

# ANNUAL ACCOUNTS 2015/2016



## Independent auditors' report to the Council of Governors of City Hospitals Sunderland NHS Foundation Trust

### Report on the financial statements

#### Our opinion

In our opinion, City Hospitals Sunderland NHS Foundation Trust's financial statements (the "financial statements"):

- give a true and fair view of the state of the Trust's affairs as at 31 March 2016 and of its income and expenditure and cash flows for the year then ended 31 March 2016; and
- have been properly prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2015/16.

#### Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1.24 (Accounting Policies – Going Concern) to the financial statements concerning the Trust's ability to continue as a going concern.

The Trust is subject to ongoing Monitor enforcement action due to uncertain financial sustainability, and is forecasting a deficit of £2.2m and a cash outflow of £4.2m in 2016/17. The Trust expects to have sufficient cash for at least 12 months from the date of our report to meet its liabilities as they fall due, but this is contingent upon the achievement of a Cost Improvement Plan (CIP) target of £14.0m (of which £4.9m is yet to be identified) and receipt of additional Sustainability and Transformation Funding (STF) of £10.6m. This STF is contingent upon the achievement of a number of conditions. There is no certainty over the achievement of the 2016/17 CIP nor the conditions attached to the STF, either of which could have a significant adverse impact upon the financial performance and cash flows of the Trust in 2016/17. These matters indicate the existence of a material uncertainty which may cast significant doubt about the Trust's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Trust was unable to continue as a going concern.

#### What we have audited

##### The financial statements comprise:

- the Statement of Financial Position as at 31 March 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Cash Flows for the year then ended;
- the Statement of Changes in Taxpayers' Equity for the year then ended, and
- the notes to the accounts, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report & Accounts, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is the NHS Foundation Trust Annual Reporting Manual 2015/16 issued by the Independent Regulator of NHS Foundation Trusts ("Monitor").

#### Our audit approach

##### Context

Our 2016 audit was planned and executed having regard to the fact that the Trust's operations and financial stability were largely unchanged in nature from the previous year. In light of this, our approach to the audit in terms of scoping and areas of focus was largely unchanged.

##### Overview

- Overall materiality: £6,799,160 which represents 2% of total revenue.
- Our audit work covered the Trust's single entity financial statements only. The Trust has two subsidiary organisations (City Hospitals Sunderland NHS Foundation Trust Charitable Funds and City Hospitals Independent Commercial Enterprises Limited). However, group accounts are not prepared as the quantitative impact of consolidating the results of both subsidiaries is not material to the Foundation Trust.
- Management override of control and risk of fraud in revenue and expenditure recognition.
- Valuation of Property, Plant and Equipment.
- Financial sustainability of the Trust

### The scope of our audit and our areas of focus

We conducted our audit in accordance with the National Health Service Act 2006, the Code of Audit Practice and relevant guidance issued by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code") and, International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

<b>Area of focus</b>	<b>How our audit addressed the area of focus</b>
<p><b>Risk of fraud in revenue and expenditure recognition and management override of control</b></p> <p>See notes 1.3 to 1.5 to the financial statements for the directors' disclosures of the related accounting policies, judgements and estimates relating to the recognition of income and expenditure and notes 3-4 for further information.</p> <p>We focused on this area because there is a heightened risk due to:</p> <ul style="list-style-type: none"> <li>• The Trust being under increasing financial pressure: the deficit for the year before revaluation transactions was £12.5m (£9.1m after revaluation transactions) and, whilst the trust is looking at ways to maximise revenue and reduce cost, there is an incentive for management to manipulate the timing of recognition of both revenue and expenditure.</li> <li>• The inherent complexities in a number of contractual arrangements entered into by the Trust; and</li> <li>• The timing and complexity of the intra-NHS balance reconciliation process.</li> </ul> <p><b>Income</b></p> <p>The Trust's principal source of income is from Clinical Commissioning Groups ("CCGs"), accounting for 91% of income during the year. The most significant of these are with Sunderland CCG and Durham Dales, Easington and Sedgfield CCG (the "CCGs"). The contracts with the CCGs are renegotiated annually, with variations to the contract made for additional funding that becomes available throughout the year.</p>	<p><b>Journals</b></p> <p>We selected a sample journal transactions, focusing in particular, on those with a combination of the following characteristics:</p> <ul style="list-style-type: none"> <li>• Unusual account combinations;</li> <li>• Posted on non-working days and at unusual times;</li> <li>• Containing large round sum amounts;</li> <li>• Containing certain key words in the journal description that, in our experience, are more indicative of manipulation and</li> <li>• Postings in periods 12 and 13 that impact accruals /provisions and the Statement of Comprehensive Income.</li> </ul> <p>We traced these journal entries to supporting documentation (for example invoices, cash receipts and payments) and confirmed they were recognised in the correct accounting year.</p> <p><b>Management estimates</b></p> <p>We considered management estimates and did not identify any evidence of management bias, and the approach taken was consistent with the prior year.</p> <p><b>Income</b></p> <p>We reconciled the total income received from the CCGs to the signed contracts and traced significant contract variations received in year to correspondence from the CCGs. We traced all material invoices and a sample of immaterial invoices raised to cash receipt.</p>

### Area of focus

#### Expenditure

We focused our work on the elements of expenditure that are the most susceptible to manipulation, being operating expenses (excluding payroll costs), including non-standard journal transactions and transactions occurring around the period end to ensure these have been recorded in the correct period, considering specifically the date of service delivery to verify existence/occurrence in 2015/16.

As the Trust has reported favourable performance versus the Monitor Plan for 2015/16, we considered the risk that income could be deferred into 2016/17 and expenditure accelerated and recognised in 2015/16 in order to reduce the pressure on financial performance in future years.

### How our audit addressed the area of focus

#### Intra-NHS balances

We obtained the Trust's mismatch reports received from Monitor, which identified balances (debtor, creditor, income and expenditure balances) that were disputed by the counterparty. We investigated individual differences above a threshold of £250,000, discussed these with management and corroborated the reasons provided. We have considered the impact, if any, that the remaining disputed amounts would have on the Trust's financial statements and determined that there is no material impact.

#### Expenditure

Operating expenditure includes staff costs (60%), drugs costs (11%), and depreciation and impairment of property, plant and equipment (2%).

For a sample of transactions recognised during the year and around (both before and after) the year end, we confirmed that the expenditure had been recognised in line with the accounting policies and in the correct accounting period by agreeing the transactions, including the date of delivery of the goods or services, to the supporting invoice to ensure that the service/receipt of goods had occurred in the period in which the expense/liability was recorded.

We have performed a high level analytical review of payroll costs, as well as testing a sample of monthly payments from payroll records to bank clearance, tested the year end payroll reconciliation and a number of payroll controls to gain evidence over the standing data on the ESR system.

#### Valuation of land and buildings

See note 11.1 to the financial statements for the disclosure of the valuation of land and buildings.

We focused on this area because Property, Plant and Equipment ("PPE") represents the largest balance in the Trust's statement of financial position. PPE is valued at £216.1m of which £193.3m relates to land and buildings that have been subject to a revaluation in year.

Land and buildings are measured initially at cost and subsequently measured at fair value. The valuations are carried out by Cushman & Wakefield using the Modern Equivalent Asset Method of valuation, which involves a range of assumptions being used. Cushman & Wakefield is an external independent valuer of the trust who is a professionally qualified member of the Royal Institute of Chartered Surveyors. Valuations are required to be performed with sufficient regularity to ensure that the carrying value is not materially different from fair value at the reporting date.

We obtained directly from Cushman & Wakefield the output of the valuation undertaken. We have read the relevant sections of the full valuation performed and have used our valuations expert to confirm that the methodology and the assumptions used by the Trust's valuation experts were consistent with our expectations, based on our experience of similar valuations.

We confirmed the accuracy of the information provided by the Trust to the valuation expert by:

- By checking and finding that for a sample of the portfolio of properties included in the valuation was consistent with the Trust's fixed asset register, which we had audited; and
- verifying that the input data used by the valuer as the basis of the valuation was consistent with the underlying estates and property asset information held within the Trust's Estates Department.

**Area of focus**

A full revaluation of the Trust's portfolio of land and buildings was undertaken during 2015/16 by the Trust's valuation experts, resulting in an increase in the value of the Trust's estate of £10.4m.

**How our audit addressed the area of focus**

We tested a sample of assets covering both increases and decreases in valuation, by checking that adjustments had been correctly posted to the Fixed Asset Register and consequently, that the accounting treatment had been recorded appropriately in the Trust's financial statements.

Our testing did not identify any issues. We found:

- the valuation to have been based on appropriate and up to date floor space data;
- the estates and property asset information held on which the valuation was based to be accurate;
- the assumptions and methodology applied to be consistent with our expectations; and the output from the valuation to have been correctly recorded in the financial statements.

**Financial Sustainability of the Trust**

The NHS Foundation Trust Annual Reporting Manual 2015/16 requires that the financial statements should be prepared on the going concern basis unless management intends to apply to the Secretary of State for the dissolution of the NHS Foundation Trust without transfer of the services to another entity, or has no realistic alternative but to do so.

The Trust has reported a financial sustainability rating of 2 for FY16 and is subject to ongoing enforcement action by Monitor regarding financial governance and sustainability, first announced on 5 August 2015.

For the year ended 31 March 2016, the Trust reported:

- A year end deficit of £12.5m (£9.1m after revaluation transactions);
- Net current liabilities position of £4.1m and
- Total borrowings of £60.1m

The Trust has achieved its Cost Improvement Programme (CIP) target for 2015/16, delivering £13.9m of savings in comparison to a target of £13.0m, though the Trust continues to face financial risk through the uncertainty in the achievement of CIP and control total target in 2016/17.

Management informed us that no application for dissolution of the Trust existed. We evaluated and challenged the composition of the annual plan and the financial projections and the process by which they were drawn up.

We:

- Understood the Trust's 2015/16 financial performance, outturn against budget and upcoming financial risks through discussion with management and by reading and considering the content of the Trust's going concern report;
- Challenged the Trust's composition of the 2016/17 budget and cash flow forecast considering whether it is reasonable in comparison to achievement of 2015/16 and in previous reporting periods;
- Considered the Trust's CIP for 2016/17 to assess the measures adopted by the Trust to identify efficiencies, considering in particular whether savings in 2015/16 were recurrent and could therefore impact upon the achievement of additional future savings; and
- Challenged the Trust's ability to deliver against its 2016/17 plan and stress tested the impact of the timing of cash receipt and non-payment on the Trust's forecast.

**Area of focus**

The Trust's annual plan for 2016/17, which has been approved by the Board of Directors, sets out:

- Operating income of £353.3m;
- Deficit of £2.2m;
- CIP savings of £14.0m (of which £4.9m are yet to be identified);
- STF funding of £10.6m, which is contingent on performance conditions; and
- Financial sustainability risk rating of 2.

We considered the assumptions within the Trusts Annual Plan 2016/17 and consequences of the Trust's forecast financial performance, focussing on stress-testing assumptions for robustness and available headroom in the Trust's monthly cash forecast.

