



ANNUAL ACCOUNTS 2014/2015

Presented to Parliament pursuant to Schedule 7,
paragraph 25(4) (a) of the National Health Service Act 2006.

STATEMENT OF THE CHIEF EXECUTIVE’S RESPONSIBILITIES AS THE ACCOUNTING
OFFICER OF CITY HOSPITALS SUNDERLAND NHS FOUNDATION TRUST

The National Health Service Act 2006 states that the Chief Executive is the Accounting Officer of the NHS Foundation Trust. The relevant responsibilities of the accounting officer, including their responsibility for the propriety and regularity of public finances for which they are answerable and for the keeping of proper accounts, are set out in the NHS Foundation Trust Accounting Officer Memorandum issued by Monitor.

Under the National Health Service Act 2006, Monitor has directed City Hospitals Sunderland NHS Foundation Trust to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of City Hospitals Sunderland NHS Foundation Trust and of its income and expenditure, total recognised gains and losses and cash flows for the financial year.

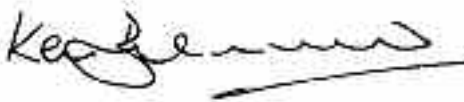
In preparing the accounts, the Accounting Officer is required to comply with the requirements of the NHS Foundation Trust Annual Reporting Manual and in particular to:

- observe the Accounts Direction issued by Monitor, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards as set out in the NHS Foundation Trust Annual Reporting Manual have been followed, and disclose and explain any material departures in the financial statements;
- ensure that the use of public funds complies with the relevant legislation, delegated authorities and guidance; and
- prepare the financial statements on a going concern basis.

The Accounting Officer is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the NHS Foundation Trust and to enable him to ensure that the accounts comply with requirements outlined in the above mentioned Act. The Accounting Officer is also responsible for safeguarding the assets of the NHS Foundation Trust and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

To the best of my knowledge and belief, I have properly discharged the responsibilities set out in Monitor’s NHS Foundation Trust Accounting Officer Memorandum.



K W BREMNER
Chief Executive

Date: 28 May 2015

Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the NHS Foundation Trust's policies, aims and objectives, whilst safeguarding the public funds and departmental assets for which I am personally responsible, in accordance with the responsibilities assigned to me. I am also responsible for ensuring that the NHS Foundation Trust is administered prudently and economically and that resources are applied efficiently and effectively. I also acknowledge my responsibilities as set out in the NHS Foundation Trust Accounting Officer Memorandum.

The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of City Hospitals Sunderland NHS Foundation Trust, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in City Hospitals NHS Foundation Trust for the year ended 31 March 2015 and up to the date of approval of the annual report and accounts.

Capacity to handle risk

The Trust is committed to a risk management strategy, which minimises risks to patients, staff, the public and other stakeholders through a common framework of internal control, based on an ongoing risk management process.

The strategy identifies the key principles, milestones and operational policies governing the management of all types of risk faced by the organisation. This strategy is subject to regular review.

The Audit Committee meets regularly and is well represented ensuring scrutiny, monitoring, discussion

and input. The Finance Reports to the Board include reporting on internal Cost Improvement Programmes, which are examined in detail by the Finance Committee. Finance Reports are presented in a format consistent with those submitted to Monitor. The Governance Committee now leads the work of the Clinical Governance Steering Group and Corporate Governance Steering Group. The Board receives appropriate, timely information and reports from the Governance Committee enabling adequate and appropriate assessment of risk and management of performance.

As part of the on going process of review the Trust's top risks (previously adopted by the Board) were scrutinised to ensure that they properly reflected the risks which were identified in the departmental Risk Registers.

The Trust's risk management programme comprises:

- a single incident reporting process for all risks and hazards identified by systematic risk assessment, risk management review and adverse incidents reporting. This has recently been upgraded and improved with training provided to managers who use the system;
- common grading framework and risk register/risk action planning process applied to all types of risk across the organisation;
- comprehensive programme of multi-level risk management training for all new and existing staff;
- ongoing monitoring and review of both internal and external risk management performance indicators at all levels across the organisation; and
- a communication strategy which ensures appropriate levels of communication and consultation with both internal and external stakeholders.

The risk and control framework

The Trust's framework:

- identifies the principal objectives of the Trust and the principal risks to achieving them;
- sets out the controls to manage these risks;
- documents assurances about the effectiveness of the operation of the controls; and
- identifies to the Board where there are significant control weaknesses and/or lack of assurance.

These high level objectives and the principal risks to achieving them are underpinned by the detailed risks and associated actions set out in the Trust's risk register. Responsibility for the overall Framework lies with the Board of Directors. The Board uses the framework to ensure that the necessary planning and risk management processes are in place to provide assurance that all key risks to compliance with our licence requirements have been appropriately identified and addressed.

The use of a common grading structure for incidents and risks ensures that relative risks and priorities are assessed consistently across all directorates. No risk is treated as acceptable unless the existing situation complies with relevant guidance and legislation (eg Control of Infection, National Patient Safety Agency, Health & Safety, Standing Financial Instructions).

The establishment of a dedicated risk management team and programme of risk management training, including use of the intranet, ensures that the strategy is co-ordinated across the whole organisation and progress is reported effectively to the Board and its Governance and other relevant sub committees.

The Trust's assurance framework incorporates the need to achieve compliance with the Care Quality Commission's requirements. This is assessed in year by the Clinical Governance Steering Group, the Corporate Governance Steering Group and the Governance Committee reviewing in detail compliance against the relevant standards. As a result of a formal inspection this year by the CQC, the Trust received assurance around the quality of services provided with an overall rating of "good".

The assurance framework is based on the Trust's strategic objectives and an analysis of the principal risks to the Trust achieving those objectives. The key controls, which have been put in place to manage the risks have been documented and the sources of assurance for individual controls have been identified. The main sources of assurance are those relating to internal management controls, the work of internal audit, clinical audit and external audit, and external assessments by outside bodies such as the Care Quality Commission, the NHS Litigation Authority and the Health and Safety Executive. The assurance framework is cross-referenced with the Board Risk Register.

The involvement of external stakeholders in the Trust's risk management programme is a key element of the Trust's Risk Management Strategy. This involves timely communication and consultation with external stakeholders in respect of all relevant issues as they arise.

This process applies in particular to the involvement of external stakeholders in patient safety and the need to co-ordinate how risks are managed across all agencies, including the National Patient Safety Agency, the Medicines and Healthcare Products Regulatory Agency, Local Authority Adult and Children's Services, the Coroner, the emergency services, representative patient groups and local commissioning groups.

The risk to data security is being managed and controlled through the monthly Information Governance Group, with quarterly updates to Corporate Governance Steering Group. The Information Governance Toolkit assessments are conducted as required, and an annual report is produced confirming the outcome in readiness for the submission by 31 March 2015. This report is presented to Executive Committee, Board of Directors and Council of Governors for approval. For the submission on 31 March 2015, all IG requirements were assessed at Level 2 and above (1 is not applicable, 18 at Level 2, and 26 at Level 3) which resulted in the Trust being classified as Satisfactory – Green, with a total score of 86%. Internal audit has independently substantiated this assessment.

The Trust had no Information Governance breaches during 2014/15.

Key risks facing the Trust during 2014/15 included:

- management processes as a result of the upgraded patient information system (Meditech V6) including managing the impact on clinical activity information flows for contractual purposes;
- delivering the challenging Cost Improvement Target on top of maintaining the achievements from prior years;
- managing the financial performance of the Trust;
- managing the impact of the increased staffing requirements associated with the Workforce Assurance process and the Safe and Sustainable Emergency Care service development;
- maintaining the relevant performance standards including the 18-week target for 95% of admitted patients in year across all specialties and the maximum 4 hour wait for A&E waits and cancer targets;
- managing infection rate targets including MRSA and the C.difficile targets; and
- maintaining the standards required by the Care Quality Commission to maintain compliance with licence requirements.

The Trust has considered the requirements of FT condition 4 relating to governance arrangements and is required to comply with the requirements detailed within this condition, specifically relating to:

- the effectiveness of governance structures;
- the responsibilities of Directors and sub-committees;
- the reporting lines and accountabilities between the Board, its sub-committees and the Executive Team;
- the submission of timely and accurate information to assess risks to compliance with the Trust's licence; and
- the degree of rigour of oversight that the Board has over the Trust's performance.

The Board sub-committees include the Governance Committee, Audit Committee, Finance Committee,

Patient, Carer and Public Experience Committee (PCPEC) and the Operations Committee. Each has a distinct role around governance or performance management and provides opportunities for Board members at Executive and Non-Executive level, to review in detail the key risks of the organisation and actions being taken to mitigate these risks. The PCPEC includes patient representative members to support better understanding of these risks from a clinical and patient perspective. Minutes from all Committees are presented to the Board during the year. The Board receives monthly information relating to progress on performance, finance and quality metrics, with actions to address any areas of concern.

A 'Quality Risk and Assurance Report' was developed during 2013/14 and is a standing monthly report at the Executive Committee and Board of Directors. This report is now the first formal item on the Board of Directors agenda recognising the importance placed on quality governance. The report focuses on clinical effectiveness, patient experience, patient safety, risk management and assurance, drawing upon the work of relevant Committees and Groups including the Governance Committee, the Patient, Carer and Public Experience Committee and Clinical Governance Steering Group, and includes feedback from independent external benchmarking, audit, or other sources of information about the Trust's performance.

The Executive Committee and Board of Directors receive a monthly Performance report detailing the performance against national, local and CQUIN indicators. The report identifies areas of concern and the lead Director highlights action undertaken to manage the area of concern.

The Corporate Governance Statement is presented to the Board of Directors for formal sign-off each year. The Board considers the proposed submission and associated evidence ahead of submission to Monitor including work undertaken in year to improve compliance with relevant standards.

The Foundation Trust is fully compliant with the registration requirements of the Care Quality Commission.

As an employer with staff entitled to membership of the NHS Pension Scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This

includes ensuring that deductions from salary, employer's contributions and payments into the Scheme are in accordance with the Scheme rules, and that member Pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with.

The Foundation Trust has undertaken risk assessments and Carbon Reduction Delivery Plans are in place in accordance with emergency preparedness and civil contingency requirements, as based on UKCIP 2009 weather projects, to ensure that this organisation's obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with.

Review of economy, efficiency and effectiveness of the use of resources

The Trust's strategic planning and performance management arrangements ensure that all directorates are fully engaged in the continuous review of business objectives and performance.

The Trust uses an Objectives, Goals, Strategies and Measures (OGSM) framework as its strategic planning tool to provide a cascade process for the Trusts priorities and ensure optimal alignment of Trust resources to deliver its priorities.

