions liabilities accrued in the year	716	304

* Comparatives in notes 2 and 3 have been restated to separately disclose only significant areas of income, although total income is unchanged.

4.3 Pension costs

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

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

a) Accounting valuation

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

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

b) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the schemes (taking into account their recent demographic experience), and to recommend contribution rates payable by employees and employers. The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

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

5. Operating expenses

	2016-17	Restated * 2015-16
	£000s	£000s
Purchase of healthcare from non-NHS bodies	**866**	648
Supplies and services - clinical	**72,537**	74,920
Supplies and services - general	**6,052**	5,763
Establishment	**5,880**	5,367
Transport	**2,049**	1,953
Service charges - on-SOFP PFI schemes	**6,396**	6,198
Business rates paid to local authorities	**2,543**	3,019
Premises	**16,952**	15,686
Legal fees	**557**	599
Depreciation	**10,289**	8,842
Amortisation	**1,603**	1,036
Impairments and reversals of property, plant and equipment	**(2,689)**	3,096
Audit fees	**77**	77
Other auditor's remuneration	**7**	7
Clinical negligence scheme for Trusts	**18,159**	16,140
Education and training	**832**	794
Other operating expenses	**5,607**	6,019
Total operating expenses (excluding employee benefits)	**147,717**	150,164

Employee benefits

	2016-17	2015-16
	£000s	£000s
Employee benefits excluding Trust officer board members	**309,262**	297,420
Trust officer board members	**1,410**	1,172
Total employee benefits	**310,672**	298,592
Total operating expenses	**458,389**	448,756

Other operating expenses include £0.5m relating to the impact of the change in the rate used to discount post employment benefit provisions (2015-16 -£0.1m), £1.1m SLA for financial outsourced services (2015-16 £1.1m) and £0.6m for car parking (2015-16 £0.7m).

Other auditor remuneration in 2016-17 and 2015-16 relates to the review of the Trust's annual quality account.

* Comparatives have been restated to separately disclose only significant areas of expense, although total expenses are unchanged.

6. Operating leases

Trust as lessee

	2016-17	2015-16
	£000s	£000s
Payments recognised as an expense		
Minimum lease payments	**9,157**	5,125
Total	**9,157**	5,125
Payable:		
No later than one year	**2,678**	2,158
Between one and five years	**1,794**	2,034
Total	**4,472**	4,192

Operating leases predominantly relate to payments for the occupation of properties by the Trust's community services (where there is no future commitment) and lease cars. There has been an increase in the charge for the community properties used by the Trust in 2016-17.

7. Better payment practice code

Measure of compliance	2016-17		2015-16	
	Number	**£000s**	Number	£000s
Non-NHS payables				
Total Non-NHS trade Invoices paid in the year	**101,029**	**160,137**	92,302	137,004
Total Non-NHS trade invoices paid within target	**97,722**	**154,909**	87,858	130,151
Percentage of NHS trade invoices paid within target	**96.7%**	**96.7%**	95.2%	95.0%
NHS payables				
Total NHS trade invoices paid in the year	**3,104**	**26,174**	3,123	36,402
Total NHS trade invoices paid within target	**2,974**	**25,805**	2,972	35,236
Percentage of NHS trade invoices paid within target	**95.8%**	**98.6%**	95.2%	96.8%

The '*Better payment practice code'* requires the NHS body to aim to pay all valid invoices by the due date or within 30 days of receipt of a valid invoice, whichever is later.

8. Losses and special payments

	2016-17		2015-16	
	Total value of cases	**Total number of cases**	Total value of cases	Total number of cases
	£000s		£000s	
Losses	**78**	**237**	43	292
Special payments	**131**	**85**	130	104
Total losses and special payments	**209**	**322**	173	396

9. Finance costs

	2016-17	2015-16
	£000s	£000s
Interest		
Interest on loans and overdrafts	**23**	32
Interest on obligations under PFI contracts:		
- main finance cost	**4,840**	5,157
- contingent finance cost	**4,185**	3,422
Provisions - unwinding of discount	**48**	33
Total finance costs	**9,096**	8,644

