



City Hospitals Sunderland  
NHS Foundation Trust

# Annual Accounts

2017/18



**CITY HOSPITALS SUNDERLAND  
NHS FOUNDATION TRUST  
ANNUAL ACCOUNTS  
2017/2018**

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

**INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF GOVERNORS OF CITY  
HOSPITALS SUNDERLAND NHS FOUNDATION TRUST**

**Opinion**

We have audited the financial statements of City Hospitals Sunderland NHS Foundation Trust ('the Foundation Trust') for the year ended 31 March 2018, which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes 1 to 30, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and HM Treasury's Financial Reporting Manual ('FRM') to the extent that they are meaningful and appropriate to NHS foundation trusts.

In our opinion, the financial statements:

- give a true and fair view of the state of City Hospitals Sunderland NHS Foundation Trust and Group's affairs as at 31 March 2018 and of its income and expenditure and cash flows for the year then ended; and
- have been prepared in accordance with the Department of Health Group Accounting Manual 2017/18 and the directions under paragraphs 24 and 25 of Schedule 7 of the National Health Service Act 2006.

**Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report below. We are independent of the Foundation Trust in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's ('FRC's') Ethical Standard and the Comptroller and Auditor General's ('C&AG's') AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Use of our report**

This report is made solely to the Council of Governors of City Hospitals Sunderland NHS Foundation Trust in accordance with paragraph 24(5) of Schedule 7 of the National Health Service Act 2006 and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of Governors, for our audit work, for this report, or for the opinions we have formed.

**Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Accounting Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Accounting Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Foundation Trust's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

**Overview of our audit approach**

**Key audit matters**

- Risk of fraud in revenue and expenditure recognition
- Valuation of land and buildings

**Materiality**

- Overall materiality of £7.6m for the Group and £7.7m for the Foundation Trust which represents 2% of operating expenditure.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Risk of fraud in revenue and expenditure recognition</b></p> <p><b>Group operating revenue £363.1m (2016/17 - £362.8m)</b></p> <p><b>Group operating expenditure £388.5m (2016/17 - £353.5m)</b></p> <p><i>Refer to the Audit Committee Report (page 158); Accounting policies 1.4 and 1.6 ); and Notes 2 to 6 of the Consolidated Financial Statements</i></p> <p>The Foundation Trust was set a control total of a £5.7m deficit for the year by NHS Improvement. The pressure of meeting this financial target, as well as the significant financial pressures that are prevalent in clinical commissioning groups ('CCGs') as the Foundation Trust's main commissioners of services, lead to a risk of inappropriate revenue and expenditure recognition.</p> <p>We evaluated the income and expenditure streams of the Foundation Trust and identified that those areas where management are more likely to be able to override existing controls is where the risk of inappropriate revenue and expenditure recognition lies, specifically:</p> <ul style="list-style-type: none"> <li>• year-end income accruals for contracts with the CCGs;</li> <li>• accounting estimates including accruals and provisions; and</li> <li>• through omission of expenditure from the financial statements.</li> </ul> <p>We included this risk as a key audit matter in our Independent Auditor's Report for the year ended 31 March 2017.</p>	<p>We reconciled income recognised from CCGs to contracts for £295.8m of income from protected service activities (out of a total of £362.8m) and agreed year-end contract accruals to supporting evidence.</p> <p>We obtained the NHS Agreement of Balances mismatch report from the National Audit Office ('NAO'), which identifies income, expenditure, debtors and creditors balances not agreed by the counterparty. We investigated all variances over the reporting threshold of £300,000, set by the NAO, by discussing with management and agreeing to corroborating evidence.</p> <p>We tested management estimates in the financial statements, agreeing to corroborative evidence where available, and did not identify any indicators of management bias.</p> <p>We selected a sample of invoices received, and payments made, in the month of April 2018 and checked back to supporting documentation to confirm that the expenditure was recognised in the correct period.</p> <p>We used data analytics to select a sample of journal entries based on specific risk criteria. We agreed these journal entries back to supporting documentation.</p>	<p>There were no findings arising from our work to report to the Audit Committee.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Valuation of land and buildings</b></p> <p><b>Land £2.6m (2016/17 - £6.6m)</b></p> <p><b>Buildings £125.9m (2016/17 - £162.3m)</b></p> <p><i>Refer to the Audit Committee Report (page 158); Accounting policy 1.7; and Note 12 of the Consolidated Financial Statements</i></p> <p>The Foundation Trust valued its estate using a Modern Equivalent Asset basis, and during the year revised the assumptions underpinning the valuation to reflect a single site valuation.</p> <p>The Foundation Trust engaged Cushman &amp; Wakefield to perform a desk top valuation of the estate. The valuation process is complex and subject to a number of assumptions. A small movement in the assumptions used in the valuation process could have a material impact on the valuation in the financial statements.</p> <p>We included this risk as a key audit matter in our Independent Auditor's Report for the year ended 31 March 2017.</p>	<p>We obtained a copy of the valuation report produced by Cushman &amp; Wakefield and agreed the valuation in the report to the financial statements.</p> <p>Our EY property valuation experts confirmed that the assumptions used in the valuation were acceptable. Specifically, we reviewed the documentation for the provision of the fully operated healthcare facility to confirm that the subsidiary company is responsible for the maintenance of all aspects of buildings and external works to satisfy ourselves that exclusion of VAT from the valuation is appropriate and tested the assumptions around a single site valuation.</p>	<p>There was a material adjustment made to the consolidated financial statements to reclassify £7.8m of impairments from the revaluation reserve to expenditure.</p> <p>We had no other significant findings to report in relation to the valuation.</p>

## An overview of the scope of our audit

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Foundation Trust. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Foundation Trust and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Group to be £7.6m (2016/17 - £7.1m) which is 2% of operating expenditure. We believe that operating expenditure provides us with an appropriate basis for materiality as it is the key driver of the Group's financial position.

During the course of our audit, we reassessed initial materiality and recalculated it based on the draft accounts submitted for audit.

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £3.5m. We have set performance materiality at this percentage due to this being our first year as auditors to the Group.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.3m (2016/17 - £0.3m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the Annual Report set out on pages 1 - 215, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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.

We have nothing to report in this regard.

## Opinion on other matters prescribed by the Code of Audit Practice issued by the NAO

In our opinion:

- the information given in the performance report and accountability report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the parts of the Remuneration and Staff report identified as subject to audit has been properly prepared in accordance with the NHS Foundation Trust Annual Reporting Manual 2017/18.

### Matters on which we report by exception

The Code of Audit Practice requires us to report to you if:

- we issue a report in the public interest under schedule 10(3) of the National Health Service Act 2006;
- we refer the matter to the regulator under schedule 10(6) of the National Health Service Act 2006 because we have reason to believe that the Trust, or a director or officer of the Trust, is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency;
- we are not satisfied that the Foundation Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources as required by schedule 10(1)(d) of the National Health Service Act 2006;
- we have been unable to satisfy ourselves that the Annual Governance Statement, and other information published with the financial statements meets the disclosure requirements set out in the NHS Foundation Trust Annual Reporting Manual 2017/18 and is not misleading or inconsistent with other information forthcoming from the audit; or
- we have been unable to satisfy ourselves that proper practices have been observed in the compilation of the financial statements.

We have nothing to report in respect of these matters.

The NHS Foundation Trust Annual Reporting Manual 2017/18 requires us 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 NHS Foundation Trust acquired in the course of performing our audit; or
- otherwise misleading.

We have nothing to report in respect of these matters.

## Responsibilities of Accounting Officer

As explained more fully in the Statement of Chief Executive's Responsibilities as the Accounting Officer of City Hospitals Sunderland NHS Foundation Trust set out on page 151, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Accounting Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Accounting Officer is responsible for assessing the Foundation Trust's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council of Governors intend to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

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

### Auditor's responsibilities with respect to value for money arrangements

We are required to consider whether the Foundation Trust has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources. This is based on the overall criterion that 'in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'.

Proper arrangements are defined by statutory guidance issued by the National Audit Office and comprise the arrangements to:

- take informed decisions;
- deploy resources in a sustainable manner; and
- work with partners and other third parties.

In considering your proper arrangements, we draw on the requirements of the guidance issued by NHS Improvement to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

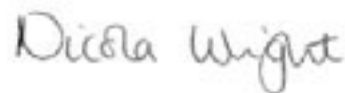
We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice which defines this as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects".*

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risk there is no requirement to carry out further work. Our risk assessment considers both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.

#### Certificate

We certify that we have completed the audit of the financial statements of City Hospitals Sunderland NHS Foundation Trust in accordance with the requirements of Chapter 5 of Part 2 of the National Health Service Act 2006 and the Code of Audit Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General ('C&AG').



**Nicola Wright**  
for and on behalf of Ernst & Young LLP  
Newcastle upon Tyne

**Date: 25 May 2018**

The maintenance and integrity of the City Hospitals Sunderland NHS Foundation Trust web site 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 web site.

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 2018 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 NHS Improvement, the sector regulator for health services in England.



**K W Bremner**  
Chief Executive

**Date: 22 May 2018**

## Statement of Comprehensive Income for the Year Ended 31 March 2018

	NOTE	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
<b>Revenue</b>					
Operating income from patient care activities	2 - 3	318,982	318,982	319,611	319,611
Other operating income	3	44,144	47,229	43,204	43,054
Operating expenses	4 - 6	(388,543)	(394,796)	(353,457)	(354,176)
<b>Operating surplus / (deficit)</b>		<b>(25,417)</b>	<b>(28,585)</b>	9,358	8,489
<b>Finance Costs</b>					
Finance income	8	102	1,482	82	280
Finance expenses – financial liabilities	9	(1,822)	(2,042)	(1,931)	(1,966)
Finance expenses – unwinding of discount on provisions	20	(3)	(3)	(13)	(13)
PDC dividends payable	28	(3,599)	(3,599)	(4,771)	(4,771)
<b>Net finance costs</b>		<b>(5,322)</b>	<b>(4,162)</b>	(6,633)	(6,470)
Losses on disposal of assets	7	(16)	(34)	(42)	(55)
Movement in fair value of other investments	14.2	8	0	299	0
Corporation tax expense	10	(318)	0	(101)	0
<b>Surplus / (deficit)</b>		<b>(31,065)</b>	<b>(32,781)</b>	2,881	1,964
Revaluation (deficit) / surplus – property		(25,117)	(25,117)	(14,287)	(14,287)
<b>Total Comprehensive Expense for the year</b>		<b>(56,182)</b>	<b>(57,898)</b>	(11,406)	(12,323)

Operating expenses includes an impairment of £32,926k relating to the revaluation of the group's estate. There is a surplus of £426k relating to the Charitable Fund included within the deficit for the year. After adjusting for the above items, the underlying surplus of the Group is £1,435k. This is shown in note 30.