Key elements of the Trust's arrangements for ensuring value for money in the delivery of its services are:

- an Annual OGSM planning process, which sets out priorities for the coming business year and reflects the requirements of and feedback from, our major Commissioners and stakeholders;
- performance management through regular reporting against the key deliverables set out in the Corporate, Directorate and departmental OGSM's and against national and local targets; and
- the achievement of efficiency savings through the Trust's cost improvement programmes with regular review by the Trust's Finance Committee.

Given the continuing financial pressures on the public sector, this year has been a particularly difficult one for all public sector organisations with the focus on

reducing costs, coping with peaks in demand and improving the quality of patient care.

The focus on cost reduction has been led by the Finance Committee which ensures detailed scrutiny of Cost Improvement Programmes as well as gaining an in depth knowledge of the underlying financial position of the Trust.

The Executive Committee, the Board of Directors and Council of Governors are actively involved in the business planning and performance management processes established by the Trust and in maintaining strong links with stakeholders.

During 2014/15 the Trust has:

- embedded robotic surgery in Urology, providing a better outcome for appropriate patients;
- completed the building of a new Multi-Story Car Park to provide better access for patients;
- approved and started the Emergency Department new build scheme; and
- established a 'Back to Basics' financial recovery programme, seeking engagement across the organisation to address the financial challenges whilst maintaining safety.

Additional assurance in respect of the Trust's arrangements for ensuring economy, efficiency and effectiveness in the use of resources is provided to the Board of Directors through the conduct of regular reviews undertaken by Internal Audit and by external audit work undertaken in accordance with the Audit Code.

As part of reviewing the financial sustainability of the organisation, the Trust has considered the scale of the financial challenges facing the Trust over the next 12 month period. As a consequence there is material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern. This specifically relates to the impact on the cash position of the Trust in 2015/16. The Trust is seeking a loan to improve the cash position and support the committed capital developments. At the time of writing the Trust has not received confirmation that this has been approved.

Annual Quality Report

The directors are required under the Health Act 2009 and the National Health Service (Quality Accounts) Regulations 2010 (as amended) to prepare Quality Accounts for each financial year. Monitor has issued guidance to NHS foundation trust boards on the form and content of annual Quality Reports which incorporate the above legal requirements in the NHS Foundation Trust Annual Reporting Manual.

Over the past year, the Clinical Governance Steering Group has reviewed progress against a range of 'quality' issues on a regular basis. This group, the data previously reported, and external reports (eg national clinical audits, peer reviews etc) have shaped our clinical quality improvement plans. The group has also reviewed trends and themes in relation to incidents, complaints and litigation and used the data to inform quality improvement of services.

The Clinical Governance Steering Group as our key group for the monitoring of clinical quality provides reports to the Governance Committee which in turn is a formal sub committee of the Board. The Governance Committee receives these reports which provide assurance or highlight any risks to quality. The Corporate Governance Steering Group in parallel with the Clinical Governance Steering Group reports to the Governance Committee on any non-clinical risks or quality issues eg in facilities. In turn, risks to quality identified through these mechanisms, are escalated through to the Board.

Quality Report metrics are also regularly reported throughout the year to the Board of Directors and Executive Committee. These indicators are all reported (along with a number of other metrics) as part of the Trust's Performance Report.

Most of the data used for these metrics is extracted directly from the hospital's information system (Meditech). Where applicable the system has been designed to conform to national data standards so that when the data is extracted it is already in a format consistent with national requirements and coding standards. The data is coded according to the NHS Data Model and Dictionary, which means that any performance indicators based upon this data can be easily prescribed and that the Trust is able to provide data that is both consistent nationally, and fit for purpose.

Internally, standard operating procedures are used consistently by staff involved in the production of the Trust's performance against national, local and internal indicators. This ensures that the process meets the required quality standards and that everyone uses a consistent method to produce an output. Wherever possible, our processes are fully, or at least partially automated to make certain that the relevant criteria are used without fail. This also minimises the inherent risk of human error.

Data quality and completeness checks are built into processes to flag any erroneous data items or any other causes for concern, usually as part of the automated process. In addition, further quality assurance checks are performed on the final process outputs to confirm that the performance or activity levels are comparable with previous activity or expected positions. Where applicable, our performance against key indicators is also evaluated against available benchmarking data or peer group information to help understand at the earliest opportunity whether or not the Trust is likely to be an outlier, which in itself may prompt further investigation.

A rolling programme of data quality audits is in place in relation to Referral to Treatment Time indicators to ensure reporting is in line with national guidance and data quality issues are highlighted and acted upon. This is in addition to an annual training programme on waiting list and pathway management with key staff groups and regular data quality reports are already in place. We have acknowledged the issues flagged in the external assurance report, and in relation to the cancer 62 day waiting time standard we will put the following actions in place during the forthcoming year:

- implement data quality audits around cancer waiting time standards in our rolling programme of data assurance audits
- implement further sample quality assurance checks at the final stage of the process before performance is reported

For most of the data, specific criteria and standards have to be used to calculate performance which is based on national data definitions where appropriate. To further ensure accuracy the report has been reviewed by two separate internal departments, Clinical Governance and Performance Management, both of which are satisfied with the accuracy of the information reported.

In summary, a substantial proportion of the data used as part of this Quality Report has been previously reported to Board of Directors, Clinical Governance Steering Group, and Executive Committee throughout 2014/15 and feedback from these forums has been used to set future priorities. These arrangements have ensured that a balanced view on quality can be provided through the Quality Report for 2014/15.

With respect to setting the priorities for 2015/16 a wide consultation exercise has been undertaken. Consultation has taken place with the Clinical Governance Steering Group, Executive Committee, Council of Governors, Board of Directors, and local commissioners to ensure that the Quality Report includes views from key stakeholders.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors, clinical audit and the executive managers and clinical leads within the NHS foundation trust who have responsibility for the development and maintenance of the internal control framework. I have drawn on the content of the quality report attached to this Annual report and other performance information available to me. My review is also informed by comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the board, the audit committee and governance committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

The Board and its committees have a key role in maintaining and reviewing the effectiveness of the system of internal control.

The Executive Committee and Board of Directors have received regular reports on the development of the Trust's risk management framework, in particular through the work of the Governance Committee, Clinical Governance Steering Group and Corporate Governance Steering Group. The Governance Committee receives reports from the Clinical Governance Steering Group and Corporate Governance Steering Group and coordinates the implementation of action plans through the Trust's risk register mechanism.

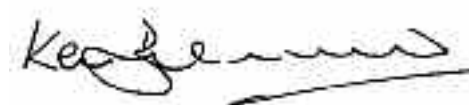
The Governance Committee has received regular reports on sources of external assurance including evidence from the CQC quality risk profile (QRP), national reviews and other independent evidence.

The Finance Committee have again played an important scrutiny role and helped to ensure that efficiency plans are delivered albeit at a lower level than plan.

The outcome of internal audit reviews has been considered throughout the year through regular reports to the Audit Committee. The Board of Directors receives and considers the minutes of the Audit Committee where necessary.

Conclusion

My review confirms that no significant internal control issues have been identified.



K W BREMNER
Chief Executive

Date: 28 May 2015

REMUNERATION REPORT

The Remuneration Committee for the Chief Executive and Executive Directors is chaired by the Vice Chairman of the Trust. Other members include two Non Executive Directors and the Chief Executive. The Remuneration Committee agrees the remuneration, allowances and other terms and conditions of office, ensuring Executive Directors are fairly rewarded for their individual and collective contribution to the organisation, having proper regard to the organisation’s circumstances and performance and to the provisions of any national arrangements or guidance where appropriate. Membership of the Committee and attendance at the meetings is identified on page 148 of the report. The Chief Executive is not part of the deliberation in relation to his performance or remuneration but joins the committee after this has taken place. The Director of Human Resources attends in an advisory capacity.

In determining the remuneration levels a range of benchmarking evidence is used including:

- NHS-wide governance ie Pay and Contractual Arrangements for NHS Chief Executives and Directors;
- local comparisons from other Trusts (where information is shared);
- posts advertised; and
- salary survey for NHS Chief Executives and Executive Directors.

City Hospital’s information is benchmarked against the salary for the relevant individuals and recommendations based thereon. To enable the Trust to recruit and retain staff of the highest calibre, salaries are normally linked to the upper quartile of the benchmarks.

The Chief Executive and Executive Directors are on permanent contracts with notice periods that range from 3-12 months.

Each Executive Director and the Chief Executive have annual performance plans against which they are assessed on a mid-year and then end-of-year basis. Whilst their salary is not strictly performance related, the Remuneration Committee will discuss performance when considering any changes to remuneration levels.

The Chairman appraises the performance of the Chief Executive on a mid-year and then end of year basis.

Senior Managers’ remuneration and pension benefits are detailed in the tables on pages 162 to 167 Accounting policies for pensions and other retirement benefits are set out in note 1.4 to the accounts. No compensation for loss of office paid or receivable has been made under the terms of an approved Compensation Scheme. This is the only audited part of the remuneration report.

The key components of the remuneration package for senior managers include:

- salary and fees;
- all taxable benefits;
- annual performance based bonuses where applicable;

Some terms are specific to individual senior managers, which are assessed on a case by case basis such as:

- lease cars; and
- on-call arrangements.

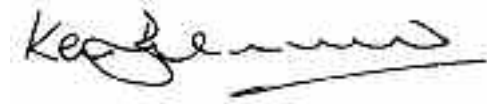
Salaries are determined in line with the Agenda for Change scheme. Notice periods are standard within the Trust depending on the level of the role:

Agenda for Change Band	Notice Period
Bands 1 – 4	1 month
Bands 5 – 7	2 months
Bands 8+	3 months

The Council of Governors decides on the remuneration and terms and conditions of the office of the Non-Executive Directors. The Council of Governors, in line with best practice and monitor guidance, will market test the pay levels and other terms and conditions.