10.1 Property, plant and equipment

	Land	Buildings	Dwellings	Assets under construction	Plant & machinery	Transport	Information technology	Furniture & fittings	Total
2016-17	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Cost or valuation:									
At 1 April 2016	**5,624**	**251,138**	**856**	**0**	**40,496**	**984**	**23,613**	**7,629**	**330,340**
Additions of assets under construction	0	0	0	981	0	0	0	0	**981**
Additions purchased	0	2,629	0	0	1,933	0	1,258	717	**6,537**
Additions non cash donations	0	0	0	0	214	0	0	0	**214**
Additions leased (including PFI)	0	1,286	0	0	0	0	1,978	0	**3,264**
Reclassifications	0	(230)	0	0	0	0	230	0	**0**
Disposals other than for sale	(45)	(10)	(135)	0	(1,110)	0	(50)	(30)	**(1,380)**
Revaluations charged to reserves	76	2,894	19	0	0	0	0	0	**2,989**
Impairments/reversals charged to operating expenses	176	2,513	0	0	0	0	0	0	**2,689**
Gross book value adjustment	0	0	0	0	(230)	0	(2,316)	(30)	**(2,576)**
Reversal of accumulated depreciation following revaluation	0	(3,922)	(27)	0	0	0	0	0	**(3,949)**
At 31 March 2017	**5,831**	**256,298**	**713**	**981**	**41,303**	**984**	**24,713**	**8,286**	**339,109**
Depreciation									
At 1 April 2016	**0**	**0**	**27**	**0**	**24,238**	**845**	**16,656**	**5,924**	**47,690**
Disposals other than for sale	0	0	(2)	0	(1,104)	0	(50)	(30)	**(1,186)**
Impairments/reversals charged to operating expenses	0	0	0	0	0	0	0	0	**0**
Charged during the year	0	3,922	20	0	3,460	33	2,167	687	**10,289**
Accumulated depreciation adjustment	0	0	(18)	0	(230)	0	(2,298)	(30)	**(2,576)**
Reversal of accumulated depreciation following revaluation	0	(3,922)	(27)	0	0	0	0	0	**(3,949)**
At 31 March 2017	**0**	**0**	**0**	**0**	**26,364**	**878**	**16,475**	**6,551**	**50,268**
Net book value at 31 March 2017	**5,831**	**256,298**	**713**	**981**	**14,939**	**106**	**8,238**	**1,735**	**288,841**
Asset financing:									
Owned - purchased	5,831	146,600	713	981	13,921	98	2,503	1,735	**172,382**
Owned - donated	0	366	0	0	989	8	0	0	**1,363**
On-SoFP PFI contracts	0	109,332	0	0	29	0	5,735	0	**115,096**
Total at 31 March 2017	**5,831**	**256,298**	**713**	**981**	**14,939**	**106**	**8,238**	**1,735**	**288,841**

Revaluation reserve balance for property, plant & equipment

	Land	Buildings	Dwellings	Assets under construction	Plant & machinery	Transport	Information technology	Furniture & fittings	Total
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
At 1 April 2016	**639**	**38,595**	**473**	**0**	**47**	**0**	**0**	**174**	**39,928**
Movements	75	2,802	(96)	0	(47)	0	0	(174)	**2,560**
At 31 March 2017	**714**	**41,397**	**377**	**0**	**0**	**0**	**0**	**0**	**42,488**