**How our audit addressed the area of focus**

We inspected the Trust's cash flow forecast, considered the monthly cash requirement, and performed sensitivity analysis to test the Trust's ability to meet its liabilities as they fall due.

Due to the extent of the financial challenge facing the Trust in 2016/17, particularly regarding the achievement of its planned CIP target and the 'control total' target agreed with Monitor which impacts receipts under the STF, there is material uncertainty which may cast significant doubt about the Trust's ability to continue as a going concern.

**How we tailored the audit scope**

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the trust, the accounting processes and controls, and the environment in which the trust operates.

In establishing our overall approach we assessed the risks of material misstatement, taking into account the nature, likelihood and potential magnitude of any misstatement. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements.

We performed all of our audit work at Trust's Children's Centre in Sunderland, where the finance team is based.

**Materiality**

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall materiality</b>	£6,799,160 (2015: £6,727,000)
<b>How we determined it</b>	2% of revenue (2015: 2% of revenue)
<b>Rationale for benchmark applied</b>	Consistent with last year, we have applied this benchmark, a generally accepted auditing practice, in the absence of indicators that an alternative benchmark would be appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (2015: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## Other reporting in accordance with the Code

### Opinions on other matters prescribed by the Code

#### In our opinion:

- the information given in the Performance Report and the Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2015/16; and
- the part of the Staff Report to be audited has been properly prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2015/16.

### Other matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- information in the Annual Report is: We have no exceptions to report.
  - materially inconsistent with the information in the audited financial statements; or
  - apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Trust acquired in the course of performing our audit; or
  - otherwise misleading.
- the statement given by the directors on page 132, in accordance with provision C.1.1 of the NHS Foundation Trust Code of Governance, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Trust's performance, business model and strategy is materially inconsistent with our knowledge of the trust acquired in the course of performing our audit. We have no exceptions to report.
- the section of the Annual Report on page 153, as required by provision C.3.9 of the NHS Foundation Trust Code of Governance, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. We have no exceptions to report.
- the Annual Governance Statement does not meet the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual 2015/16 or is misleading or inconsistent with information of which we are aware from our audit. We have not considered whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls. We have no exceptions to report.

We are also required to report to you if:

- we have referred a matter to Monitor under paragraph 6 of Schedule 10 to the NHS Act 2006 because we had reason to believe that the Trust, or a director or officer of the Trust, was about to make, or had made, a decision which involved or would involve the incurring of expenditure that was unlawful, or was about to take, or had taken a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency; or

We have no exceptions to report.

- we have issued a report in the public interest under paragraph 3 of Schedule 10 to the NHS Act 2006.

We have no exceptions to report.

### Arrangements for securing economy, efficiency and effectiveness in the use of resources and Quality Report

Under the Code we are required to report to you if we are not satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016. Except for the matter identified in the Emphasis of Matter – Going Concern paragraph in respect of unidentified CIP which suggests weaknesses in the arrangements for planning finances effectively, we have nothing to report as a result of this requirement.

Our responsibility is to audit and express an opinion on the financial statements in accordance with the National Health Service Act 2006, the Code, and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council of Governors of City Hospitals Sunderland NHS Foundation Trust as a body in accordance with paragraph 24 of Schedule 7 of the National Health Service Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Responsibilities for the financial statements and the audit

#### Our responsibilities and those of the directors

As explained more fully in the Statement of the Chief Executive's Responsibilities as the Accounting Officer of City Hospitals NHS Foundation Trust, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with the NHS Foundation Trust Annual Reporting Manual 2015/16.

**What an audit of financial statements involves**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the trust's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Responsibilities for securing economy, efficiency and effectiveness in the use of resources****Our responsibilities and those of the Trustees**

The Trust is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We are required under paragraph 1(d) of Schedule 10 to the NHS Act 2006 to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and to report to you 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 work in accordance with the Code, having regard to the criterion determined by the Comptroller and Auditor General as to whether the Trust has proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.

**Certificate**

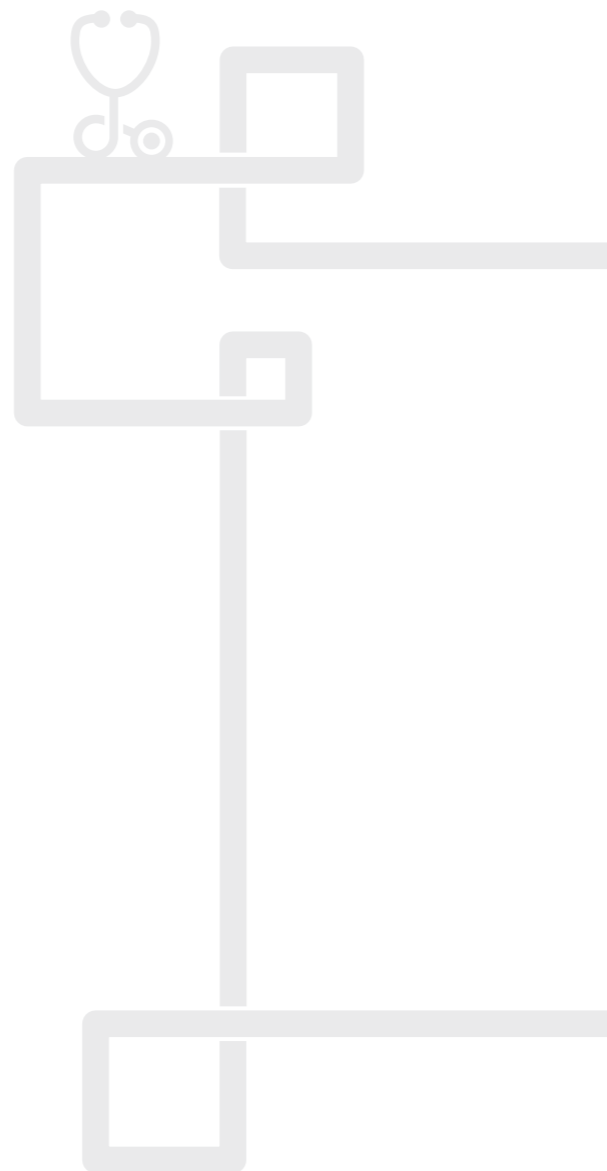
We certify that we have completed the audit of the financial statements in accordance with the requirements of Chapter 5 of Part 2 to the National Health Service Act 2006 and the Code.


**Greg Wilson**

(Senior Statutory Auditor) for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors Newcastle upon Tyne

**Date: 27 May 2016**

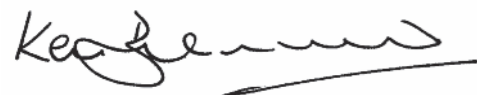
- (a) The maintenance and integrity of the City Hospitals Sunderland NHS Foundation Trust website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions..



## FOREWORD TO THE ACCOUNTS

City Hospitals Sunderland NHS Foundation Trust

These financial statements for the year ended 31 March 2016 have been prepared by City Hospitals Sunderland NHS Foundation Trust under Schedule 7 of the National Health Service Act 2006, paragraphs 24 and 25 and in accordance with directions given by Monitor, the sector regulator for health services in England.



K W Bremner  
Chief Executive

Date: 26 May 2016

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 March 2016

		2015/16	2015/16	2015/16	2014/15**
		Operating Position	Revaluation Losses & Reversal of Impairments	Total	Operating Position
	NOTE	£000	£000	£000	£000
Operating Income	2 – 3	339,958	3,405	343,363	336,374
Operating Expenses	4 – 7	(345,758)	(43)	(345,801)	(337,895)
<b>OPERATING (DEFICIT) / SURPLUS</b>		<b>(5,800)</b>	<b>3,362*</b>	<b>(2,438)</b>	(1,521)
<b>FINANCE COSTS</b>					
Finance income	8	91	0	91	74
Finance expenses – financial liabilities	9	(1,840)	0	(1,840)	(1,439)
Finance expenses – unwinding of discount on provisions	18	(14)	0	(14)	(20)
PDC Dividends payable	26	(4,937)	0	(4,937)	(4,990)
<b>NET FINANCE COSTS</b>		<b>(6,700)</b>	<b>0</b>	<b>(6,700)</b>	(6,375)
<b>(DEFICIT) / SURPLUS FOR THE YEAR</b>		<b>(12,500)</b>	<b>3,362</b>	<b>(9,138)</b>	(7,896)
Revaluation surpluses – property		0	7,008	7,008	0
<b>TOTAL COMPREHENSIVE (EXPENSE) / INCOME FOR THE YEAR</b>		<b>(12,500)</b>	<b>10,370</b>	<b>(2,130)</b>	(7,896)

\* see Accounting Policies Note 1.6

\*\* There were no adjustments in 2014/15 for Revaluations or Impairments



## STATEMENT OF FINANCIAL POSITION AS AT 31 March 2016

	NOTE	31 March 2016 £000	31 March 2015 £000
<b>Non-current assets</b>			
Intangible assets	10	5,464	4,777
Property, plant and equipment	11	216,058	199,180
Loan to Subsidiary	22.4	900	1,000
Trade and other receivables	12.1	918	840
<b>Total non-current assets</b>		<b>223,340</b>	205,797
<b>Current assets</b>			
Inventories	13.1	5,519	4,026
Trade and other receivables	12.1	10,771	11,889
Cash and cash equivalents	14	14,184	19,842
<b>Total current assets</b>		<b>30,474</b>	35,757
<b>Current liabilities</b>			
Trade and other payables	15	(28,912)	(27,149)
Borrowings	17	(3,768)	(3,139)
Provisions	18	(260)	(284)
Other liabilities	16	(1,556)	(1,600)
<b>Total current liabilities</b>		<b>(34,496)</b>	(32,172)
<b>Total assets less current liabilities</b>		<b>219,318</b>	209,382
<b>Non-current liabilities</b>			
Trade and other payables	15	(1,460)	(1,923)
Borrowings	17	(56,359)	(43,757)
Provisions	18	(869)	(942)
<b>Total non-current liabilities</b>		<b>(58,688)</b>	(46,622)
<b>Total assets employed</b>		<b>160,630</b>	162,760

## STATEMENT OF FINANCIAL POSITION AS AT 31 March 2016

	31 March 2016 £000	31 March 2015 £000
<b>Financed by taxpayers' equity</b>		
Public Dividend Capital	99,542	99,542
Revaluation reserve	75,083	68,075
Income and expenditure reserve	(13,995)	(4,857)
<b>Total taxpayers' equity</b>	<b>160,630</b>	162,760

The financial statements on pages 12 to 55 were approved by the Board on 26 May 2016 and signed on its behalf by:



**K W Bremner**  
Chief Executive

Date: 26 May 2016





## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	Total Taxpayers' Equity £000	Public Dividend Capital £000	Revaluation Reserve £000	Income and Expenditure Reserve £000
<b>Taxpayers' Equity at 1 April 2015</b>	<b>162,760</b>	<b>99,542</b>	<b>68,075</b>	<b>(4,857)</b>
<b>Changes in taxpayers' equity for 2015-16</b>				
Total Comprehensive Income / (Expense) for the year:				
Revaluations – property	7,008	0	7,008	0
Deficit for the year	(9,138)	0	0	(9,138)
<b>Taxpayers' Equity at 31 March 2016</b>	<b>160,630</b>	<b>99,542</b>	<b>75,083</b>	<b>(13,995)</b>
	Total Taxpayers' Equity £000	Public Dividend Capital £000	Revaluation Reserve £000	Income and Expenditure Reserve £000
Taxpayers' Equity at 1 April 2014	170,193	99,079	68,075	3,039
Changes in taxpayers' equity for 2014-15				
Public Dividend Capital Received	463	463	0	0
Total Comprehensive Expense for the year:				
Deficit for the year	(7,896)	0	0	(7,896)
<b>Taxpayers' Equity at 31 March 2015</b>	<b>162,760</b>	<b>99,542</b>	<b>68,075</b>	<b>(4,857)</b>

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 March 2016

	NOTE	2015/16 £000	2014/15 £000
<b>Cash flows from operating activities</b>			
Operating deficit from continuing operations		(2,438)	(1,521)
<b>Non-cash income and expense:</b>			
Depreciation and amortisation		7,956	8,249
Impairments		43	0
Reversal of Impairments		(3,405)	0
Loss on disposal		64	0
Non cash donations		(136)	(162)
Decrease in Trade and Other Receivables		1,040	2,320
Increase in Inventories		(1,493)	(618)
Increase in Trade and Other Payables		1,193	1,071
Decrease in Provisions		(111)	(242)
Other movements in operating cash flows		(66)	0
<b>Net cash generated from operating activities</b>		<b>2,647</b>	<b>9,097</b>
<b>Cash flows from investing activities</b>			
Interest received		91	74
Purchase of intangible assets		(1,440)	(571)
Purchase of property, plant and equipment		(13,768)	(11,023)
<b>Net cash used in investing activities</b>		<b>(15,117)</b>	<b>(11,520)</b>
<b>Net cash outflows before financing</b>		<b>(12,470)</b>	<b>(2,423)</b>
<b>Cash flows from financing activities</b>			
PDC received		0	463
Loans received		16,300	15,500
Loans repaid		(3,073)	(1,618)
Interest paid		(1,836)	(1,450)
Loan repaid / (paid) to subsidiary	22.4	100	(1,000)
PDC dividend paid		(4,679)	(4,887)
<b>Net cash generated from/(used) in financing activities</b>		<b>6,812</b>	<b>7,008</b>
<b>(Decrease) / Increase in cash and cash equivalents</b>		<b>(5,658)</b>	<b>4,585</b>
<b>Cash and cash equivalents at 1 April</b>	14	<b>19,842</b>	15,257
<b>Cash and cash equivalents at 31 March</b>	14	<b>14,184</b>	19,842

## NOTES TO THE ACCOUNTS

### 1. Accounting Policies

Monitor has directed that the annual report and accounts of NHS foundation trusts shall meet the accounting requirements of the NHS Foundation Trust Annual Reporting Manual 2015/16 (FT ARM) which shall be agreed with HM Treasury. The accounting policies contained in that manual follow International Financial Reporting Standards (IFRS) and HM Treasury's Financial Reporting Manual (FRm) to the extent that they are meaningful and appropriate to NHS foundation trusts. The accounting policies have been applied consistently in dealing with items considered material in relation to the accounts. These accounts have been prepared on a going concern basis and under the historical cost convention, modified to account for the revaluation of property, plant and equipment, and inventories.

#### 1.1 Estimation Techniques

These are methods adopted by the Foundation Trust to arrive at monetary amounts, corresponding to the measurement basis selected for assets, liabilities, gains, losses and charges to the Reserves. Where the basis of measurement for the amount to be recognised under accounting policies is uncertain, an estimation technique is applied.

In the application of the Foundation 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.

#### 1.2 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 Foundation Trust's accounting policies and that have the most significant effect on the amounts recognised in the annual report and accounts.

The day to day operations of the Foundation Trust are funded from agreed fixed term contracts with Clinical Commissioning Groups (CCGs). These payments provide a reliable stream of funding minimising the Foundation Trust's exposure to liquidity and financing problems. The Foundation Trust's budgets and expenditure plans

are based on the agreed level of commissioned service and indicate that it has sufficient resource to meet ongoing commitments.

Trade receivables mainly arise from transactions with CCGs under contractual terms that require settlement of the obligation within a time frame established by the Department of Health.

#### 1.3 Income

Income is accounted for applying the accruals convention. The main source of income for the Foundation Trust is under contracts from commissioners in respect of healthcare services. Income is recognised in the period in which services are provided. Where income is received for a specific activity which is to be delivered in the following financial year, that income is deferred.

The Foundation Trust contracts with NHS commissioners on a Payment by Results basis and follows pertinent guidance published by NHS England and Monitor for example in setting local tariffs or agreeing risk shares.

The Foundation Trust records and accounts for Clinical Work in Progress. Clinical Work in Progress represents partially completed spells of patient treatment that remain un-invoiced at the end of the financial year. The value of Clinical Work in Progress for 2015/16 amounted to £2,339k compared to £1,898k in 2014/15.

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

The Foundation 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 Foundation 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 treatment provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts.

#### 1.4 Expenditure on Employee Benefits

##### Short-term Employee Benefits

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

#### Pension costs

##### NHS Pension Scheme

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

In order that the defined benefit obligations recognised in the accounts do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FRm 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 the scheme liability is carried out annually by the scheme actuary 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 2016, is based on valuation data as 31 March 2015, updated to 31 March 2016 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FRm 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 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 last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012.

Estimated employer contributions for 2016/17 based upon the existing contribution rate of 14% is £20,189k.

##### c) Scheme provisions

The NHS Pension Scheme provides defined benefits, which are summarised below. This list is an illustrative guide only, and is not intended to detail all the benefits provided by the Scheme or the specific conditions that must be met before these benefits can be obtained.

The Scheme is a 'final salary' scheme. Annual pensions are normally based on 1/80th for the 1995 section and of the best of the last three year pensionable pay for each year of service, and 1/60th for the 2008 section of reckonable pay per year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

##### 1.5 Expenditure on other goods and services

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



## 1.6 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 Foundation Trust;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably;
- individually they have a cost of at least £5,000; or
- they form a group of assets which individually have a cost of more than £250, collectively have a cost of at least £5,000, 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
- they form part of the initial setting-up cost of a new building or refurbishment of a ward or unit, irrespective of their individual or collective cost.

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

### Measurement

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. All assets are measured subsequently at historic cost.

All land and buildings are restated to current value using professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual. Valuations are carried out every 5 years with an interim review every 3 years. These valuations may be carried out annually where economic conditions cause fluctuations in building cost indices. Discussions with Cushman & Wakefield (formerly DTZ), an appropriately qualified member RICS, highlighted that since the last Interim Valuation undertaken in March 2014, there had been a material increase in property market indices (an estimated 10.1% increase from 2014). A full review of the Trust's property applying the Modern Equivalent Valuation methodology was undertaken during February and March 2016 and this revealed a net increase in property

valuation of £10.436m. which gave rise to (i) a revaluation loss charge against expenditure of £43k relating to property that no longer had a positive Revaluation Reserve balance (ii) an impairment gain of £3.405m relating to assets with a positive revaluation but where these assets had previously been recognised as impaired in the Statement of Comprehensive Income and (iii) an increase of £7.008m against the Revaluation Reserve relating to assets with a positive revaluation. In addition to these movements, Donated Property values have also increased by £66k resulting in an increase in income reflected in the Statement of Comprehensive Income.

Land and buildings used for the Foundation Trust's services or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations 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. Fair values are determined as follows:

- Land and non-specialised buildings – market value for existing use
- Specialised buildings – depreciated replacement cost

Assets in the course of construction are valued at cost and are valued by professional valuers as part of the 5 or 3 yearly valuation or when they are brought into use.

Plant and equipment is valued at net current replacement cost. Equipment surplus to requirements is valued at net recoverable amount.

### 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.

### Depreciation

Items of Property, Plant and Equipment are depreciated on a straight line basis over their remaining useful economic lives. No depreciation is provided on freehold land. Property, Plant and Equipment which has been reclassified as 'Held for Sale' ceases to be depreciated upon the reclassification. Assets in the course of construction are not depreciated until the asset is brought into use or reverts to the Foundation Trust.

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

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. 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 economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

### Donated assets

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



## 1.7 Intangible assets

### Recognition

Intangible assets are non-monetary assets without physical substance which are capable of being sold separately from the rest of the Foundation 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 Foundation 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 only where all of the following can be demonstrated:

- the project is technically feasible to the point of completion and will result in an intangible asset for sale or use;
- the Foundation Trust intends to complete the asset and sell or use it;
- the Foundation 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 NHS Foundation Trust to complete the development and sell or use the asset; and
- the Foundation 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.

Purchased computer software licences are capitalised as intangible fixed assets where expenditure of at least £5,000 is incurred and amortised over the shorter of the terms of the licences and their useful economic lives.

### 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 historic cost. Revaluations gains and losses and impairments are treated in the same manner as for Property, Plant and Equipment. 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 economic lives in a manner consistent with the consumption of economic or service delivery benefits.

## 1.8 Inventories

Inventories are valued at the lower of cost and net realisable value. Pharmacy Stocks are valued at weighted average cost, all other stocks are valued on a 'First In First Out' basis.

## 1.9 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.

## 1.10 Financial instruments and financial liabilities

### Recognition

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

### De-recognition

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

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

### Classification and Measurement

Financial assets are categorised as 'Loans and receivables'. Financial liabilities are classified as 'Financial liabilities at amortised cost'.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets. The Foundation Trust's loans and receivables comprise: current investments, cash and cash equivalents, NHS receivables, accrued income and 'other receivables'. Loans and receivables are recognised initially at fair value, net of transactions costs, and are measured subsequently at amortised cost, using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset. Interest on loans and receivables is calculated using the effective interest method and credited to the Statement of Comprehensive Income.

### Financial liabilities at amortised cost

All financial liabilities at amortised cost are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability. They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities. Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to Finance Costs. Interest on financial liabilities taken out to finance property, plant and equipment or intangible assets is not capitalised as part of the cost of those assets.

### Impairment of financial assets

At the Statement of Financial Position date, the Foundation Trust assesses whether any financial assets impaired. Financial assets are impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cashflows of the asset.

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

## 1.11 Leases

### Operating leases

Leases are regarded as operating leases and the rentals are charged to operating expenses on a straight-line basis over the term of the lease. Operating lease incentives received are added to the lease rentals and charged to operating expenses over the life of the lease.

### 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.

## 1.12 Provisions

The Foundation Trust provides for legal or constructive obligations that are of uncertain timing or amount at the Statement of Financial Position date on the basis of the best estimate of the expenditure required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate of 2.2% in real terms, except for early retirement provisions and injury benefit provisions which both use the HM Treasury's pension discount rate of 1.30% in real terms.

### Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the Foundation Trust pays an annual contribution to the NHSLA, which, in return, settles all clinical negligence claims. The NHSLA is financially responsible for all clinical negligence cases and the liability for all potential and outstanding claims is provided in their Accounts. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Foundation Trust is disclosed at Note 18 but is not recognised in the Foundation Trust's accounts.