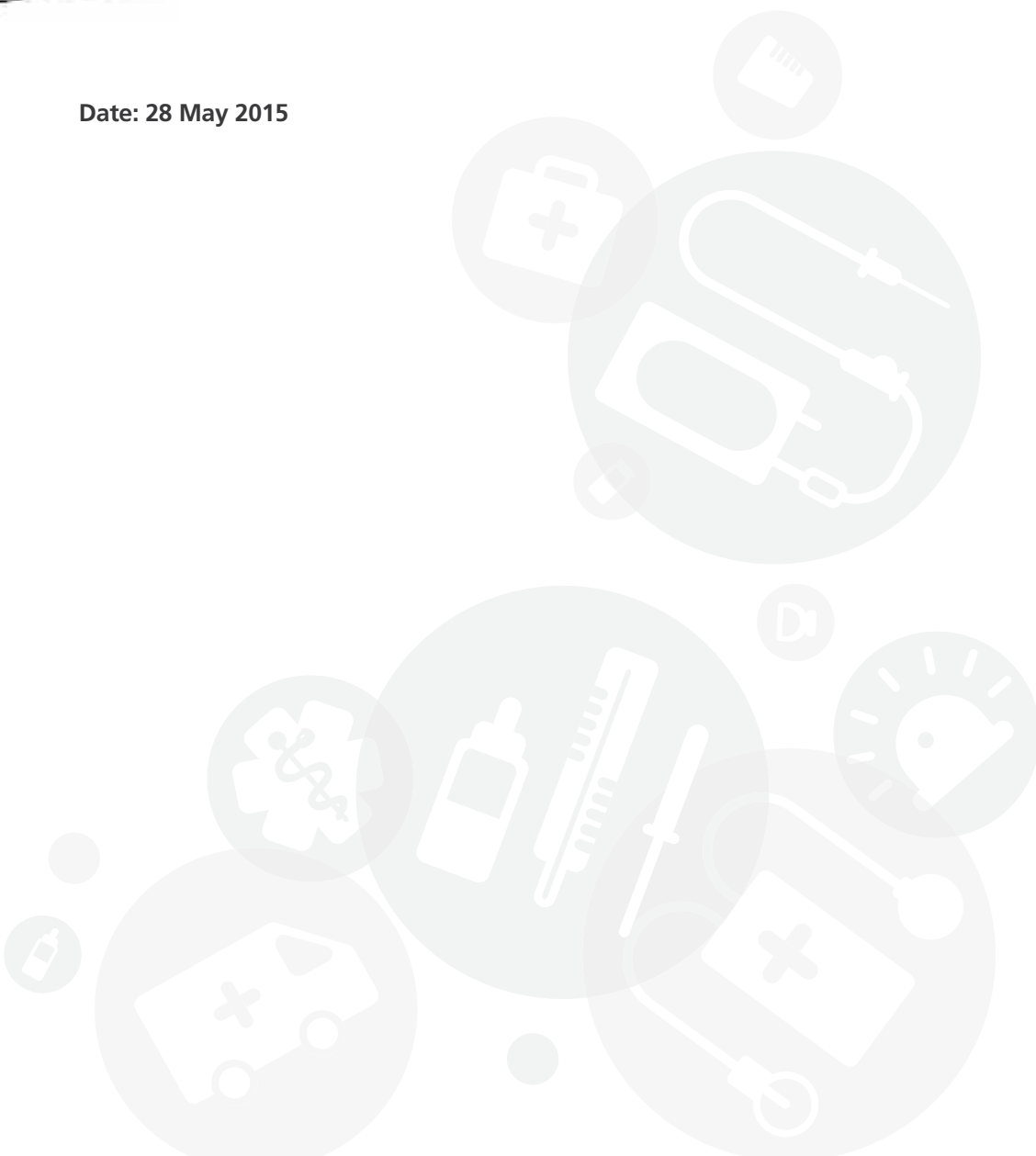
The Chairman agrees objectives with each Non Executive Director and a formal appraisal is undertaken annually.

The Lead Governor and Senior Independent Director have a role in the assessment and appraisal of the Chairman on an annual basis.



K W BREMNER
Chief Executive

Date: 28 May 2015



Salary and Pension Entitlements of Senior Managers – Total Single Figure 2014/2015

	Salary (bands of £5,000)	Taxable Benefits (nearest £100) Note 1	Annual* Performance Related Bonus (bands of £5,000)	Long Term Performance Related Bonus (bands of £5,000)	All Pension Related Benefits (bands of £2,500) Note 2	Total Remuneration (bands of £5,000)
	£000	£000	£000	£000	£000	£000
MR K W BREMNER Chief Executive	210 – 215	11.0	5 – 10	0	0	230 – 235
MRS J PATTISON Director of Finance	145 – 150	7.0	5 – 10	0	55.5 – 57.5	210 – 215
MRS B J AKEHURST Director of Nursing	125 – 130	7.3	0	0	52.5 – 55.0	185 – 190
MR P SUTTON Director of Strategy & Business Development	125 – 130	7.0	0	0	60.0 – 62.5	190 – 195
MR I C MARTIN Medical Director	215 – 220	7.0	0	0	300.0 – 302.5**	525 – 530
MR J N ANDERSON Chairman	50 – 55	0	0	0	0	50 – 55
MS M HARTE Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR M DAVISON Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR D C BARNES Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR S HINDMARSH Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR G A WRIGHT Non Executive Director	15 – 20	0	0	0	0	15 – 20
DR M F LAKER Medical Adviser (Non Executive Director) (Commenced 27 November 2014)	0 – 5	0	0	0	0	0 – 5

*Relates to 2013/14

** There has been a significant increase in pension benefit as from the 1 April 2014 the Medical Director Executive Allowance is now classified as pensionable pay.

The only performance related elements of remuneration were awarded to the Chief Executive and Director of Finance and were set at a maximum of 5% of salary.

The performance targets and relevant weighting (where applicable) together with actual performance are identified in the table below:

Chief Executive

	Target %	Actual %
Deliver 5 national CQUIN targets agreed by CHS (5 @ 5% each) (Board Performance Report)	25	25
Ensure compliance with CQC unannounced inspection visit (letter of confirmation/website)	25	25
Maintain at least a level 3 continuity of service from Monitor for the year (Board report and Monitor confirmation)	20	20
Deliver the following performance measures – 4 hour target in A&E (annual) – All relevant Cancer targets (annual) – All RTT targets (annual) – Infection control – C. difficile (annual) (Board performance report)	5 5 5 5	0 5 5 5
Ensure CHS overall mortality remains below 100 – using SHMI as measure (Board performance report)	5	5
Secure JAG accreditation (confirmatory letter from JAG)	5	5

The committee agreed to award 4.75% on the basis of objectives achieved as above.



Director of Finance

For the Director of Finance all objectives carry the same weight.

	Target	Actual
Negotiate 2013/14 clinical income contracts to ensure maximisation of income (signed contracts for 2013/14)	✓	✓
Deliver 2014/15 contracts with commissioners (signed contracts for 2014/15 agreed)	✓	✓
Implement the new Data Repository to ensure internal/external reporting requirements are met (all external requirements reporting met as key priority)	✓	✓
Rollout SLR fully across the organisation	✓	✗
Successfully upgrade Oracle R12 to ensure continuity of data flows (successful roll out)	✓	✓
Deliver a financial risk rating of no lower than 3 (as per Monitor feedback/website)	✓	✓
Deliver Monitor financial plan surplus	✓	✗
Implement approved 5 year strategy – deferred until 2014/15	–	–
Ensure delivery of Trust wide CIP programme (report to Finance Committee)	✓	✓
Deliver capital schemes within approved plan (in line with revised Monitor plan)	✓	✓

The committee agreed that two objectives were not met and one was deferred, and to award 3.75% for 2013/14.



Salary and Pension Entitlements of Senior Managers – Total Single Figure 2013/2014

	Salary (bands of £5,000)	Taxable Benefits (nearest £100) Note 1	Annual* Performance Related Bonus (bands of £5,000)	Long Term Performance Related Bonus (bands of £5,000)	All Pension Related Benefits (bands of £2,500) Note 2	Total Remuneration (bands of £5,000)
	£000	£000	£000	£000	£000	£000
MR K W BREMNER Chief Executive	220 – 225	11.0	0	0	85.0 – 87.5	320 – 325
MRS J PATTISON Director of Finance	145 – 150	7.0	0	0	32.5 – 35.0	185 – 190
MRS B J AKEHURST Director of Nursing	120 – 125	7.3	0	0	47.5 – 50.0	175 – 180
MR P SUTTON Director of Strategy & Business Development (Commenced September 1st 2013)	70 – 75	4.1	0	0	47.5 – 50.0	120 – 125
MR I C MARTIN Medical Director	210 – 215	7.0	0	0	27.5 – 30.0	250 – 255
DR M SMITH Chief Operating Officer (Left May 19th 2013)	15 – 20	0.9	0	0	10.0 – 12.5	30 – 35
MR J N ANDERSON Chairman	50 – 55	0	0	0	0	50 – 55
MS M HARTE Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR M DAVISON Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR D C BARNES Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR S HINDMARSH Non Executive Director	15 – 20	0	0	0	0	15 – 20
MR G A WRIGHT Non Executive Director	10 – 15	0	0	0	0	10 – 15

Note 1 – Taxable Benefits relate to car allowances either paid to the employee or offset against the total cost of leasing the vehicle.

Note 2 – For defined benefit schemes, the amount included here is the annual increase (expressed in £2,500 bands) in pension entitlement determined in accordance with the 'HMRC' method. The HMRC method derives from s229 of the Finance Act 2004, but is modified for the purpose of this calculation by paragraph 10(1)(e) of schedule 8 of SI 2008/410 (as replaced by SI 2013/1981). In summary, this is as follows: Increase = ((20 x PE) + LSE) – ((20 x PB) + LSB)

Where: PE is the annual rate of pension that would be payable to the director if they became entitled to it at the end of the financial year. PB is the annual rate of pension, adjusted for inflation, that would be payable to the director if they became entitled to it at the beginning of the financial year; LSE is the amount of lump sum that would be payable to the director if they became entitled to it at the end of the financial year; and LSB is the amount of lump sum, adjusted for inflation, that would be payable to the director if they became entitled to it at the beginning of the financial year.