10.2 Property, plant and equipment

	Land	Buildings	Dwellings	Assets under construction	Plant & machinery	Transport	Information technology	Furniture & fittings	Total
2015-16	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Cost or valuation:									
At 1 April 2015	**19,336**	**246,708**	**1,576**	**895**	**35,582**	**1,027**	**20,014**	**7,158**	**332,296**
Additions of assets under construction	0	0	0	0	0	0	0	0	**0**
Additions purchased	0	2,584	0	0	5,213	64	713	471	**9,045**
Additions non cash donations	0	0	0	0	192	0	0	0	**192**
Additions leased (including PFI)	0	1,686	0	0	0	0	2,955	0	**4,641**
Reclassifications	0	2,092	(1,197)	(895)	0	0	0	0	**0**
Reclassifications as held for sale and reversals	115	0	345	0	0	0	0	0	**460**
Disposals other than for sale	0	(516)	0	0	(491)	(107)	(69)	0	**(1,183)**
Upward revaluation	0	15,653	149	0	0	0	0	0	**15,802**
Impairments/reversals charged to operating expenses	(6,161)	3,065	0	0	0	0	0	0	**(3,096)**
Impairments/reversals charged to reserves	(7,666)	(20,134)	(17)	0	0	0	0	0	**(27,817)**
At 31 March 2016	**5,624**	**251,138**	**856**	**0**	**40,496**	**984**	**23,613**	**7,629**	**330,340**
Depreciation									
At 1 April 2015	**0**	**632**	**3**	**0**	**22,013**	**926**	**15,057**	**5,223**	**43,854**
Reclassifications	0	3	(3)	0	0	0	0	0	**0**
Reclassifications as held for sale and reversals	0	0	4	0	0	0	0	0	**4**
Disposals other than for sale	0	(516)	0	0	(491)	(107)	(69)	0	**(1,183)**
Impairments/reversals charged to reserves	0	(3,827)	0	0	0	0	0	0	**(3,827)**
Charged during the year	0	3,708	23	0	2,716	26	1,668	701	**8,842**
At 31 March 2016	**0**	**0**	**27**	**0**	**24,238**	**845**	**16,656**	**5,924**	**47,690**
Net book value at 31 March 2016	**5,624**	**251,138**	**829**	**0**	**16,258**	**139**	**6,957**	**1,705**	**282,650**
Asset financing:									
Owned - purchased	5,624	143,783	829	0	15,207	124	2,278	1,705	**169,550**
Owned - donated	0	371	0	0	1,019	15	0	0	**1,405**
On-SoFP PFI contracts	0	106,984	0	0	32	0	4,679	0	**111,695**
Total at 31 March 2016	**5,624**	**251,138**	**829**	**0**	**16,258**	**139**	**6,957**	**1,705**	**282,650**

Revaluation reserve balance for property, plant & equipment

	Land	Buildings	Dwellings	Assets under construction	Plant & machinery	Transport	Information technology	Furniture & fittings	Total
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
At 1 April 2015	8,499	41,044	353	0	47	0	0	174	**50,117**
Movements	(7,860)	(2,449)	120	0	0	0	0	0	**(10,189)**
At 31 March 2016	**639**	**38,595**	**473**	**0**	**47**	**0**	**0**	**174**	**39,928**

10.3 Property, plant and equipment valuation information

For 2016-17, the desktop valuation of land and buildings provided by Cushman & Wakefield, the Trust's external valuer as at 31 March 2017 resulted in a £5.8m increase in the value of these assets. The increase is mainly attributable to a net 2% increase in the Building Cost Information Service (BCIS) National Tender Price Index (TPI) as at 31 March 2017 compared to the 1 April 2016 BCIS factor, allowing for obsolecence. The BCIS location factor applied to national TPI remains unchanged at 99.

Minimum and maximum asset lives for each class of property, plant and equipment are as follows:

	Min Life Years	Max Life Years
Buildings	**1**	**84**
Dwellings	**32**	**44**
Plant & machinery	**1**	**25**
Transport	**3**	**10**
Information technology	**5**	**5**
Furniture and fittings	**5**	**5**

11. Analysis of impairments and reversals

Net impairment reversals of £2.7m were taken to the Statement of comprehensive income for property, plant and equipment, £2.9m of which related to changes in market prices with the remaining £0.2m impairment loss resulting from the change in valuation basis for an asset that was sold during the year. In 2015-16, there was an equivalent net impairment charge for changes in market prices of £27.8m.

12. Intangible assets

	2016-17 £000s	2015-16 £000s
Gross cost at start of period as at 1 April	**7,821**	5,829
Additions - purchased	1,261	1,992
Gross cost at end of period as at 31 March	**9,082**	7,821
Amortisation at start of period as at 1 April	**3,216**	2,180
Charged during the year	1,603	1,036
Amortisation at end of period as at 31 March	**4,819**	3,216
Net book value as at 31 March	**4,263**	4,605

All intangible assets are purchased software licences, which are amortised over 1 and 6 years.

The Trust does not hold any revaluation reserve balances in respect of intangible assets (2015-16 £nil).

13. Capital commitments

As at 31 March 2017, the Trust was contractually commited to £0.4m (31 March 2016 £0.2m) of capital expenditure relating to property, plant and equipment not otherwise included in these financial statements.