## Statement of Financial Position as at 31 March 2018

	NOTE	Group 31 March 2018 £000	Foundation Trust 31 March 2018 £000	Group 31 March 2017 £000	Foundation Trust 31 March 2017 £000
<b>Non-current assets</b>					
Intangible assets	11	5,348	5,344	4,952	4,948
Property, plant and equipment	12	142,892	142,889	201,433	201,428
Investment in subsidiary	13	0	11,893	0	11,893
Long term debt with subsidiary	13	0	18,998	0	23,196
Loan to subsidiary	13	0	600	0	700
Other investments	14.1	2,329	0	2,374	0
Trade and other receivables	15.1	969	969	1,145	1,145
<b>Total non-current assets</b>		<b>151,538</b>	<b>180,693</b>	209,904	243,310
<b>Current assets</b>					
Current debt with subsidiary	13	0	4,198	0	4,198
Loan to subsidiary	13	0	100	0	100
Inventories	16.1	6,407	4,569	6,109	5,255
Trade and other receivables	15.1	23,641	23,500	20,732	25,619
Cash and cash equivalents	17	9,689	2,812	6,981	2,081
<b>Total current assets</b>		<b>39,737</b>	<b>35,179</b>	33,822	37,253
<b>Current liabilities</b>					
Finance lease	19.3	0	(720)	0	(701)
Trade and other payables	18	(33,799)	(29,460)	(31,456)	(33,769)
Borrowings	19	(3,707)	(3,707)	(3,729)	(3,729)
Provisions	20	(244)	(244)	(240)	(240)
Other liabilities	21	(1,664)	(4,836)	(1,638)	(4,810)
<b>Total current liabilities</b>		<b>(39,414)</b>	<b>(38,967)</b>	(37,063)	(43,249)
<b>Total assets less current liabilities</b>		<b>151,861</b>	<b>176,905</b>	206,663	237,314
<b>Non-current liabilities</b>					
Finance lease	19.3	0	(6,392)	0	(7,111)
Trade and other payables	18	0	0	0	0
Borrowings	19	(49,812)	(49,812)	(53,086)	(53,086)
Provisions	20	(701)	(701)	(794)	(794)
Other liabilities	21	0	(24,844)	0	(28,016)
<b>Total non-current liabilities</b>		<b>(50,513)</b>	<b>(81,749)</b>	(53,880)	(89,007)
<b>Total assets employed</b>		<b>101,348</b>	<b>95,156</b>	152,783	148,307

## Statement of Financial Position as at 31 March 2018

	Group 31 March 2018	Foundation Trust 31 March 2018	Group 31 March 2017	Foundation Trust 31 March 2017
	£000	£000	£000	£000
<b>Financed by taxpayers' equity</b>				
Public Dividend Capital	104,289	104,289	99,542	99,542
Revaluation reserve	35,359	33,918	60,796	59,355
Income and expenditure reserve	(42,902)	(43,051)	(11,731)	(10,590)
<b>Others' equity</b>				
Charitable Fund reserve	4,602	0	4,176	0
<b>Total taxpayers' equity</b>	<b>101,348</b>	<b>95,156</b>	152,783	148,307

The financial statements on pages 1 to 59 were approved by the Board on 22 May 2018 and signed on its behalf by:



**K W Bremner**  
Chief Executive

Date: 22 May 2018

## Statement of Changes in Taxpayers' Equity

	Group				Foundation Trust				
	Total Taxpayers' Equity £000	Public Dividend Capital £000	Revaluation Reserve £000	Charitable Fund Reserve £000	Income and Expenditure Reserve £000	Total Taxpayers' Equity £000	Public Dividend Capital £000	Revaluation Reserve £000	Income and Expenditure Reserve £000
<b>Taxpayers' Equity at 1 April 2017</b>	152,783	99,542	60,796	4,176	(11,731)	148,307	99,542	59,355	(10,590)
<b>Changes in taxpayers' equity for 2017-18</b>									
Total Comprehensive Income / (Expense) for the year:	(25,117)	0	(25,117)	0	0	(25,117)	0	(25,117)	0
Revaluations – property, plant & machinery	0	0	(320)	0	320	0	0	(320)	320
Transfers between reserves	4,747	4,747	0	0	0	4,747	4,747	0	0
Public dividend capital received	(31,065)	0	0	426	(31,491)	(32,781)	0	0	(32,781)
(Deficit) / Surplus for the year	101,348	104,289	35,359	4,602	(42,902)	95,156	104,289	33,918	(43,051)
<b>Taxpayers' Equity at 31 March 2018</b>									
Taxpayers' Equity at 1 April 2016	164,189	99,542	75,083	3,458	(13,894)	160,630	99,542	75,083	(13,995)
Changes in taxpayers' equity for 2016-17									
Total Comprehensive Income / (Expense) for the year:	(14,287)	0	(14,287)	0	0	(14,287)	0	(14,287)	0
Revaluations – property, plant & machinery	2,881	0	0	718	2,163	1,964	0	(1,441)	1,441
Transfers between reserves	152,783	99,542	60,796	4,176	(11,731)	148,307	99,542	59,355	(10,590)
Surplus for the year									
<b>Taxpayers' Equity at 31 March 2017</b>									

## Statement of Cash Flows for the Year Ended 31 March 2018

NOTE	Foundation		Foundation	
	Group 2017/18 £000	Trust 2017/18 £000	Group 2016/17 £000	Trust 2016/17 £000
<b>Cash flows from operating activities</b>				
Operating (deficit) / surplus	(25,417)	(28,585)	9,358	8,489
<b>Non-cash income and expense:</b>				
Depreciation and amortisation	6,510	6,508	8,246	8,243
Net impairments	32,926	32,926	3,254	3,254
Non cash donations	(747)	(747)	(71)	(71)
(Increase) / decrease in trade and other receivables	(2,549)	2,772	(9,622)	(14,824)
(Increase) / decrease in inventories	(298)	686	(12)	(264)
Increase / (decrease) in trade and other payables	2,331	(4,318)	277	3,002
Decrease in provisions	(92)	(92)	(108)	(108)
Tax paid	(76)	0	(47)	0
NHS Charitable Funds – working capital adjustments	183	0	72	0
Increase in other liabilities	26	26	82	82
Other movements in operating cash flows	(242)	0	(261)	0
<b>Net cash generated from operating activities</b>	<b>12,555</b>	<b>9,176</b>	11,168	8,331
<b>Cash flows from investing activities</b>				
Interest received	41	1,482	26	280
Purchase of intangible assets	(1,749)	(1,749)	(598)	(598)
Purchase of property, plant and equipment	(4,962)	(5,072)	(9,525)	(9,525)
Sales of property, plant and equipment	310	310	157	157
Receipt of cash donations to purchase capital assets	747	747	0	0
NHS Charitable Funds – net cash flow from investing	132	0	45	0
<b>Net cash used in investing activities</b>	<b>(5,481)</b>	<b>(4,282)</b>	(9,895)	(9,686)
<b>Net cash inflows / (outflows) before financing</b>	<b>7,074</b>	<b>4,894</b>	1,273	(1,355)
<b>Cash flows from financing activities</b>				
Loans repaid	(3,273)	(3,273)	(3,273)	(3,273)
Interest paid	(1,845)	(2,064)	(1,970)	(2,005)
Loan paid by subsidiary	0	4,298	0	455
Loan repaid to subsidiary	0	(701)	0	(113)
PDC dividend received	4,747	4,747	0	0
PDC dividend paid	(3,995)	(3,995)	(5,283)	(5,283)
Cash flows from (used in) other financing activities	0	(3,175)	0	(529)
<b>Net cash (used) / generated from financing activities</b>	<b>(4,366)</b>	<b>(4,163)</b>	(10,526)	(10,748)
<b>Increase/(Decrease) in cash and cash equivalents</b>	<b>2,708</b>	<b>(731)</b>	(9,253)	(12,103)
<b>Cash and cash equivalents at 1 April</b>	<b>6,981</b>	<b>2,081</b>	16,234	14,184
<b>Cash and cash equivalents at 31 March</b>	<b>9,689</b>	<b>2,812</b>	6,981	2,081

## NOTES TO THE ACCOUNTS

## 1. Basis of Preparation

NHS Improvement, in exercising the statutory functions conferred on Monitor, has directed that the financial statements of the trust shall meet the accounting requirements of the Department of Health and Social Care Group Accounting Manual (GAM), which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the GAM 2017/18 issued by the Department of Health. The accounting policies contained in the GAM follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the GAM permits a choice of accounting policy, the accounting policy that is judged to be most appropriate to the particular circumstances of the trust for the purpose of giving a true and fair view has been selected. The particular policies adopted are described below. These have been applied consistently in dealing with items considered material in relation to accounts.

## 1.1 Estimation Techniques

These are methods adopted by the Group 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 Group'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 Accounting Convention

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

## 1.3 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 Group'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 Group 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 Group'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.

During 2018 a revaluation was conducted by Cushman and Wakefield (a member of RICS) to revalue the Group's land and buildings property. As part of the revaluation the Modern Equivalent Asset model used has been refreshed and there has been a revision to how the Group defines a property asset and the components that make up the asset. This is described further in section 1.7.

## 1.4 Income

Income is accounted for applying the accruals convention. The main source of income for the Group 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 NHS improvement for example in setting local tariffs, agreeing risk shares or block arrangements.

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 2017/18 amounted to £2,689k compared to £2,062k in 2016/17. 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.

## 1.5 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 NHS Foundation Trust to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme.

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

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

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Details of the benefits payable and rules of the Schemes can be found on the NHS Pensions website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions). Both schemes are unfunded defined benefit schemes that cover NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State in England and Wales.