Directors Remuneration Review

	2014/2015	2013/2014
Band of Highest Paid Director's Total Remuneration (£ '000)	220 – 225	220 – 225
Median Total Remuneration (£)	22,556	22,634
Ratio	9.86	9.83

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid director in their organisation and the median remuneration of the organisation's workforce. In this disclosure the median remuneration has been derived using the cumulative gross pay for all directly employed staff, including those staff employed on flexi-bank contracts and payments to other NHS bodies for staff that perform services for the Foundation Trust. The median remuneration calculation has not been adjusted to 'annualise' part year starters and leavers gross pay as it has been assumed that vacant posts have been recruited to. The banded remuneration of the highest paid director in the Foundation Trust in the financial year 2014/15 was £220k to £225k (2013/14, £220k to £225k). This was 9.86 times (2013/14, 9.83) the median remuneration of the workforce, which was £22,556 (2013/14, £22,634). In 2014/15, 2 employees received remuneration in excess of the highest-paid director (2013/14, 2). Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind as well as severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

Pension Entitlements of Senior Managers – 2014/2015

	Real increase/ (decrease) in pension and related lump sum at age 60	Total accrued pension and related lump sum at age 60 at 31 March 2015	Cash Equivalent Transfer Value at 31 March 2015	Cash Equivalent Transfer Value at 31 March 2014	Real Increase in CETV	Employers Contribution to Stakeholder Pension
	(bands of £2,500)	(bands of £5,000)				
	£000	£000	£000	£000	£000	£000
MR K W BREMNER Chief Executive	(10.0) – (12.5)	325 – 330	1,647	1,611	(8)	0
MRS J PATTISON Director of Finance	7.5 – 10.0	185 – 190	792	711	62	0
MRS B J AKEHURST Director of Nursing	7.5 – 10.0	130 – 135	659	580	64	0
MR I C MARTIN Medical Director	50.0 – 52.5	300 – 310	1,700	1,335	329	0
MR P SUTTON Director of Strategy & Business Development	10.0 – 12.5	120 – 125	402	348	44	0

As Non-Executive Directors do not receive pensionable remuneration, there will be no entries in respect of pensions for Non-Executive Directors.

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capital value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme, or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which the disclosure applies. The CETV figures, and from 2005-06 the other pension details, include the value of any pension benefits in another scheme or arrangement which the individual has transferred to the NHS pension scheme. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

Real Increase in CETV – This reflects the increase in CETV effectively funded by the employer. It takes account of the increase in accrued pension due to inflation (Consumer Price Index), contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

The Real Increase in Pension & Lump Sum and CETV for Mr Martin have shown a high value increase in the financial year, as a result of the Medical Director Executive Allowance becoming classified as pensionable pay from 1 April 2014.

**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 ("the 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 2015 and of its income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2014/15.

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 the Annual Governance Statement and Note 1.24 of the financial statements concerning the material uncertainty as to the continuation of the entity and the financial risks facing the Trust in the foreseeable future. The Trust is subject to an ongoing Monitor investigation surrounding its financial sustainability and is forecasting a deficit of £17.6m in 2015/16 and a cash deficit by March 2016. The Trust has made a bid for funding of £11m from the Independent Trust Financing Facility which would, if the application is successful, remove the forecast cash deficit for 2015/16. The matters described in the Annual Governance Statement and Note 1.24 of the financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Trust's ability to continue as a going concern.

The financial statements do not include the adjustments that would result if the Trust was unable to continue as a going concern.

What we have audited

The Trust's financial statements comprise:

- the Statement of Financial Position as at 31 March 2015;
- 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 Taxpayer's Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, 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 2014/15 issued by the Independent Regulator of NHS Foundation Trusts ("Monitor").

Our audit approach

Overview

- Overall materiality: £6,727,000 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 on the grounds of materiality.
- Risk of fraud in revenue and expenditure recognition.
- Financial sustainability of the Trust.
- Valuation of Property, Plant and Equipment.

The scope of our audit and our areas of focus

We conducted our audit in accordance with 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.

Area of focus

Management Override of Control and Fraud in Revenue/Expenditure Recognition

See notes 1.2 – 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 2 – 5 for further information.

We focussed on this area because there is a heightened risk due to:

- the risks surrounding the financial sustainability of the Trust;
- the pressure the Trust was under to achieve the forecast deficit in the revised annual plan submitted to Monitor in December 2014;
- the inherent complexities in a number of contractual arrangements entered into by the Trust; and
- the timing and complexity of the intra-NHS balance reconciliation process

Revenue

The Trust's principal source of income is from Clinical Commissioning Groups ("CCGs"), accounting for 92% 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, for example additional winter pressures funding. We focussed our work on the income received in this area.

How our audit addressed the area of focus

Journals

We selected a sample of manual journals, focussing on those with a material impact on the income and expenditure account of the Trust, particularly around the year end.

We traced these journal entries to the supporting documentation (for example, invoices, goods received notes and cash receipts and payments) and found the journals posted to be supported by that documentation, consistent with it and recognised in the correct accounting period.

Income

We reconciled the total income received from the CCGs to the contracts signed at the start of the year and traced material contract variations received in year to supporting documentation. We read all relevant correspondence between the Trust and the CCGs and found that total income recognised reflected all variations that had been agreed.

Expenditure

For a sample of transactions recognised during the year and around (both before and after) the year end, we checked 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.

Intra-NHS balances

We obtained the Trust's mismatch reports received from Monitor, which identified balances (debtor, creditor, income or expenditure balances) that did not match the balances disclosed by the counterparty organisation.



Area of focus

Expenditure

We focussed 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.

Financial sustainability of the Trust

The Trust made a deficit of £7.9m in 2014/15 and is forecasting a deficit of £17.6m in 2015/16. In addition, the Trust is forecasting that they will be in a cash deficit position by March 2016. As a result of the forecasts for 2015/16, Monitor announced on 6 March 2015 that they were to investigate the Trust for financial sustainability concerns. The outcome of this investigation is not yet available.

The financial position will affect the liquidity position of the Trust and depleting cash balances could become a more significant risk in the medium to longer term.

We therefore focussed on the Director's evaluation that it was appropriate to prepare the financial statements using the going concern basis of accounting.

How our audit addressed the area of focus

We read correspondence between the Trust and the counterparty organisation with the largest mismatch in the report and identified that the mismatch had resulted from an acceptable difference in accounting requirements between the counterparties. The remaining mismatches at the date of our report were immaterial in aggregate in the context of the financial statements.

The NHS Foundation Trust Annual Reporting Manual 2014/15 confirms that "the accounts should be prepared on a going concern basis unless management either intends to apply to the Secretary of State for the dissolution of the NHS foundation trust without the transfer of the services to another entity, or has no realistic alternative but to do so."

At the date of our auditor's report, we concur with the directors' view that the going concern basis of accounting is an appropriate basis for the preparation of these financial statements. We performed the following procedures to test the projections made by management. We:

- tested the assumptions made by management in developing significant elements of financial forecasts, including levels of income from CCGs, payroll expenditure and projected cost savings, by: considering the latest position of contract negotiations with the CCGs; inspecting the forecast staffing profile of the Trust and reconciling amounts to the forecast payroll costs; and obtaining a list of the cost recovery programmes identified in 2014/15 and quantifying the amount of unidentified schemes in year. We also compared the forecasts to the historical performance of the Trust;
- performed a sensitivity analysis on forecast cash flow by considering the impact that changes in the forecast CCG income not yet agreed, or the expected impact of the cost recovery programmes, would have on those projections and evaluating what changes would be required to result in the Trust being unable to meet its liabilities as they fall due;
- considered plans for securing future funding and confirmed, by reading the relevant correspondence, that a bid for £11m of additional funding was submitted to the Independent Trust Financing Facility in April 2015, and that this had not been included in the current forecasts; and
- reconciled forecast cash flows to in the income and expenditure forecasts.

Area of focus

Valuation of Property, Plant and Equipment

We focussed on this area because Property, Plant and Equipment ("PPE") represents the largest balance in the Trust's statement of financial position. The PPE balance at 31 March 2015 is £199.3m, of which £169.5m relates to buildings subject to revaluation

All PPE assets are measured initially at cost, with land and buildings being subsequently measured at fair value based on periodic valuations. The valuations are carried out by professionally qualified valuers in accordance with the Royal Institute of Chartered Surveyors (RICS) Appraisal and Valuation Manual, and 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.

A full valuation of the Trust's portfolio of land and buildings (including dwellings) was undertaken during 2013/14 by the Trust's valuation experts. In evaluating the valuation of these assets our audit work focussed on the key assumptions adopted by the Trust: the Trust has estimated that if they were to undertake a revaluation of land and buildings in 2014/15 the estimated movement would be an increase of 2%. This assumption was based on movements on the Building Cost Information Services ("BCIS") index, expected depreciation charges and reduction in professional fees associated with building costs which have a significant impact on the forecast movement in valuation.

Based on these assumptions, the Trust has determined that the value of the estate remains appropriate for 2014/15.

How our audit addressed the area of focus

As a result of this work, we determined that the forecasts used by the Trust in its determination of the appropriateness of the going concern basis of accounting were consistent with the evidence available at the time and did not contain any systematic bias; however there remains a concern over the financial sustainability of the Trust, which has led us to include an emphasis of matter in our auditor's report and to qualify our audit certificate in respect of our responsibilities to report on the arrangements the Trust has put in place to secure economy, efficiency and effectiveness.

We performed a sensitivity analysis on the PPE by applying the 8% increase in the BCIS index in 2014/15 to the value of land and buildings at 31 March 2014 and adjusting for the annual depreciation charges.

We challenged the assumption used by the Trust regarding costs of professional fees for a new build reducing by 4% in comparison to 2013/14 by discussing this assumption with the Trust's valuers and using our valuation expertise to assess that the remaining level of professional fees included in the valuation of 11% is reasonable.

Following completion of the procedures above, we determined that the valuation undertaken in 2013/14 remains appropriate for 2014/15 as any movements in valuation are not likely to be material to the financial statements.



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 work at the 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, consistent with last year, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£6,727,000 (2014: £6,483,064)
How we determined it	2% of revenue
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted measure when auditing not for profit organisations, because we believe this to be the most appropriate financial measure of the performance of the Foundation Trust.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 (2014: £100,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other required reporting in accordance with the Audit Code for NHS foundation trusts

Opinions on other matters prescribed by the Audit Code for NHS foundation trusts

In our opinion:

- the information given in the Strategic Report and the Directors’ Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2014/15.

Consistency of other information

Under the Audit Code for NHS foundation trusts we are required to report to you if, in our opinion:

- information in the Annual Report is:
 - 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 38, 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.
- the section of the Annual Report on page 149, 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.
- the Annual Governance Statement does not meet the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual 2014/15 or is misleading or inconsistent with information of which we are aware from our audit. We are not required to consider, nor have we 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 arising from this responsibility.

We have no exceptions to report arising from this responsibility.

We have no exceptions to report arising from this responsibility.

We have no exceptions to report arising from this responsibility.

Economy, efficiency and effectiveness of resources and Quality Report

Under the Audit Code for NHS Foundation Trusts we are required to report to you if:

- we have not been able to satisfy ourselves that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- we have qualified, on any aspect, our opinion on the Quality Report.

We have an exception to report arising from this responsibility.

We have an exception to report arising from this responsibility. See our limited assurance report on the Quality Report on page 131.