14. Intra-government and other balances

	Current Receivables	Current Payables	Non-current Receivables	Non-current Payables
	£000s	£000s	£000s	£000s
Balances with other central government bodies	**1,197**	**9,834**	**0**	**0**
Balances with local authorities	**221**	**0**	**0**	**0**
Balances with NHS bodies outside the departmental group	**0**	**48**	**0**	**0**
Balances with NHS bodies inside the departmental group	**15,435**	**4,736**	**0**	**1,400**
Balances with bodies external to government	**3,413**	**32,754**	**1,181**	**108,752**
At 31 March 2017	**20,266**	**47,372**	**1,181**	**110,152**
Prior period:				
Balances with other central government bodies	1,065	8,741	0	0
Balances with local authorities	809	0	0	0
Balances with NHS bodies outside the departmental group	0	41	0	0
Balances with NHS bodies inside the departmental group	11,860	4,393	0	1,600
Balances with bodies external to government	7,287	43,193	1,172	112,122
At 31 March 2016	**21,021**	**56,368**	**1,172**	**113,722**

15. Inventories

	Drugs	Consumables	Total
	£000s	£000s	£000s
Balance as at 1 April 2016	**1,428**	**1,022**	**2,450**
Additions	**35,520**	**33,401**	**68,921**
Inventories recognised as expenses in year	**(35,446)**	**(33,483)**	**(68,929)**
Balance as at 31 March 2017	**1,502**	**940**	**2,442**
			Restated *
	£000s	£000s	£000s
Balance as at 1 April 2015	1,256	992	2,248
Additions	39,000	32,689	71,689
Inventories recognised as expenses in year	(38,828)	(32,653)	(71,481)
Write-down of inventories (including losses)	0	(6)	(6)
Balance as at 31 March 2016	1,428	1,022	2,450

* Comparatives have been restated to include only inventories where inventory count procedures are in place.

16. Trade and other receivables

	Current		Non-current	
		Restated *		Restated *
	31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
	£000s	£000s	**£000s**	£000s
NHS receivables - revenue	**6,686**	8,612	**0**	0
NHS prepayments and accrued income	**8,749**	2,438	**0**	0
Non-NHS receivables - revenue	**2,380**	4,273	**1,533**	1,502
Non-NHS prepayments and accrued income	**826**	2,062	**0**	0
PDC Dividend prepaid to DH	**0**	810	**0**	0
Provision for the impairment of receivables	**(1,132)**	(1,376)	**(352)**	(330)
VAT	**1,167**	957	**0**	0
PFI prepayments	**1,136**	2,624	**0**	0
Other receivables	**454**	621	**0**	0
Total	**20,266**	21,021	**1,181**	1,172
Total current and non current	**21,447**	22,193		

* Comparatives have been restated to separately disclose only significant areas of debt. Note that total receivables are unchanged.

17. Cash and cash equivalents

As at 31 March 2017, cash and cash equivalents of £23.4m (31 March 2016 £32.2m) were almost entirely represented by cash deposited with the Governing Banking Service with the balance of less than £0.1m represented by cash in hand (31 March 2016 less than £0.1m).

The Trust also held monies on behalf of patients, which has been excluded from the cash and cash equivalents figure reported above. As at 31 March 2017 and 31 March 2016, this amount was less than £0.1m.

18. Trade and other payables

	Current		Non-current	
	31 March 2017	Restated * 31 March 2016	**31 March 2017**	Restated * 31 March 2016
	£000s	£000s	**£000s**	£000s
NHS payables - revenue	**2,906**	2,859	**0**	0
NHS accruals and deferred income	**1,440**	1,383	**0**	0
Non-NHS payables - revenue	**4,826**	6,646	**0**	0
Non-NHS payables - capital	**3,362**	4,963	**0**	0
Non-NHS accruals and deferred income	**16,690**	23,082	**307**	307
Social security costs	**3,318**	2,602	**0**	0
PDC dividend payable to DH	**190**	0	**0**	0
Tax	**2,606**	2,405	**0**	0
Other payables	**8,640**	8,829	**0**	0
Total	**43,978**	**52,769**	**307**	307

Total current and non current	**44,285**	53,076

	31 March 2017	31 March 2016
Included in '*other payables*' above:	**£000s**	£000s
Research and development funds	**2,829**	2,730
Outstanding NHS pension contributions at year end	**3,910**	3,726

* Comparatives have been restated to separately disclose only signficant areas of liability, although total payables are unchanged.