### Non-clinical risk pooling

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

### 1.13 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 Foundation Trust's control) are not recognised as assets, but are disclosed in Note 21 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in Note 21, 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 Foundation Trust'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.

### 1.14 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 trust. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

An annual charge, reflecting the cost of capital utilised by the Foundation 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 Foundation 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) average daily cash balances held with the Government Banking Services (GBS), excluding cash balances held in GBS accounts that relate to a short-term working capital facility, and (ii) donated assets (including lottery funded assets), and (iii) any PDC dividend balance receivable or payable. In accordance with the requirements laid down by the Department of Health (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets

as set out in the "pre-audit" version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result of the audit of the annual accounts.

### 1.15 Value Added Tax

Most of the activities of the Foundation 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.

### 1.16 Corporation Tax

Under Section 148 of the Finance Act 2004, which amended Section 519A of the Income and Corporation Taxes Act 1988, income generated from Commercial (non-core) activities of Foundation Trusts are subject to Corporation Tax.

The Commercial Trading Accounts of the Foundation Trust have been reviewed to ascertain whether a Tax liability exists, using the following criteria: -

- There is no liability where an activity falls within Section 14(i) of the Health and Social Care Act 2003 i.e. they relate to the provision of core healthcare.
- There is a liability where the activity is entrepreneurial and in direct competition with the private sector.

Liability exists where profits exceed £50,000 per annum on any activity. There was no tax liability in 2015/16 matching to commercial activity of the Foundation Trust.

### 1.17 Foreign exchange

The functional and presentational currencies of the Foundation Trust are 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 Foundation Trust has assets or liabilities denominated in a foreign currency at the Statement of Financial Position date:

- monetary items (other than financial instruments measured at 'fair value through income and expenditure') 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 expenditure 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.

### 1.18 Third party assets

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the Foundation Trust has no beneficial interest in them. However, they are disclosed separately in Note 24 to the accounts in accordance with the requirements of HM Treasury's Financial Reporting Manual.

### 1.19 Losses and Special Payments

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally should not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled. Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had NHS trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure). However, Note 27 on losses and special payments is compiled directly from the losses and compensations register which reports amounts on an accruals basis with the exception of provisions for future losses.

### 1.20 Recent standards issued but not yet adopted in the NHS

IFRS (IASB)	IASB Issued	Financial year when the change first applies
IFRS 11 (amendment) – acquisition of an interest in a joint operation	May 2014	Not yet EU adopted. Expected to be effective from 2016/17.
IAS 16 (amendment) and IAS 38 (amendment) – depreciation and amortisation	May 2014	Not yet EU adopted. Expected to be effective from 2016/17
IAS 16 (amendment) and IAS 41 (amendment) – bearer plants	June 2014	Not yet EU adopted. Expected to be effective from 2016/17.
IAS 27 (amendment) – equity method in separate financial statements	August 2014	Not yet EU adopted. Expected to be effective from 2016/17.
IFRS 10 (amendment) and IAS 28 (amendment) – sale or contribution of assets	September 2014	Not yet EU adopted. Expected to be effective from 2016/17.
IFRS 10 (amendment) and IAS 28 (amendment) – investment entities applying the consolidation exception	December 2014	Not yet EU adopted. Expected to be effective from 2016/17.
IAS 1 (amendment) – disclosure initiative	December 2014	Not yet EU adopted. Expected to be effective from 2016/17.
IFRS 15 revenue from contracts with customers	May 2014	Not yet EU adopted. Expected to be effective from 2017/18.
Annual improvement to IFRS: 2012-15 cycle	September 2014	Not yet EU adopted. Expected to be effective from 2017/18.
IFRS 9 Financial Instruments	July 2014	Not yet EU adopted. Expected to be effective from 2018/19.

### 1.21 Consolidation of Charitable Funds and Subsidiary Companies

It is the Foundation Trust's policy that non-material Charitable Funds and subsidiary companies are not consolidated within the main Foundation Trust accounts. During 2015/16 the Foundation Trust subsidiary company, CHOICE Limited, operated the Outpatient Pharmacy at Sunderland Royal Hospital and Sunderland Eye Infirmary. The trading value of the subsidiary for the financial year is not considered to be material in comparison to the Total Assets Employed by the Trust (£161m), the main transactions between the Trust and CHOICE Ltd are shown in Note 22.4. The estimated Charitable Fund value at 31 March 2016 (£3.6m) is not considered to be material in comparison to the Total Assets Employed by the Trust (£163m).

City Hospitals Sunderland NHS Foundation Trust is the Corporate Trustee of the Charitable Funds. The Board of Directors oversee the Trustee function. The City Hospitals Sunderland NHS Foundation Trust Charitable Funds are registered with the Charity Commission (registered number 1052366) and include funds in respect of services at the Sunderland Royal Hospital, Sunderland Eye Infirmary as well as some services located at the Children's Centre, Monkwearmouth Hospital and Ryhope General Hospital. As at the 31 March 2015, the value of the funds was £3,464k. This represented a net increase of £247k on the 31st March 2014 value of £3,217k. The increase in value was due to a £89k net increase in gains on investments in addition to a net excess of income over expenditure of £158k. As at 31 March 2016 the value of the funds is estimated as £3,566k. This represents an estimated net increase in value of £102k.

### 1.23 Segmental Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors who make strategic decisions.

### 1.24 Going Concern

Management have reviewed the financial sustainability of the Trust due to the scale of the financial challenges to face over the 12 month period from 27 May 2016. This review specifically relates to the extent to which the Trust's forecast 2016/17 financial performance and cash flows are dependent upon achievement of the Cost Improvement Plan (CIP) target of £14m and the receipt of Sustainability and Transformation Fund (STF) income of £10.6m, which is contingent upon the achievement of a number of conditions and is received in arrears. The Trust forecasts a £2.2m deficit and a £4.2m cash outflow in 2016/17.

There is no certainty over the achievement of the CIP nor the receipt of the STF, both of which could have a significant adverse impact upon the financial performance and cashflows of the Trust, and these matters indicate a material uncertainty which may cast significant doubt about the Trust's ability to continue as a going concern.

However, the Trust's forecasts indicate that it will be able to operate within its available cash resources for the foreseeable future not less than twelve months from 27 May 2016, and the Trust continues to adopt the going concern basis in preparing the annual accounts and annual report.

## 2. Segmental Analysis

The Foundation Trust operates within a single reportable segment i.e. healthcare. This primarily covers the provision of a wide range of healthcare related services to the community of the City of Sunderland and additionally, the provision of an increasing range of more specialised services to patients outside of the area.

The Board of Directors act as the Chief Operating Decision Maker for the Foundation Trust and the monthly financial position of the Foundation Trust is presented/reported to them as a single segment.

	2015/16 Healthcare £000	2014/15 Healthcare £000
<b>Income</b>		
Income from activities	313,278	311,442
Other operating income	26,680	24,932
<b>Total Income</b>	<b>339,958</b>	<b>336,374</b>
<b>Deficit by segment</b>		
Operating Deficit as reported to the Board of Directors	(12,500)	(7,896)
<b>Deficit per Statement of Comprehensive Income</b>	<b>(12,500)</b>	<b>(7,896)</b>
Segment net assets	<b>160,630</b>	162,760

The majority of the Foundation Trust's total operating income is received from NHS England and CCGs. Of the £343,363k total operating income reported in 2015/16, an amount of £310,225k (90%) was attributable to NHS England and CCGs (£308,208k (92%) 2014/15).

The financial position reported to the General Purposes Committee on the 28th April 2016 was £(12,500)k, reflecting the deficit reported in the Statement of Comprehensive Income.

Customers generating more than 10% of the Foundation Trust's income for both 2015/16 and 2014/15 were as follows:

	2015/16 £000	2014/15 £000
NHS Sunderland CCG	183,300	188,264
NHS England	42,424	41,214
NHS Durham Dales, Easington and Sedgfield CCG	36,114*	0

\* Less than 10% in 2014/15

Income generated by external customers by country were:-

	2015/16 £000	2014/15 £000
Scotland	0	5
Wales	0	3

### 3. Operating income

#### 3.1 Income from activities by classification

	2015/16 £000	2014/15 £000
Elective income	75,106	78,149
Non elective income	71,006	71,152
Outpatient income	50,613	49,033
A & E income	14,309	10,364
Other income from activities	101,221	101,879
<b>Total income from protected services activities*</b>	<b>312,255</b>	<b>310,577</b>
NHS Injury Benefit Scheme***	621	583
Private patient income	402	282
<b>Total income from activities</b>	<b>313,278</b>	<b>311,442</b>
Research and Development	1,652	1,656
Education and training**	10,429	10,717
Charitable and other contributions to expenditure	136	162
Non-patient care services to other bodies	494	618
Other income	13,969	11,779
<b>Total other operating income</b>	<b>26,680</b>	<b>24,932</b>
<b>Total operating income before reversal of impairments</b>	<b>339,958</b>	<b>336,374</b>
Reversal of impairments of property	3,405	0
<b>Total operating income after reversal of impairments</b>	<b>343,363</b>	<b>336,374</b>

\*The Terms of Authorisation set out the mandatory goods and services that the Foundation Trust is required to provide (protected services).

\*\*The Terms of Authorisation set out the mandatory education and training that the Foundation Trust is required to provide (protected education and training). All of the income from education and training shown above is derived from the provision of protected education and training. All other categories of operating income are un-protected.

#### 3.2 Income from activities by source

	2015/16 £000	2014/15 £000
NHS:		
Commissioner requested services		
– CCGs	309,794	307,919
Non Commissioner requested services		
– Local Authorities	2,411	2,656
– NHS Trusts	50	2
	<b>312,255</b>	<b>310,577</b>
Non NHS:		
– NHS Injury Benefit Scheme ***	621	583
– Private Patients	402	282
<b>Total income from activities</b>	<b>313,278</b>	<b>311,442</b>

\*\*\* Injury cost recovery income is subject to a provision for impairment of receivables of 21.99% (2014/15: 18.9%) to reflect expected rates of collection.

#### 3.2 Income from activities by source (continued)

The main components of 'Other Income' within note 3.1 include:

	2015/16 £000	Restated 2014/15 £000
Consultant work offsite	2,080	1,294
SLAs with other Trusts	1,913	2,031
Car parking	1,845	1,484
NHSLA funding re: Sign up for safety	775	0
SLA with subsidiary company	631	483
Matrix recharges	443	0
Vanguard Funding from Sunderland CCG for 15-16	380	0
Catering income	379	368
Clinical Excellence Awards	354	519
Mortuary	256	276
Offender Health funding	254	0
Rental of hospital premises	227	331
Trauma Network funding	220	0
Additional teaching/research related income	155	0
MRI Van	0	350
Premises lease income from Sunderland CCG	0	350
Prescription Pricing Authority	0	32
	<b>9,912</b>	<b>7,518</b>
Other	<b>4,057</b>	<b>4,261</b>
	<b>13,969</b>	<b>11,779</b>

#### 3.3 Income generation activities

The Foundation Trust undertakes a number of income generation activities with the aim of achieving profit which is then used in patient care.