Arrangements for securing economy, efficiency and effectiveness in use of resources

We draw your attention to the Trust's Annual Governance Statement. On 6 March 2015 Monitor announced that they were to investigate the Trust for concerns around financial sustainability. The investigation is still in its early stages and no formal conclusion has been reached; however the Trust is forecasting a deficit of £17.6m in 2015/16 and a cash deficit by March 2016. The Trust has made a bid for funding of £11m from the Independent Trust Financing Facility which would remove the forecast cash deficit for 2015/16; however formal confirmation that the loan has been approved is not available.

As a result of the forecast financial position and Monitor's investigation into the financial sustainability of the Trust, we are unable to satisfy ourselves that in our opinion City Hospitals Sunderland NHS Foundation Trust has not made proper arrangements for securing economy, efficiency and effectiveness in its use of resources and our certificate in this report is qualified in this regard.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, 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 2014/15.

Our responsibility is to audit and express an opinion on the financial statements in accordance with the National Health Service Act 2006, the Audit Code for NHS Foundation Trusts issued by Monitor 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.

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.

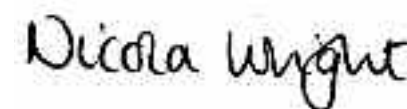
We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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.

Qualified 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 Audit Code for NHS Foundation Trusts issued by Monitor. As reported above, we are not able to conclude that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the financial period.



Nicola Wright (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Newcastle upon Tyne
29 May 2015

- (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 2015 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: 28 May 2015

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
31 MARCH 2015

		2014/15	2013/14	2013/14	2013/14
			Operating Position	Revaluation Losses & Reversal of Impairments	Total
	NOTE	£000	£000	£000	£000
Operating Income	2 – 3	336,374	322,617	1,698	324,315
Operating Expenses	4 – 7	(337,895)	(316,553)	(4,490)	(321,043)
OPERATING (DEFICIT) / SURPLUS		(1,521)	6,064	(2,792)*	3,272
FINANCE COSTS					
Finance income	8	74	73	0	73
Finance expenses – financial liabilities	9	(1,439)	(1,240)	0	(1,240)
Finance expenses – unwinding of discount on provisions	18	(20)	(48)	0	(48)
PDC Dividends payable	26	(4,990)	(5,222)	0	(5,222)
NET FINANCE COSTS		(6,375)	(6,437)	0	(6,437)
DEFICIT FOR THE YEAR		(7,896)	(373)	(2,792)	(3,165)
Revaluation losses – property		0	0	(3,340)	(3,340)
TOTAL COMPREHENSIVE EXPENSE FOR THE YEAR		(7,896)	(373)	(6,132)	(6,505)

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

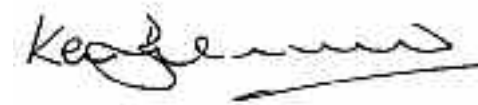
STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

	NOTE	31 March 2015 £000	31 March 2014 £000
Non-current assets			
Intangible assets	10	4,777	5,316
Property, plant and equipment	11	199,180	196,103
Loan to Subsidiary	22.4	1,000	0
Trade and other receivables	12	840	1,104
Total non-current assets		205,797	202,523
Current assets			
Inventories	13	4,026	3,408
Trade and other receivables	12	11,889	14,045
Cash and cash equivalents	14	19,842	15,257
Total current assets		35,757	32,710
Current liabilities			
Trade and other payables	15	(27,149)	(26,672)
Borrowings	17	(3,139)	(2,120)
Provisions	18	(284)	(439)
Other liabilities	16	(1,600)	(1,419)
Total current liabilities		(32,172)	(30,650)
Total assets less current liabilities		209,382	204,583
Non-current liabilities			
Trade and other payables	15	(1,923)	(2,476)
Borrowings	17	(43,757)	(30,905)
Provisions	18	(942)	(1,009)
Total non-current liabilities		(46,622)	(34,390)
Total assets employed		162,760	170,193

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2015

	31 March 2015 £000	31 March 2014 £000
Financed by taxpayers' equity		
Public Dividend Capital	99,542	99,079
Revaluation reserve	68,075	68,075
Income and expenditure reserve	(4,857)	3,039
Total taxpayers' equity	162,760	170,193

The financial statements on pages 24 to 68 were approved by the Board on 28 May 2015 and signed on its behalf by:



K W Bremner
Chief Executive

Date: 28 May 2015



STATEMENT OF CHANGES IN TAXPAYERS' EQUITY

	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)
Taxpayers' Equity at 31 March 2015	162,760	99,542	68,075	(4,857)
	Total Taxpayers' Equity £000	Public Dividend Capital £000	Revaluation Reserve £000	Income and Expenditure Reserve £000
Taxpayers' Equity at 1 April 2013	176,534	98,915	71,415	6,204
Changes in taxpayers' equity for 2013-14				
Public Dividend Capital Received	164	164	0	0
Total Comprehensive Expense for the year: Deficit for the year	(3,165)	0	0	(3,165)
Revaluations – property	(3,340)	0	(3,340)	0
Taxpayers' Equity at 31 March 2014	170,193	99,079	68,075	3,039

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2015

	NOTE	2014/15 £000	2013/14 £000
Cash flows from operating activities			
Operating (deficit) / surplus from continuing operations		(1,521)	3,272
Non-cash income and expense:			
Depreciation and amortisation		8,249	8,353
Impairments		0	4,490
Reversal of Impairments		0	(1,698)
Loss on disposal		0	47
Decrease / (Increase) in Trade and Other Receivables		2,320	(7,115)
(Increase) / Decrease in Inventories		(618)	354
Increase in Trade and Other Payables		1,071	2,412
Decrease in Provisions		(242)	(80)
Non cash donations		(162)	(162)
Net cash generated from operating activities		9,097	9,873
Cash flows from investing activities			
Interest received		74	73
Purchase of intangible assets		(571)	(2,356)
Purchase of property, plant and equipment		(11,023)	(9,065)
Net cash used in investing activities		(11,520)	(11,348)
Net cash outflows before financing		(2,423)	(1,475)
Cash flows from financing activities			
PDC received		463	164
Loans received		15,500	3,500
Loans repaid		(1,618)	(1,618)
Interest paid		(1,450)	(1,256)
Loan to subsidiary	22.4	(1,000)	0
PDC dividend paid		(4,887)	(5,375)
Net cash generated from/(used) in financing activities		7,008	(4,585)
Increase / (decrease) in cash and cash equivalents		4,585	(6,060)
Cash and cash equivalents at 1 April	14	15,257	21,317
Cash and cash equivalents at 31 March	14	19,842	15,257

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 2014/15 (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 (FReM) 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 2014/15 amounted to £1,898k compared to £2,486k in 2013/14.

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 NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, general practices and other bodies, allowed under the direction of Secretary of State, in England and Wales. It is not possible for the Foundation Trust to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme. Employers pension cost contributions are charged to operating expenses as and when they become due. The NHS Pension Scheme (England and Wales) Resource Account is published annually and can be found on the Business Service Authority – Pensions Division website at www.nhsbsa.nhs.uk/pensions

The scheme is subject to a full actuarial valuation every four years and an accounting valuation every year. An outline of these follows:

a) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates to be paid by employers and scheme members. The last such valuation, which determined current contribution rates was undertaken as at 31 March 2004. Consequently, a formal actuarial valuation would have been due for the year ending 31 March 2008. However, formal actuarial valuations for unfunded public service schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions, and while future

scheme terms are developed as part of the reforms to public service pension provision. Employer and employee contribution rates are currently being determined under the new scheme design.

The conclusion from the 2004 valuation was that the scheme had accumulated a notional deficit of £3.3 billion against the notional assets as at 31 March 2004. However, after taking into account the changes in the benefit and contribution structure effective from 1 April 2008, the scheme actuary reported that employer contributions could continue at the existing rate of 14% of pensionable pay. On advice from the scheme actuary, scheme contributions may be varied from time to time to reflect changes in the scheme's liabilities. Up to 31 March 2008, the vast majority of employees paid contributions at the rate of 6% of pensionable pay. From 1 April 2008, employees' contributions are on a tiered scale from 5% up to 8.5% of their pensionable pay depending on total earnings. Estimated employer contributions for 2015/16 based upon the existing contribution rate of 14% is £19,616k.

b) Accounting valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. Actuarial assessments undertaken in intervening years between formal valuations using updated membership data are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal valuation now exceeds four years, the valuation of the scheme liability as at 31 March 2014, is based on detailed membership data as at 31 March 2010 updated to 31 March 2014 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

c) Scheme provisions

The Scheme is a "final salary" scheme. Annual pensions are normally based on 1/80th for the 1995 section and on the best of the last three years 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. With effect from 1 April 2008 members can choose to give up some of their annual pension for an additional tax free lump sum, up to a maximum amount permitted under HMRC rules. This new provision is known as "pension commutation".

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011/2012 the Consumer Price Index has been used to replace the Retail Prices Index.

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year's pensionable pay for death in service, and five times their annual pension for death after retirement, less pension already paid, subject to a maximum amount equal to twice the member's final year's pensionable pay less their retirement lump sum for those who die after retirement, is payable.

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

The scheme provides the opportunity to members to increase their benefits through money purchase additional voluntary contributions (AVCs) provided by an approved panel of life companies. Under the arrangement the employee/member can make contributions to enhance an employee's pension benefits. The benefits payable relate directly to the value of the investments made.

In June 2010, the Government commissioned an independent review to look into all public service pensions. This was known as the Hutton Review, and it concluded that current pension arrangements for all public sector schemes, including the NHS, need to

be reformed. The Public Service Pensions Commission's interim report, published in October 2010, concluded that the most effective way of making short-term savings was to increase member contributions and that there was a case for doing this. In response, the Government said it would increase member contributions by an average of 3.2 percentage points by 2014/15, with increases phased-in and designed to protect the lower paid. The first increases were implemented in 2012/13. In March 2012, the Government announced the proposed final agreement for a new NHS Pension Scheme in England and Wales, to be introduced in 2015. Key features of its preferred design are pensions based on career average rather than final salary and a normal pension age linked to the State Pension age.

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 fair value.

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 DTZ, an appropriately qualified member RICS, determined that the real increase in valuation would be a 2% uplift which was immaterial.

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.