19. Borrowings

	Current		Non-current	
	31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
	£000s	£000s	**£000s**	£000s
Loans from Department of Health	**200**	200	**1,400**	1,600
PFI liabilities	**3,194**	3,399	**108,445**	111,815
Total	**3,394**	3,599	**109,845**	113,415

Total borrowings (current and non-current)	**113,239**	117,014

Loans - repayment of principal falling due in:		**31 March 2017**		31 March 2016
	Department of Health	**Other**	**Total**	Total
	£000s	**£000s**	**£000s**	£000s
0 - 1 years	**200**	**3,194**	**3,394**	3,599
1 - 2 years	**200**	**3,403**	**3,603**	3,226
2 - 5 years	**600**	**8,810**	**9,410**	9,795
Over 5 years	**600**	**96,232**	**96,832**	100,394
TOTAL	**1,600**	**111,639**	**113,239**	117,014

20. Deferred income

	Current		Non-current	
	31 March 2017	31 March 2016	**31 March 2017**	31 March 2016
	£000s	£000s	**£000s**	£000s
Opening balance	**4,229**	5,424	**307**	1,200
Deferred revenue addition	**1,946**	1,251	**0**	0
Transfer of deferred revenue	**(2,015)**	(2,446)	**0**	(893)
Closing balance	**4,160**	4,229	**307**	307
Total deferred income	**4,467**	4,536		

£1.2m of deferred income relates to income in respect of the maternity pathway payment (2015-16 £1.2m).

21. Provisions

		2016-17		2015-16
	Legal Claims	**Other**	**Total**	Total
	£000s	**£000s**	**£000s**	£000s
Balance at 1 April	**275**	**4,529**	**4,804**	3,460
Arising during the year	**114**	**513**	**627**	2,052
Utilised during the year	**(150)**	**(462)**	**(612)**	(614)
Reversed unused	**(124)**	**(236)**	**(360)**	(92)
Unwinding of discount	**0**	**48**	**48**	33
Change in discount rate	**0**	**471**	**471**	(35)
Balance at 31 March	**115**	**4,863**	**4,978**	4,804
Expected timing of cash flows:	**£000s**	**£000s**	**£000s**	£000s
No later than one year	**115**	**982**	**1,097**	1,322
Later than one year and not later than five years	**0**	**879**	**879**	788
Later than five years	**0**	**3,002**	**3,002**	2,694
Balance at 31 March	**115**	**4,863**	**4,978**	4,804

Other provisions includes £3.9m (2015-16 £3.5m) in respect of personal injury benefit awards.

The accounts of the NHS Litigation Authority include provisions of £238.5m (2015-16 £192.7m) in respect of cases covered by the Clinical Negligence Scheme for Trusts and £8.6m (2015-16 £13.1m) in respect of employer/public liability cases of the Trust. The Trust is liable only up to a maximum excess level for these cases which is disclosed in the provisions above.

22. Contingencies

	31 March 2017	31 March 2016
	£000s	£000s
Contingent liabilities		
NHS Litigation Authority Legal Claims	**(162)**	(178)
Net value of contingent liabilities	**(162)**	(178)

Contingent liabilities relate to the excess not yet provided for on employer's/public liability cases of the Trust and is based on the probability calculated by NHS Litigation Authority.

23. Private Finance Initiative (PFI) schemes

The Trust has two separate PFI schemes in operation on each of its main sites as detailed below:-

Royal Blackburn Hospital - Single Site
This scheme has provided a single hospital site within the Blackburn locality and has been operational since July 2006. The contract term is 35 years.

Burnley General Hospital - Phase 5
The phase 5 unit on the Burnley General site has been in operation since May 2006 and accommodates hospital facilities including elective care, radiology, outpatients and renal services. The contract term is 30 years.

The contracts in place for these schemes are for the construction and provision of healthcare facilities. At the end of the agreement term the sites will revert back to the ownership of the Trust without the need for further payments. Both contracts include options for early termination where there has been a event of default by the Project Company. During the term of the contracts there is provision for planned replacement at regular intervals of components included in these facilities. This ensures that the assets are maintained in the required condition throughout the life of the contract. The Trust is charged for these lifecycle costs through the unitary payments although the charges remain fixed irrespective of the actual pattern of lifecycle costs incurred by the operators. Both contracts include provision for performance and availability deductions against the unitary charge. Unitary charges are subject to an annual inflation uplift which is linked to the published retail price index.