#### 4. Operating expenses

##### 4.1/1 Operating expenses comprise:

	2015/16 £000	2014/15 £000
Services from NHS Foundation Trusts	13,374	14,539
Services from NHS Trusts	22	52
Services from CCGs and NHS England	0	24
Services from other NHS Bodies	849	676
Purchase of healthcare from non NHS Bodies	4,519	3,221
Employee Expenses – Executive directors	1,324	1,217
Employee Expenses – Non-executive directors	148	141
Employee Expenses – Staff	205,896	205,114
Employee Expenses – Internal Audit and LCFS	313	344
Drug Costs	37,719	34,063
Supplies and services – clinical	34,917	34,338
Supplies and services – general	8,899	8,328
Establishment	2,807	3,189
Transport	338	403
Premises	12,450	12,634
Increase in bad debt provision	18	303
Depreciation of property, plant and equipment	7,065	7,154
Amortisation of intangible assets	891	1,095
Impairment of property	43	0
Loss on disposal of property, plant and equipment	64	0
Internal Audit and LCFS	12	12
Audit fees		
Audit services – statutory audit	53	53
Other auditors remuneration		
Assurance services	13	13
Clinical negligence – insurance premium	11,781	8,678
Other expenditure	2,286	2,304
	<b>345,801</b>	<b>337,895</b>

The main components of 'Other Expenditure' include:

	2015/16 £000	2014/15 £000
Training, courses and conferences	713	605
Legal fees	221	462
Consultancy fees	876	545
Insurance	290	219
Other	186	473
	<b>2,286</b>	<b>2,304</b>

##### 4.1/2 Limitation of auditors liability

On 31st March 2016, the Foundation Trust approved the principal terms of engagement with its auditor's, PricewaterhouseCoopers LLP, covering the period of PricewaterhouseCoopers LLP engagement as auditors. The terms include a limitation on their liability to pay damages for losses arising as a direct result of breach of contract or negligence, of £1m (2014/15: £1m).

#### 4.2 Operating leases – as a lessee

##### 4.2/1 Analysis of operating lease expenditure

	2015/16 £000	2014/15 £000
Land and buildings	573	647
Hire of plant and machinery	3,042	2,733
Total Minimum Lease Payments	<b>3,615</b>	<b>3,380</b>

The lease arrangement with Sunderland University for the rental of Clanny House ceased on the 30th September 2015.

Hire of plant and machinery includes:

Staff leased vehicles:

Staff vehicles are leased for a minimum period of 3 years with an option to extend if required. Vehicles returned to the lessor prior to the end of the 3 year lease are subject to an early termination penalty, which is borne by the employee. All leased vehicles are subject to an annual prepayment and an amount of £528k is included above (£769k 2014/15).

##### 4.2/2 Arrangements containing an operating lease

	2015/16 £000	2014/15 £000
Future minimum lease payments due:		
– Within 1 year	1,379	2,113
– Between 1 and 5 years	2,209	2,652
	<b>3,588</b>	<b>4,765</b>

#### 4.3 Operating leases – as a lessor

The Foundation Trust receives rental income from a number of agreements in relation to the leasing of accommodation to staff.

	2015/16 £000	2014/15 £000
Rental income		
– Within 1 year	167	331
Total rental income	<b>167</b>	<b>331</b>

The tenancy agreements in respect of staff accommodation are all less than 6 months in duration.





## 5. Employee expenses and numbers

### 5.1 Employee expenses (including Executive Directors' costs)

	2015/16 Total	Permanently Employed	Other	2014/15 Total	Permanently Employed	Other
	£000	£000	£000	£000	£000	£000
Salaries and wages	168,247	159,641	8,606	166,573	158,528	8,045
Social Security Costs	13,143	11,955	1,188	13,191	12,081	1,110
Pension costs – defined contribution plans employers contributions to NHS Pensions	19,989	18,784	1,205	19,422	18,296	1,126
Other pension costs	32	0	32	28	0	28
Agency/contract staff	6,308	0	6,308	7,724	0	7,724
Employee benefits expense	207,719	190,380	17,339	206,938	188,905	18,033
Amounts included within above charged to capital schemes	186			263		

Total pension costs with respect to the 5 Directors in 2015/16 amounted to £138k (2014/15: 5 Directors - £123k).  
The banded remuneration of the highest paid Director in the Foundation Trust in the financial year 2015/16 was £220k to £225k (2014/15: £220k to £225k).

Further details in respect of Directors' emoluments can be found within the Remuneration Report which forms part of the Annual Report.

### 5.2 Monthly average number of persons employed (The figures shown represent the Whole Time Equivalent (WTE) as opposed to the number of employees)

	2015/16 Total	Permanently Employed	Other	2014/15 Total	Permanently Employed	Other
	WTE Number	WTE Number	WTE Number	WTE Number	WTE Number	WTE Number
Medical and dental	552	412	140	549	407	142
Administration and estates	1,200	1,200	0	1,249	1,249	0
Healthcare assistants and other support staff	861	861	0	862	862	0
Nursing, midwifery and health visiting staff	1,507	1,507	0	1,518	1,518	0
Scientific, therapeutic and technical staff	564	564	0	554	554	0
Bank and agency staff	105	0	105	83	0	83
Total	4,789	4,544	245	4,815	4,590	225

### 5.3 Employee benefits

There were no employee benefits authorised during 2015/16 (2014/15 £nil).

### 5.4 Retirements due to ill-health

During 2015/16 (prior year 2014/15) there were 3 (4) early retirements from the Foundation Trust agreed on the grounds of ill-health. The estimated additional pension liabilities of these ill-health retirements will be £165,867 (2014/15 £177,721). Their cost will be borne by the NHS Pensions Agency.

## 5. Employee expenses and numbers (continued)

### 5.5a: Exit Packages

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Packages by Cost Band	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
<£10,000	0	0	20	11	20	11
£10,000 – £25,000	0	0	0	4	0	4
£25,001 – £50,000	0	0	0	1	0	1
<b>Total Number of Exit Packages by Type</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>16</b>	<b>20</b>	<b>16</b>
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Total Resource Cost</b>	<b>0</b>	<b>0</b>	<b>44</b>	<b>148</b>	<b>44</b>	<b>148</b>

### Note 5.5b: Exit Packages: Non-compulsory Departure Payments

	Agreements		Total Value of Agreements	
	2015/16 Number	2014/15 Number	2015/16 £'000	2014/15 £'000
Contractual payments in lieu of notice	20	14	44	102
Non-contractual payments requiring HM Treasury approval*	0	2	0	46
<b>Total</b>	<b>20</b>	<b>16</b>	<b>44</b>	<b>148</b>

Of which:

non-contractual payments requiring HM Treasury approval made to individuals where the payment value was more than 12 months of their annual salary

	0	0	0	0
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As a single exit package can be made up of several components, each of which will be counted separately in this note, the total number above will not necessarily match the total numbers in Note 5.5a which will be the number of individuals.

The Remuneration Report provides the detail of any exit payments payable to the individuals named in that report.

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

	2015/16 £000	2014/15 £000
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	0	0
Compensation paid to cover debt recovery costs under this legislation	0	0

**7. Loss on disposal of property, plant and equipment**

Loss on the disposal of property, plant and equipment is made up as follows:

	2015/16 £000	2014/15 £000
Loss on disposal of other property, plant and equipment	64	0
	<u>64</u>	<u>0</u>

**8. Finance income**

	2015/16 £000	2014/15 £000
Interest received from short term deposits	51	60
Interest received on commercial bank accounts	15	14
Loan interest received from subsidiary	25	0
	<u>91</u>	<u>74</u>

**9. Finance expenses – financial liabilities**

Interest on Loans from the Foundation Trust Financing Facility:

	2015/16 £000	2014/15 £000
Tranche A	130	147
Tranche B	13	15
Tranches C-E	933	979
Tranches F-G	181	136
Tranches H-J	487	162
Tranches K-L	21	0
Tranches M-N	75	0
	<u>1,840</u>	<u>1,439</u>

Tranches A&B – Day case theatres and new Mortuary  
Tranches C-E – C Block extension  
Tranches F-G – Multi Storey Car Park  
Tranches H-J – Emergency Department rebuild  
Tranches K-L – Endoscopy Scheme - refurbishment  
Tranches M-N – ABP Pathology Integration

Further detail in respect of loans can be found at Note 17.2.

**10. Intangible assets****10.1 Intangible assets**

	Software licences £000
Cost at 1 April 2015	10,160
Additions purchased	1,578
<b>Cost at 31 March 2016</b>	<b><u>11,738</u></b>

Accumulated amortisation at 1 April 2015	5,383
Provided during the year	891
<b>Accumulated amortisation at 31 March 2016</b>	<b><u>6,274</u></b>

**Net book value**

– Purchased at 1 April 2015	4,777
– Donated at 1 April 2015	0
<b>– Total at 1 April 2015</b>	<b><u>4,777</u></b>

– Purchased at 31 March 2016	5,464
– Donated at 31 March 2016	0
<b>– Total at 31 March 2016</b>	<b><u>5,464</u></b>

	Software licences £000
Cost at 1 April 2014	9,604
Additions purchased	556
<b>Cost at 31 March 2015</b>	<b><u>10,160</u></b>

Accumulated amortisation at 1 April 2014	4,288
Provided during the year	1,095
<b>Accumulated amortisation at 31 March 2015</b>	<b><u>5,383</u></b>

Net book value	
– Purchased at 1 April 2014	5,316
– Donated at 1 April 2014	0
<b>– Total at 1 April 2014</b>	<b><u>5,316</u></b>

– Purchased at 31 March 2015	4,777
– Donated at 31 March 2015	0
<b>– Total at 31 March 2015</b>	<b><u>4,777</u></b>

**10.2 Economic life of intangible assets**

	Min life Years	Max life Years
<b>Intangible assets – purchased</b>		
Software licences	1	5

## 11. Property, plant and equipment

## 11.1 Property, plant and equipment comprise the following elements:

	Total £000	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construction & payments on account £000	Plant & Machinery £000	Transport Equipment £000	Information Technology £000	Furniture & fittings £000
<b>2015/16</b>									
Cost or valuation at 1 April 2015	258,376	10,871	173,514	1,375	4,372	47,643	454	18,296	1,851
Additions purchased	13,435	0	0	0	13,435	0	0	0	0
Additions donated*	136	0	9	0	0	127	0	0	0
Reclassifications	0	(26)	5,461	32	(6,782)	821	0	495	(1)
Revaluations	2,221	(4,203)	6,354	4	0	66	0	0	0
Disposals	(1,054)	0	0	(65)	0	(211)	0	(778)	0
<b>At 31 March 2016</b>	<b>273,114</b>	<b>6,642</b>	<b>185,338</b>	<b>1,346</b>	<b>11,025</b>	<b>48,446</b>	<b>454</b>	<b>18,013</b>	<b>1,850</b>
Accumulated depreciation at 1 April 2015	59,196	0	3,996	23	0	38,906	377	14,149	1,745
Provided during the year	7,065	0	4,174	23	0	1,704	24	1,116	24
Impairments charged to operating expenses	43	0	43	0	0	0	0	0	0
Reversal of impairments credited to operating income	(3,405)	0	(3,405)	0	0	0	0	0	0
Revaluations	(4,853)	0	(4,808)	(45)	0	0	0	0	0
Disposals	(990)	0	0	(1)	0	(211)	0	(778)	0
<b>Accumulated depreciation at 31 March 2016</b>	<b>57,056</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>40,399</b>	<b>401</b>	<b>14,487</b>	<b>1,769</b>
<b>Net book value</b>									
– Purchased at 1 April 2015	198,060	10,871	168,873	1,352	4,372	8,283	77	4,126	106
– Donated at 1 April 2015	1,120	0	645	0	0	454	0	21	0
<b>Total at 1 April 2015</b>	<b>199,180</b>	<b>10,871</b>	<b>169,518</b>	<b>1,352</b>	<b>4,372</b>	<b>8,737</b>	<b>77</b>	<b>4,147</b>	<b>106</b>
– Purchased at 31 March 2016	214,938	6,642	184,633	1,346	11,025	7,647	53	3,511	81
– Donated at 31 March 2016	1,120	0	705	0	0	400	0	15	0
<b>Total at 31 March 2016</b>	<b>216,058</b>	<b>6,642</b>	<b>185,338</b>	<b>1,346</b>	<b>11,025</b>	<b>8,047</b>	<b>53</b>	<b>3,526</b>	<b>81</b>

\*\* There were no restrictions or conditions placed upon the donated assets received by the Foundation Trust from Charitable Funds.