They are not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities.

Therefore, each scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in each scheme is taken as equal to the contributions payable to that scheme for the accounting period

In order that the defined benefit obligations recognised in the accounts do not differ materially from those that would be determined at the reporting date by a formal actuarial valuation, the FReM requires that 'the period between formal valuations shall be four years, with approximate assessments in intervening years'.

An outline of these follows:

#### a) Accounting valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period.

This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and are accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2018 is based on valuation data as 31 March 2017, updated to 31 March 2018 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

#### b) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the schemes (taking into account their recent demographic experience), and to recommend contribution rates payable by employees and employers.

The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012.

The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

The next actuarial valuation is to be carried out as at 31 March 2016. This will set the employer contribution rate payable from April 2019 and will consider the cost of the Scheme relative to the employer cost cap. There are provisions in the Public Service Pension Act 2013 to adjust member benefits or contribution rates if the cost of the Scheme changes by more than 2% of pay. Subject to this 'employer cost cap' assessment, any required revisions to member benefits or contribution rates will be determined by the Secretary of State for Health after consultation with the relevant stakeholders. Estimated employer contributions for 2018/19 are £20,435k this is based upon the contribution rate of 14.38%.

#### c) Scheme provisions

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

The 1995 and 2008 Schemes are "final salary" schemes. Annual pensions are normally based on 1/80th for the 1995 section and of 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 2011-12 the Consumer Price Index (CPI) has been used and replaced the Retail Prices Index (RPI).

With effect from 1 April 2015 a pension scheme was introduced based on career average revalued earning (CARE) with benefits based on a proportion of pensionable earnings during an employee's career. There is a build-up rate of 1/54 of each year's pensionable earnings. The annual increase in this scheme is based on CPI plus 1.5%.

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 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 employer.

Members can purchase additional service in the NHS Scheme and contribute to money purchase AVCs run by the Scheme's approved providers or by other Free Standing Additional Voluntary Contributions (FSAVC) providers.

#### National Employment Savings Trust (NEST)

The Pensions Act 2008 (the Act) introduced a new requirement for employers to automatically enrol any eligible job holders working for them into a workplace pension scheme that meets certain requirements and provide a minimum employer contribution. The Foundation Trust implemented auto-enrolment on 1 May 2013.

Where an employee is eligible to join the NHS Pension Scheme then they will be automatically enrolled into this scheme, even if they have previously opted out. However, where an employee is not eligible to join the NHS Pension Scheme (e.g. flexible retiree employees) then an alternative scheme must be made available by the Group.

The Group has chosen NEST as an alternative scheme for the Foundation Trust and as the main scheme for CHOICE (as new CHOICE employees are not eligible to join the NHS Pension Scheme). NEST is a defined contribution pension scheme that was created as part of the government's workplace pensions reforms under the Pensions Act 2008.

Employers' pension cost contributions for both schemes are charged to operating expenses as and when they become due.

## 1.6 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.

## 1.7 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 Group;
- 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 the Sunderland Royal Hospital site, includes a number of components with significantly different asset lives i.e. the individual building on the site, 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. The carrying values of property, plant and equipment are reviewed for impairment in years if events, or changes in circumstances, indicate the carrying value may not be recoverable. The costs arising from financing the construction of the property, plant and equipment asset are not capitalised but are charged to the Statement of Comprehensive Income in the year to which they relate.

An item of property, plant and equipment which is surplus to the Group's requirements with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 of IFRS 5.

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.

During 2018 a revaluation was conducted by Cushman and Wakefield (a member of RICS) to revalue the Group's land and buildings property. There were two main changes within the valuation:

- The Group updated the MEA model to reflect changes to services and how the Group's property assets would be reprovided in the future
- Previously the Group treated property assets as being individual buildings with the components of these building consisting of the Building Cost Information Service (BCIS) elements as defined by the Royal Institute of Chartered Surveyors (RICS). As the majority of these elements did not represent significant components of the building the Group has moved to treating the hospital sites as the property assets with the components of these being the land, buildings and external works that make up the site.

Overall the valuation resulted in a downward revaluation of £25,117k being taken to the revaluation reserve and an impairment of £32,926k being charged to operating expenses.

Land and buildings used for the Group'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 Group.

Buildings, installations and fitting are depreciation based on their current value over the estimated remaining life of the asset as assessed by the Group's professional valuers. Leaseholds are depreciated over the primary lease term.

Equipment is depreciated based on current cost over the estimated life.

### 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 DH GAM, impairments that are due to a loss of economic benefits or service potential in the asset are charged to operating expenses.

A compensating transfer is made from the revaluation reserve to the income and expenditure reserve of an amount equal to the lower of (i) the impairment charged to operating expenses; and (ii) the balance in the revaluation reserve attributable to that asset before the impairment.

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

Other impairments are treated as revaluation losses. Reversals of "other impairments" are treated as revaluation gains.

### De-recognition

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

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

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

**Donated assets**

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

**1.8 Intangible Assets****Recognition**

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

**Internally generated intangible assets**

Internally generated goodwill, brands, mastheads, publishing titles, customer lists and similar items are not capitalised as intangible assets. Expenditure on research is not capitalised. Expenditure on development is capitalised only where all of the following can be demonstrated:

- the project is technically feasible to the point of completion and will result in an intangible asset for sale or use;
- the Group intends to complete the asset and sell or use it;
- the Group 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 Group to complete the development and sell or use the asset; and
- the Group can measure reliably the expenses attributable to the asset during development.

**Software**

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

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

**Measurement**

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management. Subsequently intangible assets are measured at historic cost. Revaluations gains and losses and impairments are treated in the same manner as for Property, Plant and Equipment. Intangible assets held for sale are measured at the lower of their carrying amount or 'fair value less costs to sell'.

**Amortisation**

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

**1.9 Inventories**

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

**1.10 Cash and cash equivalents**

Cash is cash in hand and deposits with any financial institution repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in 3 months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Statement of Cash Flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and that form an integral part of the Trust's cash management.

**1.11 Financial instruments & Financial Liabilities****Recognition**

Financial assets and financial liabilities which arise from contracts for the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the Group's normal purchase, sale or usage requirements, are recognised when, and to the extent which, performance occurs i.e. when receipt or delivery of the goods or services is made. Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described opposite.

All other financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

**De-recognition**

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

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

**Classification and Measurement**

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

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. They are included in current assets. The Group'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 Group 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.

**1.12 Leases****The Trust as Lessee****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.

**Finance leases**

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

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

The annual rental is split between the repayment of the liability and a finance cost by apportioning each rental payment between a finance charge and a reduction of the lease obligation using the sum of digits method. The annual finance cost is charged to Finance Costs in the Statement of Comprehensive Income. The lease liability is de-recognised when the liability is discharged, cancelled or expires.

## The Trust as Lessor

Rental income from operating leases is recognised on a straight line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are charged to income and expenditure as incurred.

### 1.13 Provisions

The Group recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount, for which it is probable that there will be a future outflow of cash or other resources, and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources required to settle the obligation. Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using HM Treasury's discount rate which varies from -2.40% to -1.560% in real terms dependent upon the time base of the cash outflow (2016-17, -2.70% to 0.80%). The only exception to this is early retirement provisions and injury benefit provisions which both use the HM Treasury's pension discount rate of 0.10% (2016-17 – 0.24%) in real terms.

#### *Clinical negligence costs*

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

The NHSLA is financially responsible for all clinical negligence cases and the liability for all potential and outstanding claims is provided in their Accounts. The total value of clinical negligence provisions carried by the NHSLA on behalf of the Foundation Trust is disclosed at Note 20 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.

### 1.14 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 Group's control) are not recognised as assets, but are disclosed in Note 24 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in Note 24, 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 Group'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.

### 1.15 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 Group 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.

### 1.16 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.

### 1.17 Corporation Tax

City Hospitals Independent Commercial Enterprises Limited (CHoICE) is a wholly owned subsidiary of City Hospitals Sunderland NHS Foundation Trust and is subject to corporation tax on profits. Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the individual profit and loss accounts of the two organisations except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities, for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted on the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The main rate of UK Corporation Tax changed from 19% to 20% with effect from 1 April 2017.

The main rate of Corporation tax will reduce further on 1 April 2017 and again to 19% on 1 April 2020.

### 1.18 Foreign Exchange

The functional and presentational currencies of the Group 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 Group 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 Group 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.

### 1.20 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 Accounting Standards Issued But Not Yet Adopted in the NHS

The following table presents a list of recently issued accounting standards and amendments which have not yet been adopted within the FReM, and are therefore not applicable to DH group accounts in 2016-17.

### 1.21 Accounting Standards Issued But Not Yet Adopted in the NHS

The following table presents a list of recently issued accounting standards and amendments which have not yet been adopted within the FReM, and are therefore not applicable to DH group accounts in 2016-17.

IFRS (IASB)	
<b>IFRS 9</b> Financial Instruments	Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted.
<b>IFRS 15</b> Revenue from contracts with customers	Application required for accounting periods beginning on or after 1 January 2018, but not yet adopted by the FReM: early adoption is not therefore permitted.
<b>IFRS 16</b> Leases	Application required for accounting periods beginning on or after 1 January 2019, but not yet adopted by the FReM: early adoption is not therefore permitted. pension schemes
<b>IFRS 17</b> Insurance Contracts	Application required for accounting periods beginning on or after 1 January 2021, but not yet adopted by the FReM: early adoption is not therefore permitted. pension schemes
<b>IFRIC 22</b> Foreign currency transactions and advance consideration	Application required for accounting periods beginning on or after 1 January 2018
<b>IFRIC 23</b> Uncertainty over Income Tax Treatments	Application required for accounting periods beginning on or after 1 January 2019

### 1.22 Consolidation of Charitable Funds and Subsidiary Companies

#### NHS Charitable Fund

City Hospitals Sunderland NHS Foundation Trust is the corporate trustee to The City Hospitals Sunderland NHS Foundation Trust Charitable Funds. The Trust has assessed its relationship to the charitable fund and determined it to be a subsidiary because the Trust is exposed to, or has rights to, variable returns and other benefits for itself, patients and staff from its involvement with the charitable fund and has the ability to affect those returns and other benefits through its power over the fund.