Under IFRIC 12, the assets are treated as assets of the Trust; the substance of the contracts is that the Trust has a finance lease and the payments made comprise two elements – imputed finance lease charges and service charges. As well as provision of the infrastructure assets, the contract for the Blackburn PFI also includes facilities management provision both for the PFI asset and parts of the wider estate, and managed equipment services. The contract for the Burnley PFI scheme also includes facilities management but just for the PFI asset.

23.1 PFI - additional information

	2016-17	2015-16
Charges to operating expenditure and future commitments in respect of on SoFP PFI	**£000s**	£000s
Service element of on SoFP PFI charged to operating expenses in year	**6,396**	6,198
Total	**6,396**	6,198

Payments committed to in respect of the service element of on SoFP PFI		
No later than one year	**6,566**	6,392
Later than one year, no later than five years	**28,204**	27,398
Later than five years	**171,054**	178,426
Total	**205,824**	212,216

The estimated annual payments in future years are not expected to be materially different from those which the Trust is committed to make during the next year.

Imputed "finance lease" obligations for on SoFP PFI contracts due	**2016-17**	2015-16
	£000s	£000s
No later than one year	**7,900**	8,414
Later than one year, no later than five years	**29,680**	30,833
Later than five years	**141,973**	151,977
Subtotal	**179,553**	191,224
Less: interest element	**(67,914)**	(76,010)
Total	**111,639**	115,214

24. Impact of IFRS treatment

Revenue costs of IFRS: Arrangements reported on SoFP under IFRIC12	2016-17 £000s	2015-16 £000s
Depreciation charges	**2,651**	1,985
Interest expense	**4,840**	5,157
Impairment charge	**(2,455)**	(11,262)
Other expenditure	**11,865**	9,913
Impact on PDC dividend payable	**65**	(457)
Total IFRS expenditure (IFRIC12)	**16,966**	5,336
Revenue consequences of PFI schemes under UK GAAP	**(20,896)**	(20,619)
Net IFRS change (IFRIC12)	**(3,930)**	(15,283)

Capital Consequences of IFRS : PFI schemes	£000s	£000s
Capital expenditure	**3,264**	4,641
UK GAAP capital expenditure (residual interest)	**1,859**	1,795

25. Financial performance targets

25.1 Capital cost absorption rate

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

25.2 External financing

	2016-17 £000s	2015-16 £000s
External financing limit (EFL)	**5,162**	15,838
Cash flow financing	**5,008**	(7,527)
External financing requirement	**5,008**	(7,527)
Underspend against the EFL	**154**	23,365

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

25.3 Capital resource limit

	2016-17 £000s	2015-16 £000s
Capital resource limit (CRL)	**13,441**	16,938
Gross capital expenditure	**12,257**	15,870
Less: book value of assets disposed of	**(194)**	(158)
Less: donations towards the acquisition of non-current assets	**(214)**	(192)
Charge against the capital resource limit	**11,849**	15,520
Underspend against the capital resource limit	**1,592**	1,418

The Trust is given a capital resource limit which it is not permitted to exceed. The Trust has underspent against this limit as a result of slippage in a number of schemes which will be expended in 2017-18.

25.4 Breakeven performance

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Turnover	304,992	316,210	336,952	342,027	389,797	404,986	420,579	435,107	466,767	477,519
Retained surplus/(deficit) for the year	223	133	(45,779)	(9,381)	13,867	4,665	(458)	(3,631)	4,744	5,715
Adjustment for:										
Timing/non-cash impacting distortions:										
Adjustments for impairments	0	0	19,529	12,831	(7,096)	3,191	6,962	5,305	3,096	(2,689)
Adjustments for impact of policy change re donated assets	0	0	0	0	57	155	96	(332)	47	42
Consolidated Budgetary Guidance - Adjustment for dual accounting under IFRIC12*	0	0	26,537	(2,727)	(3,803)	0	0	0	0	0
Break-even in-year position	223	133	287	723	3,025	8,011	6,600	1,342	7,887	3,068
Break-even cumulative position	247	380	667	1,390	4,415	12,426	19,026	20,368	28,255	31,323

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

Due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009-10, NHS Trust's financial performance measurement needs to be aligned with the guidance issued by HM Treasury measuring departmental expenditure. Therefore, the incremental revenue expenditure resulting from the application of IFRS to IFRIC12 schemes (which would include PFI schemes), which has no cash impact and is not chargeable for overall budgeting purposes, is excluded when measuring breakeven performance. From 2012-13 onwards where the IFRIC12 costs (excluding impairments) are lower than under the UK GAAP treatment the gain is not excluded from the breakeven duty position. Where there is an additional cost under the IFRIC12 treatment the incremental revenue expenditure will be treated as a technical adjustment and added back to the reported breakeven position.