## 11.2 Prior year – property, plant and equipment comprise the following elements:

	Total £000	Land £000	Buildings excluding dwellings £000	Dwellings £000	Assets under construction & payments on account £000	Plant & Machinery £000	Transport Equipment £000	Information Technology £000	Furniture & fittings £000
<b>2014/15</b>									
Cost or valuation at 1 April 2014	250,177	10,871	164,854	1,375	4,455	48,287	733	17,736	1,866
Additions purchased	10,069	0	0	0	10,069	0	0	0	0
Additions donated	162	0	0	0	0	151	0	11	0
Reclassifications	0	0	8,660	0	(10,152)	737	0	755	0
Disposals	(2,032)	0	0	0	0	(1,532)	(279)	(206)	(15)
<b>At 31 March 2015</b>	<b>258,376</b>	<b>10,871</b>	<b>173,514</b>	<b>1,375</b>	<b>4,372</b>	<b>47,643</b>	<b>454</b>	<b>18,296</b>	<b>1,851</b>
Accumulated depreciation at 1 April 2014	54,074	0	0	0	0	38,451	626	13,264	1,733
Provided during the year	7,154	0	3,996	23	0	1,987	30	1,091	27
Disposals	(2,032)	0	0	0	0	(1,532)	(279)	(206)	(15)
<b>Accumulated depreciation at 31 March 2015</b>	<b>59,196</b>	<b>0</b>	<b>3,996</b>	<b>23</b>	<b>0</b>	<b>38,906</b>	<b>377</b>	<b>14,149</b>	<b>1,745</b>
<b>Net book value</b>									
– Purchased at 1 April 2014	194,920	10,871	164,194	1,375	4,455	9,327	107	4,458	133
– Donated at 1 April 2014	1,183	0	660	0	0	509	0	14	0
<b>Total at 1 April 2014</b>	<b>196,103</b>	<b>10,871</b>	<b>164,854</b>	<b>1,375</b>	<b>4,455</b>	<b>9,836</b>	<b>107</b>	<b>4,472</b>	<b>133</b>
– Purchased at 31 March 2015	198,060	10,871	168,873	1,352	4,372	8,283	77	4,126	106
– Donated at 31 March 2015	1,120	0	645	0	0	454	0	21	0
<b>Total at 31 March 2015</b>	<b>199,180</b>	<b>10,871</b>	<b>169,518</b>	<b>1,352</b>	<b>4,372</b>	<b>8,737</b>	<b>77</b>	<b>4,147</b>	<b>106</b>



### 11.3 Economic life of property, plant and equipment

	Min Life Years	Max Life Years
Buildings excluding dwellings	40	90
Dwellings	90	90
Plant and Machinery	5	15
Transport Equipment	7	7
Information Technology	5	8
Furniture and Fittings	5	10

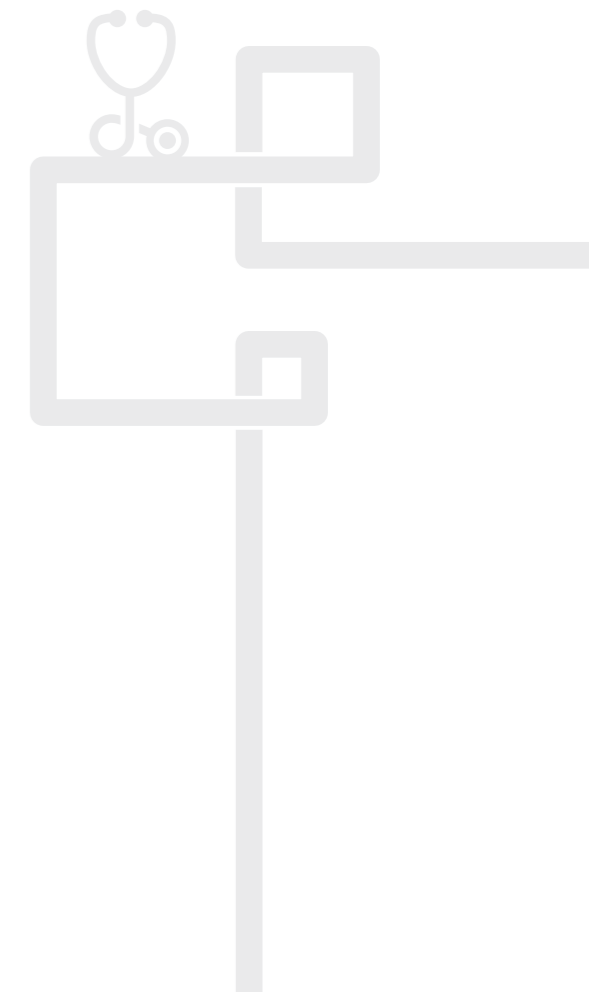
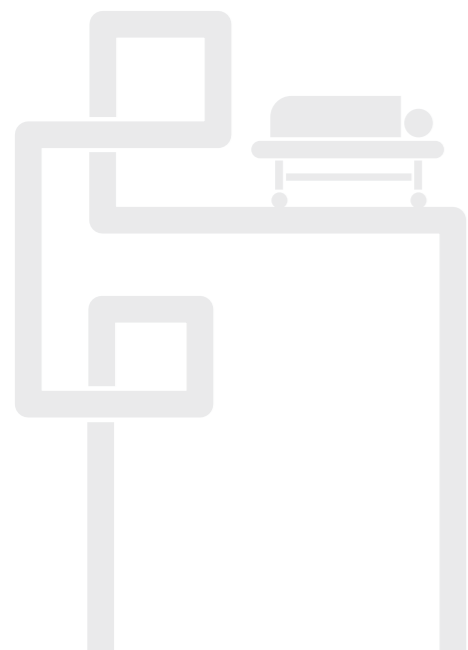
### 11.4 Property, plant and equipment

The Trust held no assets under finance leases and hire purchase agreements at the Statement of Financial Position dates.

### 12.1 Trade and other receivables

	Total 31st March 2016 £000	Financial assets £000	Non- financial assets £000	Total 31st March 2015 £000	Financial assets £000	Non- financial assets £000
<b>Current</b>						
NHS receivables*	6,457	6,457	0	7,311	7,311	0
Other receivables with related parties	172	120	52	0	0	0
Provision for impaired receivables	(527)	(369)	(158)	(632)	(439)	(193)
Prepayments	3,001	0	3,001	2,384	0	2,384
Other receivables	1,668	794	874	2,826	1,747	1,079
<b>Total current trade and other receivables</b>	<b>10,771</b>	<b>7,002</b>	<b>3,769</b>	<b>11,889</b>	<b>8,619</b>	<b>3,270</b>
<b>Non-Current</b>						
Provision for impaired receivables	(260)	0	(260)	(196)	0	(196)
Other receivables	1,178	0	1,178	1,036	0	1,036
<b>Total non current trade and other receivables</b>	<b>918</b>	<b>0</b>	<b>918</b>	<b>840</b>	<b>0</b>	<b>840</b>

\* The majority of NHS receivables are with Clinical Commissioning Groups, as commissioners for NHS patient care services. NHS receivables that are neither past due nor impaired are expected to be paid within their agreed terms.



## 12.2 Provision for impairment of receivables

	2015/16 £000	2014/15 £000
At 1 April	828	525
Increase in provision	18	303
Amounts utilised	(59)	0
<b>At 31 March</b>	<b>787</b>	<b>828</b>

## 12.3 Analysis of impaired receivables

	31 March 2016 £000	31 March 2015 £000
0-30 days	54	60
30-60 days	19	30
60-90 days	15	24
90-180 days	73	83
Over 180 days	626	631
<b>Total</b>	<b>787</b>	<b>828</b>

## 12.4 Ageing of non-impaired receivables past their due date

	31 March 2016 £000	31 March 2015 £000
0-30 days	3,636	4,455
30-60 days	608	791
60-90 days	359	213
90-180 days	299	567
over 180 days	97	295
<b>Total</b>	<b>4,999</b>	<b>6,321</b>

All receivables within their credit period are deemed to be fully recoverable. Receivable amounts are considered on a case by case basis and any impairment made is based upon information held by the Foundation Trust. No information was held indicating that non impaired receivables should be subject to impairment as at 31st March 2016.

## 13.1 Inventories

Raw materials and consumables

31 March 2016 £000	31 March 2015 £000
<b>5,519</b>	<b>4,026</b>

## 13.2 Inventories recognised in expenses

Inventories recognised in expenses  
Write-down of inventories recognised as an expense

31 March 2016 £000	31 March 2015 £000
<b>44,208</b>	40,929
<b>120</b>	63
<b>44,328</b>	<b>40,992</b>

## Inventories recognised in expenses

## 14. Cash and cash equivalents

## At 1 April

Net change in year

## At 31 March

Broken down into:

Cash at commercial banks and in hand  
Cash with GBS (Government Banking Service)

## Cash and cash equivalents as in Statement of Financial Position and Statement of Cash Flows

2015/16 £000	2014/15 £000
<b>19,842</b>	15,257
<b>(5,658)</b>	4,585
<b>14,184</b>	<b>19,842</b>
<b>420</b>	198
<b>13,764</b>	19,644
<b>14,184</b>	<b>19,842</b>

## 15. Trade and other payables

	Total 31st March 2016 £000	Financial liabilities £000	Non- financial liabilities £000	Total 31st March 2015 £000	Financial liabilities £000	Non- financial liabilities £000
<b>Current</b>						
NHS payables – revenue	3,252	3,252	0	2,892	2,892	0
Amounts due to other related parties	512	512	0	82	82	0
Other trade payables	9,295	9,295	0	8,321	8,321	0
Other tax and social security costs	3,954	0	3,954	4,045	0	4,045
Trade payables – capital	1,337	1,337	0	1,532	1,532	0
Other payables	3,893	1,274	2,619	3,974	1,377	2,597
Accruals	6,408	6,408	0	6,300	6,300	0
PDC Dividend Payable	261	0	261	3	0	3
<b>Total current trade and other payables</b>	<b>28,912</b>	<b>22,078</b>	<b>6,834</b>	<b>27,149</b>	<b>20,504</b>	<b>6,645</b>
<b>Non-current</b>						
Amounts due to other related parties *	1,460	1,460	0	1,923	1,923	0
<b>Total non-current trade and other payables</b>	<b>1,460</b>	<b>1,460</b>	<b>0</b>	<b>1,923</b>	<b>1,923</b>	<b>0</b>

\* Relates solely to a creditor with Her Majesty's Revenue & Customs relating to Value Added Tax claims submitted under the "Lennartz" ruling.