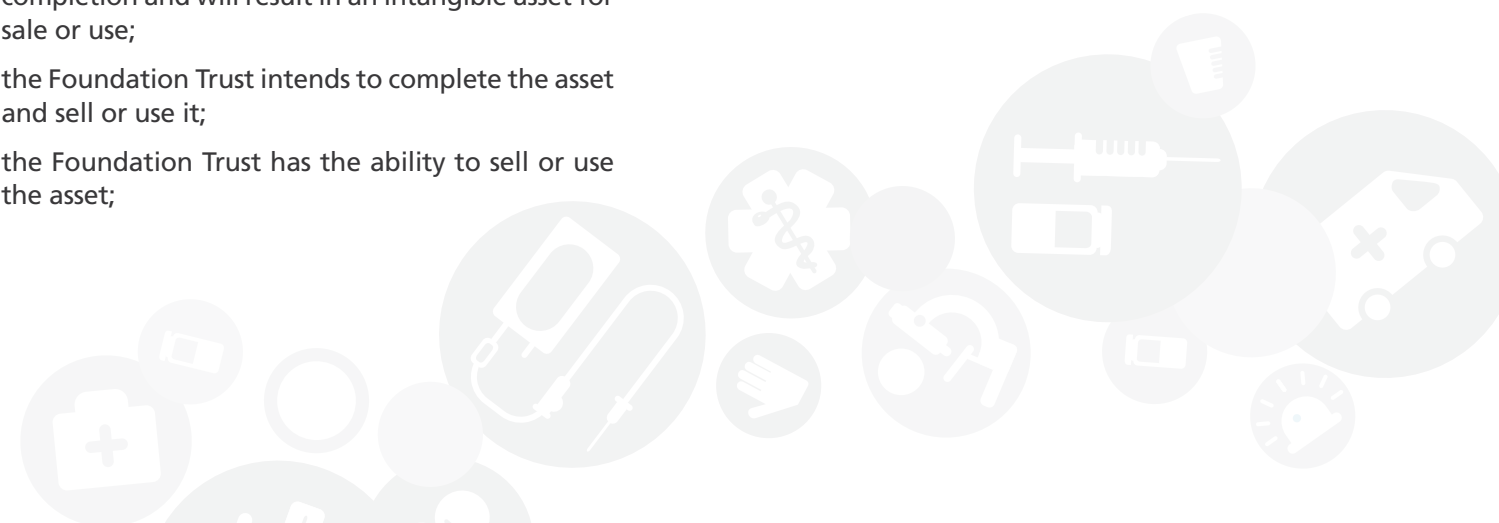
Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. Assets are 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

- 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.

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

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 (NHS LA) operates a risk pooling scheme under which the Foundation Trust pays an annual contribution to the NHS LA, which, in return, settles all clinical negligence claims. The NHS LA 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 NHS LA 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 2014/15 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.

1.21 Recent standards adopted in the NHS

New standards adopted during the year were as follows;

- IAS 27 Separate Financial Statements (Revised 2011) (and including amendment issued in June 2012)
- IAS 28 Investments in Associates and Joint Ventures (Revised 2011)
- IFRS 10 Consolidated Financial Statements (including amendment issued in June 2012)
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of interests in other entities (including amendment issued in June 2012)

1.22 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 2014/15 the Foundation Trust subsidiary company, CHoICE Limited commenced trading, operating 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 (£163m), the main transactions between the Trust and CHoICE Ltd are shown in Note 22.4. The estimated Charitable Fund value at 31 March 2015 (£3.5m) 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 2014, the value of the funds was £3,217k. This represents a net increase of £100k on the 31st March 2013 value of £3,117k. The increase in value was due to a £69k net increase in gains on investments in addition to a net excess of income over expenditure of £31k. As at 31 March 2015 the value of the funds is estimated as £3,472k. This represents an estimated net increase in value of £255k.

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 Financial Performance

As part of reviewing the financial sustainability of the organisation, the Trust has considered the scale of the financial challenges facing the Trust over the next 12 month period. As a consequence there is material uncertainty that may cast significant doubt about the Trust's ability to continue as a going concern. This specifically relates to the impact on the cash position of the Trust in 2015/16. The Trust is seeking a loan to improve the cash position and support the committed capital developments. At the time of writing the Trust has not received confirmation that this has been approved.

1.20 Recent standards issued but not yet adopted in the NHS

IFRS (IASB)	IASB Issued	Financial year when the change first applies
IFRS 9 Financial Instruments	July 2014	Not yet EU adopted. Expected to be effective from 2018/19.
IFRS 13 Fair Value Measurement	May 2011	Adoption delayed by HM Treasury. To be adopted from 2015/16.
IFRS 15 Revenue from contracts with customers	May 2014	Not yet EU adopted. Expected to be effective from 2017/18.
IAS 36 (amendment) – recoverable amount disclosures	May 2013	To be adopted from 2015/16 (aligned to IFRS 13 adoption)
IAS 19 (amendment) – employer contributions to defined benefit pension schemes	November 2013	Effective from 2015/16 but not yet adopted.
IFRIC 21 Levies	May 2013	EU adopted in June 2014 but not yet adopted by HM Treasury.

* This reflects the EU-adopted effective date rather than the effective date in the standard.

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.

	2014/15 Healthcare £000	2013/14 Healthcare £000
Income		
Income from activities	311,442	299,183
Other operating income	24,932	25,132*
Total Income	336,374	324,315
Deficit by segment		
Operating Deficit as reported to the Board of Directors	(7,896)	(373)
Deficit per Statement of Comprehensive Income	(7,896)	(373)
Segment net assets	162,760	170,193

* Includes £1,698k relating to reversal of impairments of property.

The majority of the Foundation Trust's total operating income is received from NHS England and CCGs. Of the £336,374k total operating income reported in 2014/15, an amount of £308,208k (92%) was attributable to NHS England and CCGs – (£296,299k (91%) 2013/14).

The financial position reported to the Board of Directors on the 23rd April 2015 was £(7,896)k, reflecting the deficit reported in the Statement of Comprehensive Income.

Customers generating more than 10% of the Foundation Trust's income for both 2014/15 and 2013/14 were as follows:-

	2014/15 £000	2013/14 £000
NHS Sunderland CCG	188,264	179,987
NHS England	41,214	39,786

Income generated by external customers by country were:-

	2014/15 £000	2013/14 £000
Ireland	0	26
Scotland	5	18
Wales	3	3

3. Operating income

3.1 Income from activities by classification

	2014/15 £000	2013/14 £000
Elective income	78,149	74,361
Non elective income	71,152	79,894
Outpatient income	49,033	56,505
Other income from activities	101,879	76,576
A & E income	10,364	10,347
Total income from protected services activities*	310,577	297,683
NHS Injury Benefit Scheme***	583	1,014
Private patient income	282	486
Total income from activities	311,442	299,183
Research and Development	1,656	1,538
Education and training**	10,717	10,259
Charitable and other contributions to expenditure	162	162
Non-patient care services to other bodies	618	646
Other income	11,779	10,829
Total other operating income	24,932	23,434
Total operating income before reversal of impairments	336,374	322,617
Reversal of impairments of property	0	1,698
Total operating income after reversal of impairments	336,374	324,315

*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

	2014/15 £000	2013/14 £000
NHS:		
Commissioner requested services		
– CCGs	307,919	295,217
Non Commissioner requested services		
– Local Authorities	2,656	2,455
– NHS Trusts	2	11
	310,577	297,683
Non NHS:		
– NHS Injury Benefit Scheme ***	583	1,014
– Private Patients	282	486
Total income from activities	311,442	299,183

*** Injury cost recovery income is subject to a provision for impairment of receivables of 18.9% (2013/14: 12.6%) 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:

	2014/15 £000	Restated 2013/14 £000
SLAs with other Trusts	2,031	474
Car parking	1,484	1,173
Consultant work offsite	1,294	872
Clinical Excellence Awards	519*	281
SLA with subsidiary company	483	0
Catering income	368	430
MRI Van	350	0
Premises lease income from Sunderland CCG	350*	350
Rental of hospital premises	331	450
Mortuary	276	262
Prescription Pricing Authority	32	32
	7,518	4,324
Other	4,261	6,505
	11,779	10,829

* Previously included within 'Other'

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:

	2014/15 £000	2013/14 £000
Services from NHS Foundation Trusts	14,539	11,961
Services from NHS Trusts	52	41
Services from CCGs and NHS England	24	0
Services from other NHS Bodies	676	1,134
Purchase of healthcare from non NHS Bodies	3,221	2,322
Employee Expenses – Executive directors	1,217	1,139
Employee Expenses – Non-executive directors	141	138
Employee Expenses – Staff	205,458	195,336
Drug Costs	34,063	28,600
Supplies and services – clinical	34,338	34,383
Supplies and services – general	8,328	7,742
Establishment	3,189	3,271
Transport	403	408
Premises	12,634	11,940
Increase in bad debt provision	303	132
Depreciation of property, plant and equipment	7,154	7,443
Amortisation of intangible assets	1,095	910
Impairment of property	0	4,490
Loss on disposal of property, plant and equipment	0	47
Audit fees		
Audit services – statutory audit	53	53
Other auditors remuneration		
Assurance services	13	13
Clinical negligence – insurance premium	8,678	7,278
Other expenditure	2,316	2,262
	337,895	321,043

The main components of 'Other Expenditure' include:

	2014/15 £000	2013/14 £000
Training, courses and conferences	605	665
Legal fees	462	518
Consultancy fees	545	396
Insurance	219	269
Other	485	414
	2,316	2,262

4.1/2 Limitation of auditors liability

On 31st March 2015, 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 (2013/14: £1m).

4.2 Operating leases – as a lessee

4.2/1 Analysis of operating lease expenditure

	2014/15 £000	2013/14 £000
Land and buildings	647	276
Hire of plant and machinery	2,733	1,946
Total Minimum Lease Payments	<u>3,380</u>	<u>2,222</u>

The lease arrangement with Sunderland University for the rental of Clanny House is reviewed annually, the last review having taken place in September 2014. It is expected that the lease arrangement for the remaining accommodation may be further extended in 2015/16.

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 £769k is included above (£579k 2013/14).

4.2/2 Arrangements containing an operating lease

	2014/15 £000	2013/14 £000
Future minimum lease payments due:		
– Within 1 year	2,113	2,002
– Between 1 and 5 years	2,652	3,312
	<u>4,765</u>	<u>5,314</u>

4.3 Operating leases – as a lessor

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

	2014/15 £000	2013/14 £000
Rental income		
– Within 1 year	331	450
Total rental income	<u>331</u>	<u>450</u>

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)

	2014/15 Total £000	2014/15 Permanently Employed £000	Other £000	2013/14 Total £000	2013/14 Permanently Employed £000	Other £000
Salaries and wages	166,573	158,528	8,045	158,956	151,269	7,687
Social Security Costs	13,191	12,081	1,110	12,709	11,648	1,061
Pension costs – defined contribution plans						
employers contributions to NHS Pensions	19,422	18,296	1,126	18,912	17,836	1,076
Other pension costs	28	0	28	68	0	68
Agency/contract staff	7,724	0	7,724	6,147	0	6,147
Employee benefits expense	<u>206,938</u>	<u>188,905</u>	<u>18,033</u>	<u>196,792</u>	<u>180,753</u>	<u>16,039</u>
Amounts included within above charged to capital schemes	<u>263</u>			<u>317</u>		

Total pension costs with respect to the 5 Directors in 2014/15 amounted to £123k (2013/14: 5 Directors – £116k).