The Trust is required to consolidate any material charitable funds which it determines to be subsidiaries. Prior to 2016/17 the Trust did not consolidate the charitable funds as the value of the fund is not material. From 2016/17 the Trust elected to consolidate the charitable funds to be consistent with the consolidation of its other subsidiary. The City Hospitals Sunderland NHS Foundation Trust Charitable Funds is registered with the Charity Commission (registered number 1052366). As at the 31 March 2017, the value of the funds was £4,176k. As at 31 March 2018 the value of the funds is estimated as £4,602k. This represents an estimated net increase in value of £426k. City Hospitals Sunderland NHS Foundation Trust Charitable Funds principal office is based at The Children's Centre, Durham Road, Sunderland, SR3 4AD.

#### Other Subsidiaries

Subsidiary entities are those over which the Trust is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated in full into the appropriate financial statement lines. The capital and reserves attributable to minority interests are included as a separate item in the Statement of Financial Position.

The amounts consolidated are drawn from the published financial statements of the subsidiaries for the year. Where subsidiaries' accounting policies are not aligned with those of the Trust (including where they report under UK GAAP) then amounts are adjusted during consolidation where the differences are material. Inter-entity balances, transactions and gains/losses are eliminated in full on consolidation.

City Hospitals Sunderland NHS Foundation Trust is the sole shareholder of City Hospitals Independent Commercial Enterprises Limited (CHOICE). The financial statements of CHOICE have been consolidated into these group financial statements. Previously these financial statements were not consolidated on the grounds of them not being material.

#### 1.23 Segmental Reporting

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

#### 1.24 Going Concern

The Board of Directors has a reasonable expectation that the Trust will have adequate financial resources to continue in operational existence for the foreseeable future. This is based on the fact that the Group achieved its revised plan for 2016/17 which was an operational deficit of £12.767m (excluding STF funding). The group's cash position was £4.865m (excluding Charitable Funds) below plan. Looking forward the Group is planning to deliver an operational deficit of £5.744m in 2017/18 reducing to £1.670m in 2018/19 with cash remaining positive throughout that period. The Group has therefore prepared these financial statements on a going concern basis.

### 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 acts 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.

	Group 2017/18 Healthcare £000	Foundation Trust 2017/18 Healthcare £000	Group 2016/17 Healthcare £000	Foundation Trust 2016/17 Healthcare £000
<b>Income</b>				
Income from activities	318,982	318,982	319,611	319,611
Other operating income	44,144	47,229	43,204	43,054
<b>Total Income as per Statement of Comprehensive income</b>	<b>363,126</b>	<b>366,211</b>	362,815	362,665
Charitable Funds income	(427)	0	(933)	0
<b>Total income as reported to the Board of Directors</b>	<b>362,699</b>	<b>366,211</b>	361,882	362,665
<b>Deficit by segment</b>				
Operating (deficit) / surplus as reported to the Board of Directors	(31,065)	(32,781)	2,163	1,964
Charitable Funds surplus	426	0	718	0
<b>Deficit / Surplus per Statement of Comprehensive Income</b>	<b>(30,639)</b>	<b>(32,781)</b>	2,881	1,964
<b>Segment net assets</b>	<b>101,348</b>	<b>95,156</b>	152,783	148,307

The underlying surplus reported to the Board of Directors was £1,435k. This is after adjusting for impairments of £32,926k. A summary of this is shown in Note 30.

The majority of the Foundation Trust's total operating income is received from NHS England and CCGs. Of the £363,126k total operating income reported in 2017/18, an amount of £332,013k (91%) was attributable to NHS England and CCGs (£332,793k (92%) 2016/17).

Customers generating more than 10% of the Foundation Trust's income for both 2017/18 and 2016/17 were as follows:

	2017/18 £000	2016/17 £000
NHS Sunderland CCG	183,721	182,798
NHS England	60,914	61,660
NHS Durham Dales, Easington and Sedgefield CCG	35,990	37,206

There was £nil income in 2017/18 (£nil 2016/17) generated by external customers outside of England.

### 3. Operating Income

#### 3.1 Income from activities by classification

	Group £000 2017/18	Foundation Trust £000 2017/18	Restated Group £000 2016/17	Restated Foundation Trust £000 2016/17
Elective income	69,155	69,155	68,349	68,349
Non elective income	89,318	89,318	73,967	73,967
First outpatient income	16,753	16,753	24,233	24,233
Follow up outpatient income	33,515	33,515	32,123	32,123
A & E income	17,048	17,048	15,236	15,236
Other income from activities	92,354	92,354	104,340	104,340
<b>Total income from protected services activities*</b>	<b>318,143</b>	<b>318,143</b>	<b>318,248</b>	<b>318,248</b>
NHS Injury Benefit Scheme**	513	513	965	965
Private patient income	326	326	398	398
<b>Total income from activities</b>	<b>318,982</b>	<b>318,982</b>	<b>319,611</b>	<b>319,611</b>
Sustainability and Transformation Fund income	13,890	13,890	15,085	15,085
Research and Development	1,492	1,492	1,485	1,485
Education and training***	11,815	11,815	11,429	11,429
Charitable and other contributions to expenditure	747	747	71	71
Non-patient care services to other bodies	458	458	439	439
NHS Charitable Funds incoming resources excluding	1,180	0	893	0
Investment income				
Other income	14,562	18,827	13,802	14,545
<b>Total other operating income</b>	<b>44,144</b>	<b>47,229</b>	<b>43,204</b>	<b>43,054</b>
<b>Total operating income</b>	<b>363,126</b>	<b>366,211</b>	<b>362,815</b>	<b>362,665</b>

2016/17 has been restated to allow comparable figures for first and follow up outpatient income previous shown as part of outpatient income.

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

\*\* Injury cost recovery income is subject to a provision for impairment of receivables of 22.84% (2016/17: 22.94%) to reflect expected rates of collection.

\*\*\*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 – Group & Foundation Trust

	2017/18 £000	2016/17 £000
NHS:		
Commissioner requested services – CCGs	315,049	314,620
Non Commissioner requested services		
– Local Authorities	2,976	2,605
– Other	16	885
– NHS Trusts	102	138
	<b>318,143</b>	<b>318,248</b>
Non NHS:		
– NHS Injury Benefit Scheme**	513	965
– Private Patients	326	398
<b>Total income from activities</b>	<b>318,982</b>	<b>319,611</b>

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

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

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
SLA with CHoICE	0	4,140	0	639
SLAs with other Trusts	3,145	3,145	2,657	2,657
Car parking	2,080	2,080	2,060	2,060
Consultant work offsite	1,864	1,864	2,033	2,033
Vanguard funding from Sunderland CCG	1,500	1,500	245	245
Clinical Excellence Awards	435	435	371	371
Catering income	395	395	291	291
Mortuary	220	220	208	208
Trauma Network funding	185	185	185	185
Offender Health funding	136	136	87	87
Rental of hospital premises	108	108	175	175
Premises lease income from Sunderland CCG	0	0	213	213
	<b>10,068</b>	<b>14,208</b>	<b>8,525</b>	<b>9,164</b>
Other	4,494	4,619	5,277	5,381
	<b>14,562</b>	<b>18,827</b>	<b>13,802</b>	<b>14,545</b>

#### 3.3 Income generation activities

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

## 4. Operating Expenses

### 4.1/1 Operating expenses comprise:

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Restated Group 2016/17 £000	Restated Foundation Trust 2016/17 £000
Purchase of healthcare from NHS and DHSC bodies	13,163	13,163	15,031	15,031
Purchase of healthcare from non-NHS and non-DHSC bodies	3,195	3,195	3,181	3,181
Staff and executive directors costs	216,175	208,316	211,365	210,109
Non-executive directors	155	143	148	140
Internal audit - staff costs	0	0	84	84
Supplies and services – clinical (excluding drugs costs)	29,579	26,409	29,232	29,197
Supplies and services - general	8,683	935	8,878	7,535
Drugs costs (drugs inventory consumed and purchase of non-inventory drugs)	40,084	41,326	38,439	39,812
Inventories written down (net including drugs)	212	212	80	80
Consultancy	234	192	825	825
Establishment	2,752	1,970	2,400	2,239
Premises - business rates collected by local authorities	1,842	0	1,513	1,513
Premises - other	11,435	35,022	9,931	12,409
Transport - other (including patient travel)	294	99	305	240
Depreciation	5,108	5,105	7,329	7,329
Amortisation	1,402	1,402	917	916
Impairments net of (reversals)	32,926	32,926	3,254	3,254
(Decrease)/increase in impairment of receivables	(73)	(73)	(7)	(7)
Change in provisions discount rate	10	10	71	71
Audit services - statutory audit	53	43	64	43
Charitable fund audit	4	0	6	0
Internal audit - non-staff	180	180	140	140
Clinical negligence - amounts payable to NHS Resolution (premium)	14,257	14,257	12,908	12,908
Legal fees	195	195	442	442
Insurance	405	223	305	265
Education and training - non-staff	566	499	510	510
Operating lease expenditure (net)	4,079	7,251	5,069	5,574
Early retirements - staff costs	7	0	0	0
Redundancy costs - staff costs	18	18	0	0
Redundancy costs - non-staff	266	266	0	0
Other services	0	0	113	0
NHS charitable fund resources expended	410	0	340	0
Other	927	1,512	584	336
	<b>388,543</b>	<b>394,796</b>	<b>353,457</b>	<b>354,176</b>

2016/17 operating expenses have been restated to allow comparable figures following the inclusion of new and revised headings within the national reporting framework.

### 4.1/2 Limitation of auditors liability

On 10th May 2017, the Foundation Trust approved the principal terms of engagement with its auditor's, Ernst & Young LLP, covering the period of Ernst & Young 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 £2m (2016/17 £2m).

## 4.2 Operating Leases – as a Lessee

### 4.2/1 Analysis of operating lease expenditure

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
Land and buildings	0	3,172	230	735
Hire of plant and machinery	4,079	4,079	4,839	4,839
Total Minimum Lease Payments	<b>4,079</b>	<b>7,251</b>	<b>5,069</b>	<b>5,574</b>

Group – 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 £455k is included above (£550k 2016/17).