## 16. Other liabilities

## Current

Sunderland CCG – Maternity Pathways funding	984	1,102
McMillan Funding – Prison chemotherapy service	46	46
North East Cancer Network – Nurse funding	41	41
Oxford University – Clinical Trials funding	37	37
Metabolic, Oncology & Haematology research funding	36	63
Support funding for anaemia specialist nurse and rheumatology operational support	29	29
Queen Mary University – Salvo Funding	28	0
Support funding for diabetics nurse – Outpatients Diabetics	15	30
Paradigm, Trilogy & Thrive – Cardiology research funding	14	55
Ophthalmology – R&D funding	0	64
ICCU – Research nurse funding	0	31
Other	326	102
<b>Total other current liabilities</b>	<b>1,556</b>	<b>1,600</b>

	31 March 2016 £000	31 March 2015 £000
Sunderland CCG – Maternity Pathways funding	984	1,102
McMillan Funding – Prison chemotherapy service	46	46
North East Cancer Network – Nurse funding	41	41
Oxford University – Clinical Trials funding	37	37
Metabolic, Oncology & Haematology research funding	36	63
Support funding for anaemia specialist nurse and rheumatology operational support	29	29
Queen Mary University – Salvo Funding	28	0
Support funding for diabetics nurse – Outpatients Diabetics	15	30
Paradigm, Trilogy & Thrive – Cardiology research funding	14	55
Ophthalmology – R&D funding	0	64
ICCU – Research nurse funding	0	31
Other	326	102
<b>Total other current liabilities</b>	<b>1,556</b>	<b>1,600</b>

**17 Borrowings****17.1 Long term loans – Independent Trust Financing Facility**

	31 March 2016 £000	31 March 2015 £000
<b>Current</b>		
Loans from Independent Trust Financing Facility *	3,768	3,139
<b>Non-current</b>		
Loans from Independent Trust Financing Facility	<u>56,359</u>	<u>43,757</u>
<b>TOTAL</b>	<u><u>60,127</u></u>	<u><u>46,896</u></u>

\* Interest amounting to £495k (£491k, 31 March 2015) is included within the above.

**17.2 Loans – payment of loan principal falling due - Independent Trust Financing Facility**

	31 March 2016 £000	31 March 2015 £000
Amounts falling due:		
Within one year	3,273	2,649
Between one to two years	3,273	2,424
Between two to five years	9,821	7,273
After five years	43,265	34,059
<b>TOTAL</b>	<u><u>59,632</u></u>	<u><u>46,405</u></u>

Independent Trust Financing Facility Loan

	Interest rate %	£000
Tranche A: Repayable by instalments of £104,000 every 6 months commenced 31 July 2007	4.25	5,000
Tranche B: Repayable by instalments of £111,000 every 6 months commenced 31 July 2007	4.30	2,000
Tranches C-E: Repayable by instalments of £593,600 every 6 months commenced 17 October 2011	4.05	28,000
Tranches F-G: Repayable by instalments of £259,000 every 6 months commencing 18 September 2015	2.64	7,000
Tranches H-J: Repayable by instalments of £364,100 every 6 months commencing 18 September 2015	3.36	17,000
Tranches K-L: Repayable by instalments of £255,600 every 6 months commencing 18 February 2016	1.36	3,000
Tranches M-N: Repayable by instalments of £166,000 every 6 months commencing 18 February 2016	2.11	8,300

Other Loans

The Trust holds no other loans.

**18. Provisions**

	Current		Non Current	
	31 March 2016 £000	31 March 2015 £000	31 March 2016 £000	31 March 2015 £000
Pensions relating to other staff	63	61	316	373
Legal claims	161	195	0	0
Other	36	28	553	569
	<u>260</u>	<u>284</u>	<u>869</u>	<u>942</u>

	Pensions relating to other staff £000	Legal claims £000	Other £000	Total £000
At 1 April 2014	520	222	706	1,448
Change in discount rate	9	0	31	40
Arising during the year	0	88	0	88
Utilised during the year	(59)	(102)	(149)	(310)
Reversed unused	(45)	(13)	(2)	(60)
Unwinding of discount*	9	0	11	20
At 1 April 2015	<u>434</u>	<u>195</u>	<u>597</u>	<u>1,226</u>
Change in discount rate**	(2)	0	(4)	(6)
Arising during the year	0	87	20	107
Utilised during the year	(59)	(92)	(32)	(183)
Reversed unused	0	(29)	0	(29)
Unwinding of discount*	6	0	8	14
<b>At 31 March 2016</b>	<u><u>379</u></u>	<u><u>161</u></u>	<u><u>589</u></u>	<u><u>1,129</u></u>

**Expected timing of cash flows:**

In the remainder of the spending review period to 31 March 2017:-	63	161	36	260
Between 1 April 2017 and 31 March 2022	250	0	135	385
From 1 April 2022 and thereafter	66	0	418	484
	<u>379</u>	<u>161</u>	<u>589</u>	<u>1,129</u>

'Pensions Relating to Other Staff' include:

Provisions amounting to £379k in respect of Early Retirement Pensions. The provision relates to the latest information as provided by the NHS Pensions Agency and applies to 32 ex-employees (33 ex-employees 2014/15).

'Legal' claims include:

Provisions amounting to £161k relating to Public Liability and Employer Liability claims. The information supporting each claim within this provision has been supplied by either the Foundation Trust's or NHSLA's solicitors.

'Other' claims include:

– A provision of £589k in respect of Permanent Injury Benefits. The provision is based upon the latest information as supplied by the NHS Pensions Agency.

Clinical Negligence

The Foundation Trust is a member of the Clinical Negligence Scheme for Trusts (CNST) and pays an annual premium to the NHS Litigation Authority (NHSLA). Under the terms of the agreement, financial responsibility for claims arising from clinical negligence is transferred to the NHSLA and the liability for all potential and outstanding claims is provided in their Accounts. At the 31 March 2016, an amount of £164,524,825 was provided by the NHSLA in respect of clinical liabilities of the Foundation Trust (£83,944,367 as at 31 March 2015). The Foundation Trust does not consider there to be any uncertainties relating to either the amounts or timing of its provisions.

\* Unwinding of discount relates to the inflation effect on existing provisions of their payment in the future.

\*\* The discount rate for Early Retirements and Injury Benefits was changed from 1.30% to 1.37% to reflect HM Treasury policy.

**19. Contractual capital commitments**

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

	<b>31 March 2016 £000</b>	31 March 2015 £000
Intangible Assets	<b>0</b>	1,134
Property, plant and equipment	<b>1,953</b>	7,543
	<b><u>1,953</u></b>	<b><u>8,677</u></b>

Capital commitments relate to the following schemes;

	<b>£000</b>	£000
Endoscopy/Central Scope Cleaning	<b>0</b>	4,654
Emergency Department Rebuild	<b>1,953</b>	2,539
Gateshead Pathology Interface	<b>0</b>	1,134
Pathology Hot Labs	<b>0</b>	350
	<b><u>1,953</u></b>	<b><u>8,677</u></b>

The above are on-going schemes that have a contractual commitment as at 31 March. The uncommitted expenditure will fall into subsequent years accounts.

**20. Events after the reporting year**

There were no events after the year end that have had a material effect on the accounts (£0 2014/2015).

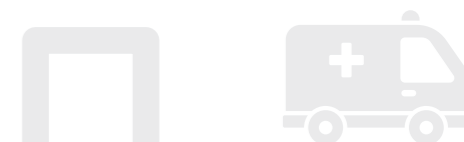
**21. Contingent (liabilities) / assets**

	<b>31 March 2016 £000</b>	31 March 2015 £000
Gross estimated value of Non-Clinical Liabilities	<b>(324)</b>	(377)
Expected recoverable amount	<b>229</b>	262
Net value contingent liabilities	<b><u>(95)</u></b>	<b><u>(115)</u></b>

A provision relating to claims in respect of the above contingencies is contained within Note 18 "Provisions" under the heading "Legal Claims". The net value of contingent liabilities relates to that element of the outstanding claims for which the Foundation Trust has not made provision.

**22. Related Parties****22.1 Related party transactions**

	<b>Income £000</b>	<b>Expenditure £000</b>
Value of transactions with Board Members in 2015/16	0	1,472
Value of transactions with other related parties in 2015/16:		
Department of Health	0	0
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	328,852	13,402
SHAs	776	0
Public Health England	0	0
NHS WGA bodies	17	5,691
HMRC	0	45,926
NHS Pension Scheme	0	32,186
Local Government including City of Sunderland	2,913	1,553
Scottish, Irish and Welsh NHS bodies	2	2
Charitable Funds	311	311
Department for Works and Pensions	0	0
	<b><u>332,871</u></b>	<b><u>100,543</u></b>
Value of transactions with Board Members in 2014/15	0	1,358
Value of transactions with other related parties in 2014/15 :		
Department of Health	135	3
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	325,994	14,615
SHAs	0	9,041
Public Health England	1	0
NHS WGA bodies	3	3,811
HMRC	0	46,299
NHS Pension Scheme	0	31,490
Local Government including City of Sunderland	3,336	1,576
Scottish, Irish and Welsh NHS bodies	8	5
Charitable Funds	199	199
Department for Works and Pensions	0	0
	<b><u>329,676</u></b>	<b><u>108,397</u></b>





## 22.2 Related party balances

	Receivables £000	Payables £000
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March 2016	0	0
Value of balances with other related parties at 31st March 2016 :		
Department of Health	0	261
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	6,449	3,285
SHAs	0	98
NHS WGA bodies	0	376
HMRC	0	5,414
NHS Pension Scheme	0	2,619
Scottish, Irish and Welsh NHS bodies	0	0
Charitable Funds	120	0
Other	150	477
	<u>6,719</u>	<u>12,530</u>
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March 2015	0	0
Value of balances with other related parties at 31st March 2015 :		
Department of Health	0	3
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	7,242	3,455
SHAs	0	52
NHS WGA bodies	0	126
HMRC	0	6,016
NHS Pension Scheme	0	2,619
Scottish, Irish and Welsh NHS bodies	6	5
Charitable Funds	0	34
Other	372	390
	<u>7,620</u>	<u>12,700</u>

## 22.3 Related party transactions:

City Hospitals Sunderland NHS Foundation Trust is a Public Benefit Corporation established by the Health and Social Care (Community Health and Standards) 2003 Act.

The Foundation Trust has a system in place which allows for the identification of all new Related Party Transactions.