The banded remuneration of the highest paid Director in the Foundation Trust in the financial year 2014/15 was £220k to £225k (2013/14: £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)

	2014/15 Total WTE Number	2014/15 Permanently Employed WTE Number	Other WTE Number	2013/14 Total WTE Number	2013/14 Permanently Employed WTE Number	Other WTE Number
Medical and dental	549	407	142	543	403	140
Administration and estates	1,249	1,249	0	1,209	1,209	0
Healthcare assistants and other support staff	862	862	0	765	765	0
Nursing, midwifery and health visiting staff	1,518	1,518	0	1,473	1,473	0
Scientific, therapeutic and technical staff	554	554	0	483	483	0
Bank and agency staff	83	0	83	40	0	40
Total	<u>4,815</u>	<u>4,590</u>	<u>225</u>	<u>4,513</u>	<u>4,333</u>	<u>180</u>

5.3 Employee benefits

There were no employee benefits authorised during 2014/15 (2013/14 £nil).

5.4 Retirements due to ill-health

During 2014/15 (prior year 2013/14) there were 4 (3) 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 £177,721 (2013/14 £148,012). 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	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
<£10,000	0	0	11	11	11	11
£10,000 – £25,000	0	0	4	1	4	1
£25,001 – £50,000	0	0	1	0	1	0
Total Number of Exit Packages by Type	0	0	16	12	16	12
	£'000	£'000	£'000	£'000	£'000	£'000
Total Resource Cost	0	0	148	50	148	50

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

	Agreements		Total Value of Agreements	
	2014/15 Number	2013/14 Number	2014/15 £'000	2013/14 £'000
Contractual payments in lieu of notice	14	12	102	50
Non-contractual payments requiring HM Treasury approval*	2	0	46	0
Total	16	12	148	50

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

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 figures quoted relate to Special Severance Payments made to 2 individuals, one for £25,900 and the other £20,100.

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

Amounts included within Interest Payable (Note 9) arising from claims
made under this legislation
Compensation paid to cover debt recovery costs under this legislation

2014/15 £000	2013/14 £000
0	0
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:

Loss on disposal of plant and machinery
Loss on disposal of other property, plant and equipment

2014/15 £000	2013/14 £000
0	47
0	0
0	47

8. Finance income

Interest received on commercial bank accounts
Interest received from short term deposits

2014/15 £000	2013/14 £000
14	36
60	37
74	73

9. Finance expenses – financial liabilities

Interest on Loans from the Foundation Trust Financing Facility:
Tranche A
Tranche B
Tranches C-E
Tranches F-G
Tranches H-J

2014/15 £000	2013/14 £000
147	150
15	30
979	1,028
136	9
162	23
1,439	1,240

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

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

10. Intangible assets

10. Intangible assets

	Software licences £000
Cost at 1 April 2014	9,604
Additions purchased	556
Cost at 31 March 2015	10,160
Accumulated amortisation at 1 April 2014	4,288
Provided during the year	1,095
Accumulated amortisation at 31 March 2015	5,383
Net book value	
– Purchased at 1 April 2014	5,316
– Donated at 1 April 2014	0
– Total at 1 April 2014	5,316
– Purchased at 31 March 2015	4,777
– Donated at 31 March 2015	0
– Total at 31 March 2015	4,777

	Software licences £000
Cost at 1 April 2013	7,364
Additions purchased	2,240
Cost at 31 March 2014	9,604
Accumulated amortisation at 1 April 2013	3,378
Provided during the year	910
Accumulated amortisation at 31 March 2014	4,288
Net book value	
– Purchased at 1 April 2013	3,986
– Donated at 1 April 2013	0
– Total at 1 April 2013	3,986
– Purchased at 31 March 2014	5,316
– Donated at 31 March 2014	0
– Total at 31 March 2014	5,316

10.2 Economic life of intangible assets

	Min life Years	Max life Years
Intangible assets – purchased		
Software licences	1	5

11. Property, plant and equipment

11.1 Property, plant and equipment comprise the following elements:

2014/15	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
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)
At 31 March 2015	258,376	10,871	173,514	1,375	4,372	47,643	454	18,296	1,851
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)
Accumulated depreciation at 31 March 2015	59,196	0	3,996	23	0	38,906	377	14,149	1,745
Net book value									
– 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
Total at 1 April 2014	196,103	10,871	164,854	1,375	4,455	9,836	107	4,472	133
– 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
Total at 31 March 2015	199,180	10,871	169,518	1,352	4,372	8,737	77	4,147	106

* 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:

		Buildings excluding dwellings		Dwellings		Assets under construction & payments on account		Plant & Machinery	Transport Equipment	Information Technology	Furniture & fittings
	Total £000	Land £000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2013/14											
Cost or valuation at 1 April 2013	261,660	10,871	178,937	1,529	4,287	48,621	1,168	14,388	1,859		
Additions purchased	9,700	0	0	0	9,700	0	0	0	0	0	0
Additions donated	162	0	39	0	0	123	0	0	0	0	0
Reclassifications	0	0	4,925	0	(9,532)	1,161	0	3,426	20		
Revaluation	(19,201)	0	(19,047)	(154)	0	0	0	0	0	0	0
Disposals	(2,144)	0	0	0	0	(1,618)	(435)	(78)	(13)		
At 31 March 2014	250,177	10,871	164,854	1,375	4,455	48,287	733	17,736	1,866		
Accumulated depreciation at 1 April 2013	61,797	0	8,636	48	0	37,966	1,030	12,402	1,715		
Provided during the year	7,443	0	4,361	24	0	2,056	31	940	31		
Impairments charged to operating expenses	4,490	0	4,490	0	0	0	0	0	0		
Reversal of Impairments credited to operating income	(1,698)	0	(1,698)	0	0	0	0	0	0		
Revaluations	(15,861)	0	(15,789)	(72)	0	0	0	0	0		
Disposals	(2,097)	0	0	0	0	(1,571)	(435)	(78)	(13)		
Accumulated depreciation at 31 March 2014	54,074	0	0	0	0	38,451	626	13,264	1,733		
Net book value											
– Purchased at 1 April 2013	198,420	10,871	169,529	1,481	4,287	10,002	138	1,969	143		
– Donated at 1 April 2013	1,443	0	772	0	0	653	0	17	1		
Total at 1 April 2013	199,863	10,871	170,301	1,481	4,287	10,655	138	1,986	144		
– Purchased at 31 March 2014	194,920	10,871	164,194	1,375	4,455	9,327	107	4,458	133		
– Donated at 31 March 2014	1,183	0	660	0	0	509	0	14	0		
Total at 31 March 2014	196,103	10,871	164,854	1,375	4,455	9,836	107	4,472	133		

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 2015 £000	Financial assets £000	Non- financial assets £000	Total 31st March 2014 £000	Financial assets £000	Non- financial assets £000
Current						
NHS receivables *	7,311	7,311	0	9,155	9,155	0
Other receivables with related parties	0	0	0	452	36	416
Provision for impaired receivables	(632)	(439)	(193)	(366)	(246)	(120)
Prepayments	2,384	0	2,384	2,411	0	2,411
Other receivables	2,826	1,747	1,079	2,293	969	1,324
PDC receivable	0	0	0	100	0	100
Total current trade and other receivables	11,889	8,619	3,270	14,045	9,914	4,131
Non-Current						
Provision for impaired receivables	(196)	0	(196)	(159)	0	(159)
Other receivables	1,036	0	1,036	1,263	0	1,263
Total non current trade and other receivables	840	0	840	1,104	0	1,104

* 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

	2014/15 £000	2013/14 £000
At 1 April	525	393
Increase in provision	303	143
Unused amounts reversed	0	(11)
At 31 March	828	525

12.3 Analysis of impaired receivables

	31 March 2015 £000	31 March 2014 £000
0-30 days	60	26
30-60 days	30	17
60-90 days	24	9
90-180 days	83	154
Over 180 days	631	319
Total	828	525

12.4 Ageing of non-impaired receivables past their due date

	31 March 2015 £000	31 March 2014 £000
0-30 days	4,455	3,291
30-60 days	791	1,515
60-90 days	213	289
90-180 days	567	954
over 180 days	295	329
Total	6,321	6,378

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 2015.



13.1 Inventories

Raw materials and consumables

13.2 Inventories recognised in expenses

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

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

	31 March 2015 £000	31 March 2014 £000
Raw materials and consumables	<u>4,026</u>	<u>3,408</u>
	31 March 2015 £000	31 March 2014 £000
Inventories recognised in expenses	40,929	35,525
Write-down of inventories recognised as an expense	63	55
Inventories recognised in expenses	<u>40,992</u>	<u>35,580</u>
	2014/15 £000	2013/14 £000
At 1 April	15,257	21,317
Net change in year	4,585	(6,060)
At 31 March	19,842	15,257
Broken down into:		
Cash at commercial banks and in hand	198	74
Cash with GBS (Government Banking Service)	19,644	15,183
Cash and cash equivalents as in Statement of Financial Position and Statement of Cash Flows	<u>19,842</u>	<u>15,257</u>

15. Trade and other payables

Current

NHS payables – revenue
Amounts due to other related parties
Other trade payables
Other tax and social security costs
Trade payables – capital
Other payables
Accruals
PDC Dividend Payable

Total current trade and other payables

Non-current

Amounts due to other related parties *

Total non-current trade and other payables

	Total 31st March 2015 £000	Financial liabilities £000	Non- financial liabilities £000	Total 31st March 2014 £000	Financial liabilities £000	Non- financial liabilities £000
NHS payables – revenue	2,892	2,892	0	2,983	2,983	0
Amounts due to other related parties	82	82	0	21	21	0
Other trade payables	8,321	8,321	0	7,931	7,931	0
Other tax and social security costs	4,045	0	4,045	3,817	0	3,817
Trade payables – capital	1,532	1,532	0	2,501	2,501	0
Other payables	3,974	1,377	2,597	3,932	1,455	2,477
Accruals	6,300	6,300	0	5,487	5,487	0
PDC Dividend Payable	3	0	3	0	0	0
Total current trade and other payables	<u>27,149</u>	<u>20,504</u>	<u>6,645</u>	<u>26,672</u>	<u>20,378</u>	<u>6,294</u>
	1,923	1,923	0	2,476	0	2,476
Total non-current trade and other payables	<u>1,923</u>	<u>1,923</u>	<u>0</u>	<u>2,476</u>	<u>0</u>	<u>2,476</u>