### 4.2/2 Arrangements containing an operating lease

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
Future minimum lease payments due:				
– Within 1 year	1,957	5,129	1,713	4,885
– Between 1 and 5 years	4,407	17,095	4,476	17,164
– After five years	0	15,351	0	15,351
	<b>6,364</b>	<b>37,575</b>	<b>6,189</b>	<b>37,400</b>

## 4.3 Operating leases – as a lessor

### 4.3/1 Analysis of operating lease income

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
Land and buildings	0	3,172	213	213

## 5. Employee Expenses and Numbers

### 5.1 Employee expenses (excluding non-Executive Directors' costs)

	Group			Foundation Trust		
	2017/18 Total £000	Permanently Employed £000	Other £000	2017/18 Total £000	Permanently Employed £000	Other £000
Salaries and wages	174,296	164,733	9,563	167,836	158,273	9,563
Social security costs	15,693	14,373	1,320	15,035	13,715	1,320
Apprenticeship levy	779	779	0	748	748	0
Pension costs – defined contribution plans employers contributions to NHS Pensions	20,435	19,068	1,367	19,718	18,351	1,367
Other pension costs	0	0	0	0	0	0
Agency/contract staff	5,711	0	5,711	5,711	0	5,711
Employee benefits expense	216,914	198,953	17,961	209,048	191,087	17,961
Amounts included within above charged to capital schemes	714			714		

	Group			Foundation Trust		
	2016/17 Total £000	Permanently Employed £000	Other £000	2016/17 Total £000	Permanently Employed £000	Other £000
Salaries and wages	171,055	161,608	9,447	169,987	160,540	9,447
Social security costs	15,417	14,113	1,304	15,329	14,025	1,304
Pension costs – defined contribution plans employers contributions to NHS Pensions	20,188	18,865	1,323	20,088	18,765	1,323
Other pension costs	36	0	36	36	0	36
Agency/contract staff	4,867	0	4,867	4,867	0	4,867
Employee benefits expense	211,563	194,586	16,977	210,307	193,330	16,977
Amounts included within above charged to capital schemes	114			114		

## 5. Employee Expenses and Numbers (Continued)

### 5.2 Number of persons employed at 31st March

(The figures shown represent the Whole Time Equivalent (WTE) as opposed to the number of employees)

	Group			Foundation Trust		
	2017/18 WTE Number	Permanently Employed WTE Number	Other WTE Number	2017/18 WTE Number	Permanently Employed WTE Number	Other WTE Number
Medical and dental	555	394	161	555	394	161
Administration and estates	1,153	1,153	0	895	895	0
Healthcare assistants and other support staff	917	917	0	913	913	0
Nursing, midwifery and health visiting staff	1,685	1,487	198	1,684	1,486	198
Scientific, therapeutic and technical staff	608	608	0	597	597	0
Total	4,918	4,559	359	4,644	4,285	359

	Restated Group			Restated Foundation Trust		
	2016/17 WTE Number	Permanently Employed WTE Number	Other WTE Number	2016/17 WTE Number	Permanently Employed WTE Number	Other WTE Number
Medical and dental	561	398	163	561	398	163
Administration and estates	1,180	1,180	0	1,140	1,140	0
Healthcare assistants and other support staff	885	885	0	884	884	0
Nursing, midwifery and health visiting staff	1,562	1,471	91	1,561	1,470	91
Scientific, therapeutic and technical staff	560	560	0	558	558	0
Total	4,748	4,494	254	4,704	4,540	254

Bank and agency staff were previously shown separately but are now combined within the above headings.

### 5.3 Retirements due to ill-health

During 2017/18 (prior year 2016/17) there were 1 (2) 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 £35,306 (2016/17 £86,660). Their cost will be borne by the NHS Business Services Authority – Pensions Agency.



## 5. Employee Expenses and Numbers (Continued)

### 5.4a: Exit Packages : Group and Foundation Trust

Exit Package Cost Band	Number of Compulsory Redundancies		Number of Other Departures Agreed		Total Number of Packages by Cost Band	
	2017/18	2016/17	2017/18	2016/17	2017/18 £000	2016/17 £000
<£10,000	0	0	20	0	40	0
£25,001 - £50,000	3	0	0	0	113	0
<b>Total Number of Exit Packages by Type</b>	<b>3</b>	<b>0</b>	<b>20</b>	<b>0</b>	<b>153</b>	<b>0</b>

### Note 5.4b: Exit Packages: Non-compulsory Departure Payments

	Agreements		Total Value of Agreements	
	2017/18 Number	2016/17 Number	2017/18 £000	2016/17 £000
Contractual payments in lieu of notice	20	0	40	0
<b>Total</b>	<b>20</b>	<b>0</b>	<b>40</b>	<b>0</b>
Of which: non-contractual payments requiring HM Treasury approval made to individuals where the payment value was more than 12 months of their annual salary	0	0	0	0

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 5.4a which will be the number of individuals.

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

## 6. The Late Payment of Commercial Debts (Interest) Act 1998 – Group and Foundation Trust

	2017/18 £000	2016/17 £000
Amounts included within Interest Payable (Note 9) arising from claims made under this legislation	0	0
Compensation paid to cover debt recovery costs under this legislation	0	0

### 7. Gains/(losses) of disposal of assets

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
Loss on disposal of other property, plant and equipment	(34)	(34)	(55)	(55)
Gains on disposal of charitable fund assets	18	0	13	0
	<b>(16)</b>	<b>(34)</b>	<b>(42)</b>	<b>(55)</b>

### 8. Finance income

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
Interest received on commercial bank accounts	41	41	16	16
Interest received from short term deposits	0	0	10	10
NHS Charitable Funds Investment income	61	0	56	0
Loan interest received from subsidiary	0	1,441	0	254
	<b>102</b>	<b>1,482</b>	<b>82</b>	<b>280</b>

### 9. Finance expenses – financial liabilities

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
Interest on loans from the Foundation Trust Financing Facility:				
Tranches A-B – Day case theatres and new Mortuary	120	120	129	129
Tranches C-E – C Block extension	834	834	886	886
Tranches F-G – Multi storey car park	153	153	167	167
Tranches H-J – Emergency Department rebuild	519	519	543	543
Tranches K-L – Endoscopy scheme – refurbishment	33	33	37	37
Tranches M-N – ABP Pathology integration	163	163	169	169
	<b>1,822</b>	<b>1,822</b>	<b>1,931</b>	<b>1,931</b>
Finance Leases – Intra group	0	220	0	35
	<b>1,822</b>	<b>2,042</b>	<b>1,931</b>	<b>1,966</b>

Further detail in respect of loans can be found at Note 19.2.

## 10. Corporation Tax

The UK Corporation Tax relates to the Foundation Trust's subsidiary CHoICE. The Foundation Trust has no Corporation Tax expense (2016/17 £nil).

	Group 2017/18 £000	Group 2016/17 £000
UK Corporation Tax expense	318	101
Adjustments in respect of prior years	0	0
Current tax expense	<u>318</u>	<u>101</u>
Origination and reversal of temporary differences	<u>0</u>	<u>0</u>
Deferred tax expense	<u>0</u>	<u>0</u>
Effective tax charge percentage	<u>19%</u>	<u>20%</u>

## 11. Intangible assets

### 11.1 Intangible assets

	Group Software licences £000	Foundation Trust Software licences £000
Cost at 1 April 2017	12,144	12,138
Additions purchased	1,798	1,798
<b>Cost at 31 March 2018</b>	<b><u>13,942</u></b>	<b><u>13,936</u></b>
Accumulated amortisation at 1 April 2017	7,192	7,190
Provided during the year	1,402	1,402
<b>Accumulated amortisation at 31 March 2018</b>	<b><u>8,594</u></b>	<b><u>8,592</u></b>
<b>Net book value</b>		
– Purchased at 1 April 2017	4,952	4,948
– Donated at 1 April 2017	0	0
<b>– Total at 1 April 2017</b>	<b><u>4,952</u></b>	<b><u>4,948</u></b>
– Purchased at 31 March 2018	5,348	5,344
– Donated at 31 March 2018	0	0
<b>– Total at 31 March 2018</b>	<b><u>5,348</u></b>	<b><u>5,344</u></b>
	<b>Software licences £000</b>	<b>Software licences £000</b>
Cost at 1 April 2016	11,744	11,738
Additions purchased	400	400
<b>Cost at 31 March 2017</b>	<b><u>12,144</u></b>	<b><u>12,138</u></b>
Accumulated amortisation at 1 April 2016	6,275	6,274
Provided during the year	917	916
<b>Accumulated amortisation at 31 March 2017</b>	<b><u>7,192</u></b>	<b><u>7,190</u></b>
<b>Net book value</b>		
– Purchased at 1 April 2016	5,469	5,464
– Donated at 1 April 2016	0	0
<b>– Total at 1 April 2016</b>	<b><u>5,469</u></b>	<b><u>5,464</u></b>
– Purchased at 31 March 2017	4,952	4,948
– Donated at 31 March 2017	0	0
<b>– Total at 31 March 2017</b>	<b><u>4,952</u></b>	<b><u>4,948</u></b>