As NHS Foundation Trusts and NHS Trusts have common control through the Secretary of State, there is an assumption that Government departments and agencies of Government departments are related parties.

The Department of Health is regarded as a related party. During the year April 2015 - March 2016 the Foundation 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 are listed below:

County Durham and Darlington NHS Foundation Trust  
Durham, Dales, Easington and Sedgfield Clinical Commissioning Group  
Gateshead Health NHS Foundation Trust  
Gateshead/Newcastle Clinical Commissioning Group  
Hartlepool and Stockton Clinical Care Commissioning Group  
Health Education North East  
National Blood Service  
NHS England  
NHS Litigation Authority  
North Durham Clinical Commissioning Group  
Northumberland Tyne and Wear Mental Health Care Trust  
Northumbria Healthcare Foundation Trust  
Prescription Pricing Authority  
South Tees Clinical Care Commissioning Group  
South Tyneside Clinical Commissioning Group  
South Tyneside NHS Foundation Trust  
Sunderland Clinical Commissioning Group  
The Newcastle Upon Tyne Hospitals NHS Foundation Trust

In addition, the Foundation Trust has had a number of transactions with other Government Departments and other central and local Government bodies and material transactions received via the University of Newcastle in relation to the funding of medical education.

The Trust has also received revenue and capital payments from a number of charitable funds, the Trustee of which is City Hospitals Sunderland NHS Foundation Trust, approved by members of its Trust Board.

## 22.4 Related party transactions: Subsidiary Company

In November 2013 the Foundation Trust formally established a wholly owned subsidiary company, City Hospitals Independent Commercial Enterprises Ltd (CHoICE). On 4 August 2014 CHoICE was contracted to provide Outpatient Pharmacy services at both Sunderland Royal Hospital and Sunderland Eye Infirmary, any benefits that may in future accrue will be reinvested in improving patient care and experience. At the start of operation the company required a cash loan from the Foundation Trust of £1,000,000 to enable it to meet its commitments, this loan became repayable from 1 April 2015 and two instalments have been repaid in 2015/16 totalling £100,000, plus an interest payment equating to £25,332.

CHoICE operates in the same way as a 'High Street Pharmacy' invoicing the Foundation Trust for the value of the drugs that it has dispensed, charging a fee for dispensing based on a fixed percentage of overheads which is contractually agreed in advance with the Foundation Trust. CHoICE has one directly employed Superintendent Pharmacist all other services e.g. Pharmacy Support, Finance, Human Resources and IT are bought in from the Foundation Trust at market rate via formal Service Level Agreements.

The significant transactions that are included within the Foundation Trust accounts are as follows;

	2015/16		2014/15	
	Income £000	Expenditure £000	Income £000	Expenditure £000
Invoices from CHoICE relating to the cost of drugs dispensed		3,913		3,901
Dispensing Fee		817		589
Service Level Agreement	631		483	

The following balances are also included in the Foundation Trust accounts;

	2015/16		2014/15	
	Receivables £000	Payables £000	Receivables £000	Payables £000
CHoICE Ltd	0	512	0	535

## 23. Financial Instruments

### 23.1a Financial assets by category

Assets as per Statement of financial position	Total £000	Loans and receivables £000
Trade and other receivables excluding non financial assets – Note 12	7,002	7,002
Loan to subsidiary	900	900
Cash and cash equivalents – Note 14	14,184	14,184
<b>Total at 31 March 2016</b>	<b>22,086</b>	<b>22,086</b>

Trade and other receivables excluding non financial assets – Note 12	8,619	8,619
Loan to subsidiary	1,000	1,000
Cash and cash equivalents – Note 14	19,842	19,842
<b>Total at 31 March 2015</b>	<b>29,461</b>	<b>29,461</b>

### 23.1b Financial liabilities by category

Liabilities as per Statement of financial position	Total £000	Other financial liabilities at amortised cost £000
Borrowings – Note 17	60,127	60,127
Trade and other payables excluding non financial liabilities – Note 15	22,078	22,078
<b>Total at 31 March 2016</b>	<b>82,205</b>	<b>82,205</b>

Borrowings – Note 17	46,896	46,896
Trade and other payables excluding non financial liabilities – Note 15	20,504	20,504
<b>Total at 31 March 2015</b>	<b>67,400</b>	<b>67,400</b>

**23.2a Fair values of financial assets**

	<b>31 March 2016</b>	<b>31 March 2016</b>	31 March 2015	31 March 2015
	<b>Book Value</b>	<b>Fair value</b>	Book Value	Fair value
	£000	£000	£000	£000
Loan to subsidiary	900	900	1,000	1,000
<b>Total</b>	<b>900</b>	<b>900</b>	<b>1,000</b>	<b>1,000</b>

Current financial assets are excluded as the fair values are matched equally by the book values.

**23.2b Fair values of financial liabilities**

	<b>31 March 2016</b>	<b>31 March 2016</b>	31 March 2015	31 March 2015
	<b>Book Value</b>	<b>Fair value</b>	Book Value	Fair value
	£000	£000	£000	£000
Borrowings	56,359	56,359	43,757	43,757
<b>Total</b>	<b>56,359</b>	<b>56,359</b>	<b>43,757</b>	<b>43,757</b>

Current financial liabilities are excluded as the fair values are matched equally by the book values.

**23.3 Maturity of financial liabilities**

	<b>31 March 2016</b>	31 March 2015
	<b>£000</b>	£000
Less than one year	25,846	23,644
In more than one year but not more than two years	3,273	2,424
In more than two years but not more than five years	9,821	7,273
In more than five years	43,265	34,059
<b>Total</b>	<b>82,205</b>	<b>67,400</b>

The Foundation Trust does not deem the maturity of its financial liabilities to be subject to significant liquidity risk.

**23.4 Financial risk management****Liquidity Risk**

Financial reporting standard IFRS 7 requires the 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. The Foundation Trust's net operating costs are incurred under annual service contracts with local Clinical Commissioning Groups, which are financed from resources voted annually by Parliament. The Foundation Trust receives such contract income in accordance with Payment by Results (PBR), which is intended to match the income received in year to the activity delivered in that year by reference to the National Tariff procedure cost. The Foundation Trust receives cash each month based on the agreed level of contract activity and there are quarterly payments/deductions made to adjust for the actual income due under PBR.

The Foundation Trust presently finances its capital expenditure from internally generated funds. In addition, the Foundation Trust can borrow, both from the Independent Trust Financing Facility and commercially to finance capital schemes. Financing is drawn down to match the capital spend profile of the scheme concerned and the Foundation Trust is not, therefore, exposed to significant liquidity risks in this area.

**Interest Rate Risk**

All of the Foundation Trust's financial assets and financial liabilities carry nil or fixed rates of interest. The Foundation Trust is not, therefore, exposed to significant interest-rate risk. The only risk is therefore regarding the level of interest generated on the Foundation Trust's surplus cash balances and investments which may be higher or lower than planned at the start of the year due to fluctuating interest rates. The value of interest generated in 2015/16 was £91k (£74k 2014/15) and the exposure is therefore limited.

**Foreign Currency Exchange Rate Risk**

The Foundation Trust has negligible foreign currency income or expenditure.

**Credit Risk**

Credit risk is the possibility that other parties might fail to pay amounts due to the Foundation Trust. Credit risk arises from deposits with banks as well as credit exposures to the Foundation Trust's commissioners and other debtors. Surplus operating cash is only invested with the National Loans Fund. The Foundation Trust's cash assets are held only with Lloyds Banking Group and NatWest, the latter of which forms part of the Government Banking Service. The Foundation Trust's net operating costs are incurred in the delivery of annual service agreements with local clinical commissioning groups, which are financed from resources voted annually by Parliament. An analysis of the ageing of receivables and provision for impairment can be found at Note 12.

## 24. Third party assets

The Foundation Trust held £1,040 cash and cash equivalents at 31 March 2016 (£7,183 at 31 March 2015) which relates to monies held by the NHS Trust on behalf of patients. This has been excluded from the cash and cash equivalents figure reported in the accounts.

## 25. Intra-Government and other balances

	Receivables: amounts falling due within one year £000	Receivables: amounts falling due after more than one year £000	Payables: amounts falling due within one year £000	Payables: amounts falling due after more than one year £000
Balances with other Central Government Bodies	5,268	0	10,321	1,460
Balances with NHS Trusts and Foundation Trusts	1,339	0	2,209	0
Balances with bodies external to government	4,164	918	21,706	56,359
<b>At 31 March 2016</b>	<b>10,771</b>	<b>918</b>	<b>34,236</b>	<b>57,819</b>
Balances with other Central Government Bodies	6,247	0	10,377	1,923
Balances with NHS Trusts and Foundation Trusts	1,373	0	2,289	0
Balances with bodies external to government	4,269	840	19,222	43,757
<b>At 31 March 2015</b>	<b>11,889</b>	<b>840</b>	<b>31,888</b>	<b>45,680</b>

## 26. Public Dividend Capital Dividend

The Foundation Trust is required to absorb the cost of capital at a rate of 3.5% of average relevant net assets. The dividend of £4,937,000 is calculated by applying the 3.5% Treasury rate to the average relevant net assets of £141,048,000.

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%.

## 27. Losses and special payments

NHS Foundation Trusts are required to follow the guidance issued by the Department of Health in accounting for losses and special payments:

- These 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 divided into different categories, which govern the way each individual case is handled.

### The number and value of losses and special payment cases:

Ref.	Category of loss / special payment	1 April 2015 – 31 March 2016		1 April 2014 – 31 March 2015	
		Number of cases	Value of cases (£)	Number of cases	Value of cases (£)
1c	Losses of cash due to other causes	4	34	3	47
3a	Bad debts and claims abandoned – private patients	14	2,221	1	1
3b	Bad debts and claims abandoned – overseas visitors	5	12,552	0	0
3c	Bad debts and claims abandoned – other	474	12,425	138	1,039
4a	Damage to buildings, loss of equipment and property due to theft, fraud etc	0	0	10	18,294
4b	Damage to buildings, loss of equipment and property – stores losses	1	120,834	1	62,939
4c	Damage to buildings, loss of equipment and property due to other causes	5	437	11	1,190
7a	Ex-gratia payments for loss of personal effects	23	2,832	34	6,369
7c	Ex-gratia payments for personal injury with advice	10	55,400	40	158,971
7e	Ex-gratia payments for other employment payments	1	1,109	6	8,549
7g	Other	22	9,676	26	657
8	Special severance payments	0	0	2	46,000
<b>Total Losses and Special Payments</b>		<b>559</b>	<b>217,520</b>	<b>272</b>	<b>304,056</b>

The above values have been calculated on an accruals basis but excluding provisions for future losses, whereby expenditure is recognised in the year in which the associated liability was incurred.

If you require this information in a different format please contact:

- The Trust Secretary in writing at the address overleaf
- Telephone 0191 565 6256 ext 49110
- The Corporate Affairs inbox: [Corporate.affairs@chs.northy.nhs.uk](mailto:Corporate.affairs@chs.northy.nhs.uk)



**SUNDERLAND ROYAL HOSPITAL**

Kayll Road  
Sunderland  
Tyne & Wear SR4 7TP