Other adjustments are made in respect of accounting policy changes (impairments and the removal of the donated asset reserves) to maintain comparability year to year.

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
	%	%	%	%	%	%	%	%	%	%
Break-even in-year position as a percentage of turnover	0.07	0.04	0.09	0.21	0.78	1.98	1.57	0.31	1.69	0.64
Break-even cumulative position as a percentage of turnover	0.08	0.12	0.20	0.41	1.13	3.07	4.52	4.68	6.05	6.56

The amounts in the above tables in respect of financial years 2007-08 to 2008-09 inclusive have not been restated to IFRS and remain on a UK GAAP basis.

26. Financial instruments

26.1 Financial risk management

Financial reporting standard IFRS7 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 Clinical Commissioning Groups (CCGs) and the way those CCGs 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. As an NHS Trust, 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.

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 Trust Board. Treasury activity is subject to review by the Trust's internal auditors.

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

Interest rate risk
The Trust borrows from government for capital expenditure, subject to affordability as confirmed by NHS Improvement. 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.

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

Liquidity risk

The Trust's operating costs are incurred under contracts with CCGs, 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.

26.2 Financial assets - loans and receivables

	2016-17	2015-16
	£000s	£000s
Receivables - NHS	**12,858**	10,996
Receivables - non-NHS	**1,310**	4,634
Cash and cash equivalents	**23,423**	32,165
Total at 31 March	**37,591**	47,795

26.3 Financial liabilities - other

	2016-17	2015-16
	£000s	£000s
NHS payables	**3,146**	3,042
Non-NHS payables	**23,521**	33,556
Other borrowings	**1,600**	1,800
PFI obligations	**111,639**	115,214
Total at 31 March	**139,906**	153,612

The fair value of financial instruments is not considered to differ from their carrying values.

27. Related party transactions

During the year none of the Trust board members or members of the key management staff, or parties related to any of them, has undertaken any material transactions with East Lancashire Hospitals NHS Trust.

The Department of Health is regarded as a related party. During the year East Lancashire 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. These entities, ordered alphabetically, are :

Blackburn With Darwen Clinical Commissioning Group
Blackpool Teaching Hospitals NHS Foundation Trust
Bolton Clinical Commissioning Group
Bury Clinical Commissioning Group
Calderdale Clinical Commissioning Group
Central Manchester University Hospital NHS Foundation Trust
Chorley And South Ribble Clinical Commissioning Group
Community Health Partnerships
Cumbria Clinical Commissioning Group
East Lancashire Clinical Commissioning Group
Fylde and Wyre Clinical Commissioning Group
Greater Preston Clinical Commissioning Group
Health Education England
Her Majesty's Revenue & Customs (HMRC)
Lancashire Care NHS Foundation Trust
Lancashire North Clinical Commissioning Group
Lancashire Teaching Hospitals NHS Foundation Trust
National Health Service Pension Scheme
National Loans Fund
NHS Blood & Transplant
NHS England
NHS Litigation Authority
NHS Property Services
Pennine Acute Hospitals NHS Trust
Salford Royal NHS Foundation Trust

In addition, the Trust has had a number of notable transactions with other government departments and other central and local government bodies. Most of these transactions have been with Lancashire County Council.

The Trust has also received revenue and capital payments from ELHT&ME, the charity for which the Trust is the corporate trustee. The latest set of audited accounts of the Funds Held on Trust relate to the year ended 31 March 2016 and are available on request from Trust Headquarters.

The Trust provides financial and administrative support to the Charity for which it is reimbursed. In 2016-17 this reimbursement amounted to £65,227 (2015-16 £52,200).

28. Events after the end of the reporting period

There are no material events after the end of the reporting period to disclose.