* 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

	31 March 2015 £000	31 March 2014 £000
Current		
Sunderland CCG – Maternity Pathways funding	1,102	1,082
Ophthalmology – R&D funding	64	93
Metabolic, Oncology & Haematology research funding	63	0
Paradigm,Trilogy & Thrive – Cardiology research funding	55	41
McMillan Funding – Prison chemotherapy service	46	30
North East Cancer Network – Nurse funding	41	41
Oxford University – Clinical Trials funding	37	37
ICCU – Research nurse funding	31	0
Support funding for diabetics nurse – Outpatients Diabetics	30	0
Support funding for anaemia specialist nurse and rheumatology operational support	29	29
Other	102	66
Total other current liabilities	1,600	1,419

17 Borrowings

17.1 Long term loans – Independent Trust Financing Facility

	31 March 2015 £000	31 March 2014 £000
Current		
Loans from Independent Trust Financing Facility *	3,139	2,120
Non-current		
Loans from Independent Trust Financing Facility	43,757	30,905
TOTAL	46,896	33,025

* Interest amounting to £491k (£503k, 31 March 2014) is included within the above.

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

	31 March 2015 £000	31 March 2014 £000
Amounts falling due:		
Within one year	2,649	1,617
Between one to two years	2,424	1,847
Between two to five years	7,273	4,868
After five years	34,059	24,190
TOTAL	46,405	32,522

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 £255,600 every 6 months commencing 18 September 2015	3.36	12,000

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

Other Loans

The Trust holds no other loans.

18. Provisions

	Current		Non Current	
	31 March 2015	31 March 2014	31 March 2015	31 March 2014
	£000	£000	£000	£000
Pensions relating to other staff	61	66	373	454
Legal claims	195	222	0	0
Other	28	151	569	555
	<u>284</u>	<u>439</u>	<u>942</u>	<u>1,009</u>
	Pensions relating to other staff	Legal claims	Other	Total
	£000	£000	£000	£000
At 1 April 2013	582	210	688	1,480
Change in discount rate	13	0	13	26
Arising during the year	0	197	120	317
Utilised during the year	(66)	(130)	(146)	(342)
Reversed unused	(23)	(55)	(3)	(81)
Unwinding of discount*	14	0	34	48
At 1 April 2014	<u>520</u>	<u>222</u>	<u>706</u>	<u>1,448</u>
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 31 March 2015	<u>434</u>	<u>195</u>	<u>597</u>	<u>1,226</u>

Expected timing of cash flows:

In the remainder of the spending review period to 31 March 2016:-	61	195	28	284
Between 1 April 2016 and 31 March 2021	249	0	121	370
From 1 April 2021 and thereafter	124	0	448	572
	<u>434</u>	<u>195</u>	<u>597</u>	<u>1,226</u>

'Pensions Relating to Other Staff' include;
Provisions amounting to £434k in respect of Early Retirement Pensions. The provision relates to the latest information as provided by the NHS Pensions Agency and applies to 33 ex-employees (35 ex-employees 2013/14).
'Legal' claims include;
Provisions amounting to £195k 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.

18. Provisions (continued)

Other claims include;
– A provision of £597k 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 2015, an amount of £83,944,367 was provided by the NHSLA in respect of clinical liabilities of the Foundation Trust (£69,044,754 as at 31 March 2014).

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 1.80% to 1.30% to reflect HM Treasury policy.

19. Contractual capital commitments

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

	31 March 2015 £000	31 March 2014 £000
Intangible Assets	1,134	262
Property, plant and equipment	<u>7,543</u>	<u>4,086</u>
	<u>8,677</u>	<u>4,348</u>
	£000	£000
Endoscopy/Central Scope Cleaning	4,654	0
Emergency Department Rebuild	2,539	367
Gateshead Pathology Interface	1,134	262
Pathology Hot Labs	350	0
Multi Storey Car Park	<u>0</u>	<u>3,719</u>
	<u>8,677</u>	<u>4,348</u>

The above are ongoing 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 2013/2014).

21. Contingent (liabilities) / assets

	31 March 2015 £000	31 March 2014 £000
Gross estimated value of Non-Clinical Liabilities	(377)	(361)
Expected recoverable amount	262	274
Net value contingent liabilities	<u>(115)</u>	<u>(87)</u>

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.

The Foundation Trust is holding nil (17 2013/14) Equal Pay claims.

22 Related Parties

22.1 Related party transactions

	Income £000	Expenditure £000
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
	<u>329,676</u>	<u>108,397</u>
Value of transactions with Board Members in 2013/14	0	1,277
Value of transactions with other related parties in 2013/14 :		
Department of Health	415	0
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	312,461	12,002
SHAs	0	7,536
Public Health England		
NHS WGA bodies	3	2,846
HMRC	0	45,094
NHS Pension Scheme	0	30,077
Local Government including City of Sunderland	3,225	1,445
Scottish, Irish and Welsh NHS bodies	49	15
Charitable Funds	325	325
Department for Works and Pensions	0	0
	<u>316,478</u>	<u>100,617</u>

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 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>
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March 2014	0	0
Value of balances with other related parties at 31st March 2014 :		
Department of Health	101	0
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	9,154	3,655
SHAs	0	7
NHS WGA bodies	0	148
HMRC	323	6,293
NHS Pension Scheme	0	2,477
Scottish, Irish and Welsh NHS bodies	36	4
Charitable Funds	93	0
Other	0	296
	<u>9,707</u>	<u>12,880</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 2014 – March 2015 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:

- Health Education North East
- Sunderland Clinical Commissioning Group
- Durham, Dales, Easington and Sedgefield Clinical Commissioning Group
- North Durham Clinical Commissioning Group
- South Tyneside Clinical Commissioning Group
- Northumberland Tyne and Wear Mental Health Care Trust
- County Durham and Darlington NHS Foundation Trust
- The Newcastle Upon Tyne Hospitals NHS Foundation Trust
- NHS England
- South Tyneside NHS Foundation Trust
- Prescription Pricing Authority
- National Blood Service
- NHS Litigation Authority

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). The company did not start trading in 2013/2014 and therefore there were no transactions to report in the 2013/2014 accounts. 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 becomes repayable from 1 April 2015.

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;

	Income £000	Expenditure £000
Invoices from CHoICE relating to the cost of drugs purchased		3,901
Dispensing Fee		589
Service Level Agreement	483	

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

	Receivables £000	Payables £000
CHoICE Ltd	0	535

23. Financial Instruments

23.1a Financial assets by category

	Total £000	Loans and receivables £000
Assets as per Statement of financial position		
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
Total at 31 March 2015	29,461	29,461
Trade and other receivables excluding non financial assets – Note 12	9,914	9,914
Cash and cash equivalents – Note 14	15,257	15,257
Total at 31 March 2014	25,171	25,171

23.1b Financial liabilities by category

	Total £000	Other financial liabilities at amortised cost £000
Liabilities as per Statement of financial position		
Borrowings – Note 17	46,896	46,896
Trade and other payables excluding non financial liabilities – Note 15	20,504	20,504
Total at 31 March 2015	67,400	67,400
Borrowings – Note 17	33,025	33,025
Trade and other payables excluding non financial liabilities – Note 15	20,378	20,378
Total at 31 March 2014	53,403	53,403

23.2a Fair values of financial assets

	31 March 2015 Book Value £000	31 March 2015 Fair value £000	31 March 2014 Book Value £000	31 March 2014 Fair value £000
Loan to subsidiary	1,000	1,000	0	0
Total	1,000	1,000	0	0

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

23.2b Fair values of financial liabilities

	31 March 2015 Book Value £000	31 March 2015 Fair value £000	31 March 2014 Book Value £000	31 March 2014 Fair value £000
Borrowings	43,757	43,757	30,905	30,905
Total	43,757	43,757	30,905	30,905

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

23.3 Maturity of financial liabilities

	31 March 2015 £000	31 March 2014 £000
Less than one year	23,644	22,498
In more than one year but not more than two years	2,424	1,847
In more than two years but not more than five years	7,273	4,868
In more than five years	34,059	24,190
Total	67,400	53,403

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 2014/15 was £74k (£73k 2013/14) 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 CitiBank, 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 £7,183 cash and cash equivalents at 31 March 2015 (£8,279 at 31 March 2014) 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	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
At 31 March 2015	11,889	840	31,888	45,680
Balances with other Central Government Bodies	8,200	0	8,454	2,476
Balances with NHS Trusts and Foundation Trusts	1,414	0	1,909	0
Balances with bodies external to government	4,431	1,104	19,848	30,905
At 31 March 2014	14,045	1,104	30,211	33,381

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 £4,990,000 is calculated by applying the 3.5% Treasury rate to the average relevant net assets of £142,579,000.

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%.



27.1 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:

		1 April 2014 – 31 March 2015		1 April 2013 – 31 March 2014	
Ref.	Category of loss / special payment	Number of cases	Value of cases (£)	Number of cases	Value of cases (£)
1a	Losses of cash due to theft, fraud etc	0	0	0	0
1b	Losses of cash due to overpayment of salaries etc.	0	0	3	7,267
1c	Losses of cash due to other causes	3	47	5	169
3a	Bad debts and claims abandoned – private patients	1	1	2	54
3b	Bad debts and claims abandoned – overseas visitors	0	0	1	142
3c	Bad debts and claims abandoned – other	138	1,039	243	14,697
4a	Damage to buildings, loss of equipment and property due to theft, fraud etc	10	18,294	7	2,503
4b	Damage to buildings, loss of equipment and property – stores losses	1	62,939	1	54,903
4c	Damage to buildings, loss of equipment and property due to other causes	11	1,190	33	4,242
7a	Ex-gratia payments for loss of personal effects	34	6,369	31	5,541
7c	Ex-gratia payments for personal injury with advice	40	158,971	53	172,299
7e	Ex-gratia payments for other employment payments	6	8,549	3	2,900
7g	Other	26	657	28	2,257
8	Special severance payments	2	46,000	0	0
Total Losses and Special Payments		272	304,056	410	266,974

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

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NHS Foundation Trust