### 11.2 Economic life of intangible assets – Group & Foundation Trust

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

## 12. Property, plant and equipment – Group

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

	Total £000	Land £000	Buildings Excluding Dwellings £000	Dwellings £000	Assets under Construction £000	Plant & Machinery £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000
<b>2017/18</b>									
Cost or valuation at 1 April 2017	238,243	6,594	162,300	1,234	19,471	27,676	456	18,642	1,870
Additions purchased	4,207	0	0	0	4,207	0	0	0	0
Additions - assets purchased from cash donations/grants*	747	0	38	0	0	675	0	0	34
Impairments charged to operating expenses	(33,970)	(2,537)	(31,433)	0	0	0	0	0	0
Reversal of impairments credited to the revaluation reserve	0	0	0	0	0	0	0	0	0
Reclassifications	0	0	19,808	0	(20,917)	554	0	504	51
Revaluations	(26,110)	(1,323)	(24,776)	(11)	0	0	0	0	0
Disposals	(606)	(110)	0	(212)	0	(263)	0	(21)	0
<b>At 31 March 2018</b>	<b>182,511</b>	<b>2,624</b>	<b>125,937</b>	<b>1,011</b>	<b>2,761</b>	<b>28,642</b>	<b>456</b>	<b>19,125</b>	<b>1,955</b>
Accumulated depreciation at 1 April 2017	36,810	0	0	0	0	19,103	412	15,508	1,787
Provided during the year	5,108	0	2,010	30	0	1,815	18	1,214	21
Impairments charged to operating expenses	(1,044)	0	(1,044)	0	0	0	0	0	0
Revaluations	(993)	0	(966)	(27)	0	0	0	0	0
Disposals	(262)	0	0	(3)	0	(238)	0	(21)	0
<b>Accumulated depreciation at 31 March 2018</b>	<b>39,619</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20,680</b>	<b>430</b>	<b>16,701</b>	<b>1,808</b>
<b>Net book value</b>									
- Purchased at 1 April 2017	200,441	6,594	161,659	1,234	19,471	8,241	44	3,115	83
- Donated at 1 April 2017	992	0	641	0	0	332	0	19	0
<b>Total at 1 April 2017</b>	<b>201,443</b>	<b>6,594</b>	<b>162,300</b>	<b>1,234</b>	<b>19,471</b>	<b>8,573</b>	<b>44</b>	<b>3,134</b>	<b>83</b>
- Purchased at 31 March 2018	141,298	2,624	125,265	1,011	2,761	7,084	26	2,411	116
- Donated at 31 March 2018	1,594	0	672	0	0	878	0	13	31
<b>Total at 31 March 2018</b>	<b>142,892</b>	<b>2,624</b>	<b>125,937</b>	<b>1,011</b>	<b>2,761</b>	<b>7,962</b>	<b>26</b>	<b>2,424</b>	<b>147</b>

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

## 12. Property, plant and equipment – Foundation Trust

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

	Total £000	Land £000	Buildings Excluding Dwellings £000	Dwellings £000	Assets under Construction £000	Plant & Machinery £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000
<b>2017/18</b>									
Cost or valuation at 1 April 2017	228,802	6,594	162,300	1,234	19,471	18,235	456	18,642	1,870
Additions purchased	4,207	0	0	0	4,207	0	0	0	0
Additions - assets purchased from cash donations/grants*	747	0	38	0	0	675	0	0	34
Impairments charged to operating expenses	(33,970)	(2,537)	(31,433)	0	0	0	0	0	0
Reclassifications	0	0	19,808	0	(20,917)	554	0	504	51
Revaluations	(26,110)	(1,323)	(24,776)	(11)	0	0	0	0	0
Disposals	(606)	(110)	0	(212)	0	(263)	0	(21)	0
<b>At 31 March 2018</b>	<b>173,070</b>	<b>2,624</b>	<b>125,937</b>	<b>1,011</b>	<b>2,761</b>	<b>19,201</b>	<b>456</b>	<b>19,125</b>	<b>1,955</b>
Accumulated depreciation at 1 April 2017	27,374	0	0	0	0	9,667	412	15,508	1,787
Provided during the year	5,106	0	2,010	30	0	1,813	18	1,214	21
Impairments charged to operating expenses	(1,044)	0	(1,044)	0	0	0	0	0	0
Revaluations	(993)	0	(966)	(27)	0	0	0	0	0
Disposals	(262)	0	0	(3)	0	(238)	0	(21)	0
<b>Accumulated depreciation at 31 March 2018</b>	<b>30,181</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>11,242</b>	<b>430</b>	<b>16,701</b>	<b>1,808</b>
<b>Net book value</b>									
- Purchased at 1 April 2017	200,436	6,594	161,659	1,234	19,471	8,236	44	3,115	83
- Donated at 1 April 2017	992	0	641	0	0	332	0	19	0
<b>Total at 1 April 2017</b>	<b>201,428</b>	<b>6,594</b>	<b>162,300</b>	<b>1,234</b>	<b>19,471</b>	<b>8,568</b>	<b>44</b>	<b>3,134</b>	<b>83</b>
- Purchased at 31 March 2018	141,295	2,624	125,265	1,011	2,761	7,081	26	2,411	116
- Donated at 31 March 2018	1,594	0	672	0	0	878	0	13	31
<b>Total at 31 March 2018</b>	<b>142,889</b>	<b>2,624</b>	<b>126,937</b>	<b>1,011</b>	<b>2,761</b>	<b>7,959</b>	<b>26</b>	<b>2,424</b>	<b>147</b>

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

## 12. Property, plant and equipment – Group

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

	Total £000	Land £000	Buildings Excluding Dwellings £000	Dwellings £000	Assets under Construction £000	Plant & Machinery £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000
<b>2016/17</b>									
Cost or valuation at 1 April 2016	273,124	6,642	185,338	1,346	11,025	48,456	454	18,013	1,850
Additions purchased	10,379	0	0	0	10,379	0	0	0	0
Additions donated *	71	0	0	0	0	62	0	9	0
Impairments charged to operating expenses	(3,254)	0	(3,254)	0	0	0	0	0	0
Revaluations	(39,978)	0	616	0	(1,933)	612	12	673	20
Disposals	(2,099)	(48)	(20,400)	(112)	0	(19,578)	(10)	(53)	0
<b>At 31 March 2017</b>	<b>238,243</b>	<b>6,594</b>	<b>162,300</b>	<b>1,234</b>	<b>19,471</b>	<b>27,676</b>	<b>456</b>	<b>18,642</b>	<b>1,870</b>
Accumulated depreciation at 1 April 2016	57,059	0	0	0	0	40,402	401	14,487	1,769
Provided during the year	7,329	0	4,650	24	0	1,542	21	1,074	18
Revaluations	(25,691)	0	(4,650)	(22)	0	(21,019)	0	0	0
Disposals	(1,887)	0	0	(2)	0	(1,822)	(10)	(53)	0
<b>Accumulated depreciation at 31 March 2017</b>	<b>36,810</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>19,103</b>	<b>412</b>	<b>15,508</b>	<b>1,787</b>
<b>Net book value</b>									
– Purchased at 1 April 2016	214,945	6,642	184,633	1,346	11,025	7,654	53	3,511	81
– Donated at 1 April 2016	1,120	0	705	0	0	400	0	15	0
<b>Total at 1 April 2016</b>	<b>216,065</b>	<b>6,642</b>	<b>185,338</b>	<b>1,346</b>	<b>11,025</b>	<b>8,054</b>	<b>53</b>	<b>3,526</b>	<b>81</b>
– Purchased at 31 March 2017	200,441	6,594	161,659	1,234	19,471	8,241	44	3,115	83
– Donated at 31 March 2017	992	0	641	0	0	332	0	19	0
<b>Total at 31 March 2017</b>	<b>201,433</b>	<b>6,594</b>	<b>162,300</b>	<b>1,234</b>	<b>19,471</b>	<b>8,573</b>	<b>44</b>	<b>3,134</b>	<b>83</b>

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

## 12. Property, plant and equipment – Foundation Trust

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

	Total £000	Land £000	Buildings Excluding Dwellings £000	Dwellings £000	Assets under Construction £000	Plant & Machinery £000	Transport Equipment £000	Information Technology £000	Furniture & Fittings £000
<b>2016/17</b>									
Cost or valuation at 1 April 2016	273,115	6,642	185,338	1,346	11,025	48,447	454	18,013	1,850
Additions purchased	18,304	0	0	0	10,379	7,925	0	0	0
Additions donated *	71	0	0	0	0	62	0	9	0
Impairments charged to operating expenses	(3,254)	0	(3,254)	0	0	0	0	0	0
Revaluations	(39,978)	0	616	0	(1,933)	612	12	673	20
Disposals	(19,456)	(48)	(20,400)	(112)	0	(19,578)	(10)	(53)	0
<b>At 31 March 2017</b>	<b>228,802</b>	<b>6,594</b>	<b>162,300</b>	<b>1,234</b>	<b>19,471</b>	<b>18,235</b>	<b>456</b>	<b>18,642</b>	<b>1,870</b>
Accumulated depreciation at 1 April 2016	57,055	0	0	0	0	40,398	401	14,487	1,769
Provided during the year	7,329	0	4,650	24	0	1,542	21	1,074	18
Impairments charged to operating expenses	0	0	0	0	0	0	0	0	0
Reversal of impairments credited to operating income	0	0	0	0	0	0	0	0	0
Revaluations	(25,691)	0	(4,650)	(22)	0	(21,019)	0	0	0
Disposals	(11,319)	0	0	(2)	0	(11,254)	(10)	(53)	0
<b>Accumulated depreciation at 31 March 2017</b>	<b>27,374</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,667</b>	<b>412</b>	<b>15,508</b>	<b>1,787</b>
<b>Net book value</b>									
– Purchased at 1 April 2016	214,938	6,642	184,633	1,346	11,025	7,647	53	3,511	81
– Donated at 1 April 2016	1,120	0	705	0	0	400	0	15	0
<b>Total at 1 April 2016</b>	<b>216,058</b>	<b>6,642</b>	<b>185,338</b>	<b>1,346</b>	<b>11,025</b>	<b>8,047</b>	<b>53</b>	<b>3,526</b>	<b>81</b>
– Purchased at 31 March 2017	200,436	6,594	161,659	1,234	19,471	8,236	44	3,115	83
– Donated at 31 March 2017	992	0	641	0	0	332	0	19	0
<b>Total at 31 March 2017</b>	<b>201,428</b>	<b>6,594</b>	<b>162,300</b>	<b>1,234</b>	<b>19,471</b>	<b>8,568</b>	<b>44</b>	<b>3,134</b>	<b>83</b>

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

**12.3 Economic Life of Property, Plant and Equipment – Group & Foundation Trust**

	Min life Years	Max life Years
Buildings excluding dwellings	22	86
Dwellings	49	66
Plant and machinery	5	15
Transport equipment	7	7
Information technology	5	8
Furniture and fittings	5	10

**12.4 Property, plant and equipment**

The Foundation Trust held assets under finance leases with CHOICE to the value of £7,112k at the Statement of Financial Position date.

**13. Investment in Subsidiary Undertakings – Foundation Trust**

	31 March 2018 £000	31 March 2017 £000
Investment in subsidiary undertakings	11,893	11,893
Long term debt in subsidiary >1yr	18,998	23,196
Loans to subsidiary undertakings > 1yr	600	700
	<b>31,491</b>	<b>35,789</b>
Long term debt in subsidiary <1yr	4,198	4,198
Loans to subsidiary undertakings < 1yr	100	100
	<b>35,789</b>	<b>40,087</b>

The shares in the subsidiary company CHOICE Ltd comprises a 100% holding in the share capital consisting of 11,893,000 ordinary £1 shares.

The principal activity of CHOICE Ltd is to provide estate management and facility services.

**14. Other Investments****14.1 Other Investments – Market Value**

The investment portfolio of the Charitable Fund is managed by Rathbone Investment Management Ltd. Cash funds are held outside the portfolio by the fund to deal with short term cash flow issues that may arise.

	31 March 2018 £000	31 March 2017 £000
Market value brought forward	2,374	2,051
Acquisitions at cost	403	343
Disposals at carrying value	(456)	(319)
Net gain on revaluation	8	299
<b>Market value at 31 March</b>	<b>2,329</b>	<b>2,374</b>

	31 March 2018 £000	31 March 2017 £000
<b>Investments held:</b>		
<u>Investments listed on a recognised Stock Exchange:</u>		
In the UK	907	1,105
Outside the UK	0	58
<u>Unlisted securities:</u>		
In the UK	1,062	1,039
Outside the UK	360	320
<b>Market value at 31 March</b>	<b>2,329</b>	<b>2,374</b>

**14.2 Other Investments – Movement in fair value**

	31 March 2018 £000	31 March 2017 £000
Net gain on revaluation	8	299

## 15. Trade and other receivables

## 15.1 Trade and other receivables

	-----Group-----			-----Foundation Trust-----		
	Total 31 March 2018 £000	Financial assets £000	Non- financial assets £000	Total 31 March 2018 £000	Financial assets £000	Non- financial assets £000
<b>Current</b>						
NHS receivables *	16,213	16,213	0	16,213	16,213	0
Other receivables with related parties	988	988	0	2,123	2,123	0
Provision for impaired receivables	(420)	(220)	(200)	(420)	(220)	(200)
Prepayments	3,202	0	3,202	3,020	0	3,020
PDC dividend receivable	647	0	647	647	0	647
Other receivables	3,011	3,011	0	1,917	1,917	0
NHS charitable funds: trade and other receivables	0	0	0	0	0	0
<b>Total current trade and other receivables</b>	<b>23,641</b>	<b>19,992</b>	<b>3,649</b>	<b>23,500</b>	<b>20,033</b>	<b>3,467</b>
<b>Non-Current</b>						
Provision for impaired receivables	(287)	0	(287)	(287)	0	(287)
Other receivables	1,256	0	1,256	1,256	0	1,256
<b>Total non current trade and other receivables</b>	<b>969</b>	<b>0</b>	<b>969</b>	<b>969</b>	<b>0</b>	<b>969</b>

	-----Group-----			-----Foundation Trust-----		
	Total 31 March 2017 £000	Financial assets £000	Non- financial assets £000	Total 31 March 2017 £000	Financial assets £000	Non- financial assets £000
<b>Non Current</b>						
NHS receivables *	13,874	13,874	0	13,874	13,874	0
Other receivables with related parties	703	0	703	243	243	0
Provision for impaired receivables	(439)	(242)	(197)	(439)	(242)	(197)
Prepayments	3,215	0	3,215	3,025	0	3,025
PDC dividend receivable	251	0	251	251	0	251
Other receivables	2,916	1,993	923	8,665	7,742	923
NHS charitable funds: trade and other receivables	212	212	0	0	0	0
<b>Total current trade and other receivables</b>	<b>20,732</b>	<b>15,837</b>	<b>4,895</b>	<b>25,619</b>	<b>21,617</b>	<b>4,002</b>
<b>Non-Current – Group</b>						
Provision for impaired receivables	(341)	0	(341)	(341)	0	(341)
Other receivables	1,486	0	1,486	1,486	0	1,486
<b>Total non current trade and other receivables</b>	<b>1,145</b>	<b>0</b>	<b>1,145</b>	<b>1,145</b>	<b>0</b>	<b>1,145</b>

## 15.2 Provision for impairment of receivables – Group and Foundation Trust

	2017/2018 £000	2016/2017 £000
At 1 April	780	787
Increase in provision	0	0
Amounts utilised	0	(7)
Unused amounts reversed	(73)	0
<b>At 31 March</b>	<b>780</b>	<b>787</b>

## 15.3 Analysis of impaired receivables – Group and Foundation Trust

	31 March 2018 £000	31 March 2017 £000
0-30 days	12	20
30-60 days	37	24
60-90 days	54	39
90-180 days	20	18
Over 180 days	584	679
<b>Total</b>	<b>707</b>	<b>780</b>

## 15.4 Ageing of non-impaired receivables past their due date – Group and Foundation Trust

	31 March 2018 £000	31 March 2017 £000
0-30 days	4,069	3,828
30-60 days	485	611
60-90 days	(37)	122
90-180 days	748	297
Over 180 days	1,409	1,568
<b>Total</b>	<b>6,674</b>	<b>6,426</b>

All receivables within their credit period are deemed to be fully recoverable. Receivable amounts are considered on a case by case basis and any impairment made is based upon information held by the Group. No information was held indicating that non impaired receivables should be subject to impairment as at 31st March 2018.

\* 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.

## 16.1 Inventories

	Group 31 March 2018 £000	Foundation Trust 31 March 2018 £000	Group 31 March 2017 £000	Foundation Trust 31 March 2017 £000
Raw materials and consumables	<u>6,407</u>	<u>4,569</u>	6,109	5,255

## 16.2 Inventories recognised in expenses

	31 March 2018 £000	31 March 2018 £000	31 March 2017 £000	31 March 2017 £000
Inventories recognised in expenses	<u>45,822</u>	<u>40,443</u>	45,128	41,682
Write-down of inventories recognised as an expense	<u>212</u>	<u>212</u>	80	80
<b>Inventories recognised in expenses</b>	<u><b>46,034</b></u>	<u><b>40,655</b></u>	<u>45,208</u>	<u>41,762</u>

## 17. Cash and cash equivalents

	Group 2017/18 £000	Foundation Trust 2017/18 £000	Group 2016/17 £000	Foundation Trust 2016/17 £000
<b>At 1 April</b>	<u>6,981</u>	<u>2,081</u>	16,234	14,184
Net change in year	<u>2,708</u>	<u>731</u>	(9,253)	(12,103)
<b>At 31 March</b>	<u><b>9,689</b></u>	<u><b>2,812</b></u>	<u>6,981</u>	<u>2,081</u>
Broken down into:				
Cash at commercial banks and in hand	5,374	805	3,468	465
Cash with Government Banking Service	2,007	2,007	1,616	1,616
NHS charitable funds: cash and cash equivalents	2,308	0	1,897	0
<b>Cash and cash equivalents as in Statement of Financial Position and Statement of Cash Flows</b>	<u><b>9,689</b></u>	<u><b>2,812</b></u>	<u>6,981</u>	<u>2,081</u>

## 18. Trade and other payables

	Group		Foundation Trust	
	Total 31 March 2018 £000	Financial liabilities £000	Total 31 March 2018 £000	Financial liabilities £000
<b>Current</b>				
NHS payables – revenue	5,530	5,530	5,530	5,530
Amounts due to other related parties	0	0	1,043	0
Other trade payables	11,457	11,457	7,902	7,902
Other tax and social security costs	4,231	0	4,076	0
Trade payables - capital	2,034	2,034	2,034	0
Other payables	3,913	1,247	3,950	1,370
Accruals	6,599	6,599	4,925	4,925
NHS charitable funds: Trade and other payables	35	35	0	0
<b>Total current trade and other payables</b>	<u><b>33,799</b></u>	<u><b>26,902</b></u>	<u><b>29,460</b></u>	<u><b>22,804</b></u>
				<u><b>6,650</b></u>

	Total 31 March 2017 £000	Financial liabilities £000	Total 31 March 2017 £000	Financial liabilities £000
<b>Current</b>				
NHS payables – revenue	3,908	3,908	3,908	3,908
Amounts due to other related parties	0	0	5,059	0
Other trade payables	12,697	12,697	10,661	10,661
Other tax and social security costs	4,131	0	4,002	0
Trade payables - capital	1,993	1,993	1,993	0
Other payables	4,048	1,363	3,972	1,436
Accruals	4,615	4,615	4,174	4,174
PDC dividend payable	0	0	0	0
NHS charitable funds: Trade and other payables	64	64	0	0
<b>Total current trade and other payables</b>	<u><b>31,456</b></u>	<u><b>24,640</b></u>	<u><b>33,769</b></u>	<u><b>22,172</b></u>
				<u><b>11,597</b></u>

**19. Borrowings****19.1 Long term loans**

	<b>Group</b>	<b>Foundation</b>		
	<b>2017/18</b>	<b>Trust</b>	Group	Foundation
	<b>£000</b>	<b>£000</b>	2016/17	Trust
			£000	2016/17
			£000	£000
<b>Current</b>				
Loans from Independent Trust Financing Facility*	3,707	3,707	3,729	3,729
Obligations under finance lease **	0	720	0	701
<b>Total current borrowing</b>	<b>3,707</b>	<b>4,427</b>	<b>3,729</b>	<b>4,430</b>
<b>Non-current</b>				
Loans from Independent Trust Financing Facility	49,812	49,812	53,086	53,086
Obligations under finance lease **	0	6,392	0	0
<b>TOTAL</b>	<b>49,812</b>	<b>56,204</b>	<b>53,086</b>	<b>60,197</b>

Other Loans – No other loans are held by either the Foundation Trust or its subsidiary.

\* Interest amounting to £434k (£456k, 31 March 2017) is included within the above.

\*\* The £7,112k obligation under finance leases in the Trust arises from the arrangement between the Trust and its subsidiary undertaking, CHOICE Ltd, for the supply of operational healthcare facilities. This liability and the associated property have both been recognised in the Statement of Financial Position of the Trust following a detailed consideration of the lease terms and the risks and rewards of the arrangement.  
The Trust finance leases have been accounted for in accordance with the DHSC GAM.

**19.2 Loans – payment of loan principal falling due – Independent Trust Financing Facility Group & Foundation Trust**

	<b>31 March 2018</b>	31 March 2017
	<b>£000</b>	£000
Amounts falling due:		
Within one year	3,273	3,273
Between one to two years	3,273	3,273
Between two to five years	9,821	9,821
After five years	36,718	39,992
<b>TOTAL</b>	<b>53,085</b>	<b>56,359</b>

Independent Trust Financing Facility Loan

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

**19. Borrowings (Continued)****19.3 Finance Lease Obligations**

	<b>Group</b>	<b>Foundation</b>		
	<b>31 March</b>	<b>Trust</b>	Group	Foundation
	<b>2018</b>	<b>2018</b>	31 March	Trust
	<b>£000</b>	<b>£000</b>	2017	2017
			£000	£000
Gross Lease Liabilities	0	8,125	0	9,027
<i>Of which liabilities are due:-</i>				
– Not later than one year	0	920	0	920
– Later than one year and not later than five years	0	3,676	0	3,676
– Later than five year	0	3,512	0	4,431
Finance charges allocated to future periods	0	(996)	0	(1,215)
<b>Net Lease Liabilities</b>	<b>0</b>	<b>7,112</b>	<b>0</b>	<b>7,812</b>
– Not later than one year	0	720	0	701
– Later than one year and not later than five years	0	3,088	0	3,003
– Later than five year	0	3,304	0	4,108
	<b>0</b>	<b>7,112</b>	<b>0</b>	<b>7,812</b>

The £7,112k obligation under finance leases in the Trust arises from the arrangement between the Trust and its subsidiary undertaking, CHOICE Ltd, for the supply of operational healthcare facilities. This liability and the associated property have both been recognised in the Statement of Financial Position of the Trust following a detailed consideration of the lease terms and the risks and rewards of the arrangement.



## 20. Provisions for liabilities and charges – Group and Foundation Trust

	Current		Non-Current	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
Pensions relating to other staff	58	60	176	247
Legal claims	150	144	0	0
Other	36	36	525	547
	<u>244</u>	<u>240</u>	<u>701</u>	<u>794</u>
	Pensions relating to other staff	Legal claims	Other	<b>Total</b>
	£000	£000	£000	£000
At 1 April 2016	379	161	589	<b>1,129</b>
Change in discount rate	11	0	60	<b>71</b>
Arising during the year	(30)	110	(37)	<b>43</b>
Utilised during the year	(58)	(28)	(37)	<b>(123)</b>
Reversed unused	0	(99)	0	<b>(99)</b>
Unwinding of discount*	5	0	8	<b>13</b>
At 1 April 2017	<u>307</u>	<u>144</u>	<u>583</u>	<u><b>1,034</b></u>
Change in discount rate**	3	0	7	<b>10</b>
Arising during the year	0	6	4	<b>10</b>
Utilised during the year	(57)	0	(35)	<b>(92)</b>
Reversed unused	(20)	0	0	<b>(20)</b>
Unwinding of discount*	1	0	2	<b>3</b>
<b>At 31 March 2018</b>	<u><b>234</b></u>	<u><b>150</b></u>	<u><b>561</b></u>	<u><b>945</b></u>
<b>Expected timing of cash flows:</b>				
In the remainder of the spending review period to 31 March 2019:-	58	150	36	<b>244</b>
Between 1 April 2019 and 31 March 2024	166	0	135	<b>301</b>
From 1 April 2024 and thereafter	10	0	390	<b>400</b>
	<u><b>234</b></u>	<u><b>150</b></u>	<u><b>561</b></u>	<u><b>945</b></u>

'Pensions Relating to Other Staff' include:

Provisions amounting to £234k in respect of Early Retirement Pensions. The provision relates to the latest information as provided by the NHS Pensions Agency and applies to 29 ex-employees (31 ex-employees 2016/17).

'Legal' claims include:

Provisions amounting to £150k relating to Public Liability and Employer Liability claims. The information supporting each claim within this provision has been supplied by either the Foundation Trust's or NHSLA's solicitors.

'Other' claims include:

A provision of £561k 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 2018, an amount of £246,670,779 was provided by the NHSLA in respect of clinical liabilities of the Foundation Trust (£183,026,196 as at 31 March 2017).

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 0.24% to 0.10% to reflect HM Treasury policy.

## 21. Other liabilities

	Group	Foundation	Group	Foundation
	31 March 2018	Trust 31 March 2018	31 March 2017	Trust 31 March 2017
	£000	£000	£000	£000
<b>Current</b>				
Sunderland CCG - Maternity Pathways funding	<b>627</b>	<b>627</b>	963	963
Commercial R&D income - various companies	<b>530</b>	<b>530</b>	209	209
Metabolic, Oncology & Haematology research funding	<b>112</b>	<b>112</b>	70	70
ENT / Urology / General Surgery Research Funding	<b>59</b>	<b>59</b>	56	56
North East Cancer Network - nurse funding	<b>0</b>	<b>0</b>	41	41
Support funding for anaemia specialist nurse and rheumatology operational support	<b>0</b>	<b>0</b>	29	29
Sunderland University - NPF post funding	<b>0</b>	<b>0</b>	21	21
Ferring - Industry funded post	<b>0</b>	<b>0</b>	20	20
Paradigm, Trilogy & Thrive - Cardiology research funding	<b>0</b>	<b>0</b>	19	19
Rental operating lease income with subsidiary - CHOICE	<b>0</b>	<b>3,172</b>	0	3,172
<b>Other</b>	<b>336</b>	<b>336</b>	210	210
<b>Total other current liabilities</b>	<u><b>1,664</b></u>	<u><b>4,836</b></u>	<u>1,638</u>	<u>4,810</u>
<b>Non-Current</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Rental operating lease income with subsidiary – CHOICE	<b>0</b>	<b>24,844</b>	0	28,016
<b>Total other non-current liabilities</b>	<u><b>0</b></u>	<u><b>24,844</b></u>	<u>0</u>	<u>28,016</u>

## Analysis of deferred rental operating lease income with subsidiary – Foundation Trust

	Foundation Trust 31 March 2018	Foundation Trust 31 March 2017
	£000	£000
– Not later than one year	<b>3,172</b>	3,172
– Later than one year and not later than five years	<b>12,688</b>	12,688
– Later than five year	<b>12,156</b>	15,328
<b>Total deferred rental income with subsidiary</b>	<u><b>28,016</b></u>	<u>31,188</u>

The rental income detailed above relates to the operating lease, which the subsidiary has entered into for the provision of a fully managed healthcare facility to the Foundation Trust. The lease covers the 3 main sites of the Hospital and the lease premium was paid in full by the subsidiary at the commencement date of 1 February 2017, the Foundation Trust is deferring the income it has received over the 10 year period of the lease.

## 22. Contractual Capital Commitments – Group and Foundation Trust

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

	31 March 2018 £000	31 March 2017 £000
Intangible assets	0	0
Property, plant and equipment	989	140
	<u>989</u>	<u>140</u>

Capital commitments relate to the following schemes:

	£000	£000
Replacement of boiler number 5	0	140
Global Digital Exempar (GDE) Data Centre	365	0
GDE IT Equipment and Meditech development	624	0
	<u>989</u>	<u>140</u>

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

## 23. Events after the reporting year – Group and Foundation Trust

There were no events after the year end that have had a material effect on the accounts (£nil 2015/2016).

## 24. Contingent liabilities / (assets) – Group and Foundation Trust

	31 March 2018 £000	31 March 2017 £000
Gross estimated value of non-clinical liabilities	397	403
Expected recoverable amount	(309)	(324)
Net value contingent liabilities	<u>88</u>	<u>79</u>

A provision relating to claims in respect of the above contingencies is contained within note 20 'Provisions for liabilities and charges' 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.

## 25 Related Parties

### 25.1 Related party transactions – Group and Foundation Trust

	Income £000	Expenditure £000
Value of transactions with Board Members in 2017/18	0	0
Value of transactions with other related parties in 2017/18:		
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	352,474	27,602
NHS WGA bodies	0	5,736
HMRC	0	16,011
Other WGA Bodies	0	1,680
NHS Pension Scheme	0	20,435
Local Government including Sunderland City Council	2,976	0
	<u>355,450</u>	<u>71,464</u>
Value of transactions with Board Members in 2016/17	0	0
Value of transactions with other related parties in 2016/17:		
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	349,921	28,418
NHS WGA bodies	0	2,027
HMRC	0	15,518
Other Public Corporations	0	3,257
NHS Pension Scheme	0	20,188
Local Government including Sunderland City Council	2,996	0
	<u>352,917</u>	<u>69,408</u>

### 25.2 Related party balances – Group and Foundation Trust

	Receivables £000	Payables £000
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March 2018	0	0
Value of balances with other related parties at 31st March 2018:		
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	16,171	4,158
Public Health England	0	0
NHS WGA bodies	0	838
HMRC	988	4,231
Other Public Corporations	0	1,450
NHS Pension Scheme	0	2,675
	<u>17,159</u>	<u>13,352</u>
Value of balances (other than salary) with related parties in relation to doubtful debts at 31 March 2017	0	0
Value of balances with other related parties at 31st March 2017:		
Foundation Trusts, Trusts, Health Education England, NHS England & CCGs	14,112	4,380
Public Health England	0	0
NHS WGA bodies	2	211
HMRC	703	4,131
Other Public Corporations	0	280
NHS Pension Scheme	0	2,685
	<u>14,817</u>	<u>11,687</u>

**25 Related Parties (Continued)****25.3 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 2017 - March 2018 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:

Care Quality Commission  
 County Durham and Darlington NHS Foundation Trust  
 NHS Durham, Dales, Easington and Sedgefield Clinical Commissioning Group  
 Gateshead Health NHS Foundation Trust  
 NHS Gateshead/Newcastle Clinical Commissioning Group  
 NHS Hartlepool and Stockton on Tees Clinical Commissioning Group  
 Health Education North East  
 National Blood Service  
 NHS Business Services Authority  
 NHS England  
 NHS Resolution  
 NHS North of England Commissioning Support Unit  
 NHS Property Services  
 NHS North Durham Clinical Commissioning Group  
 Northumberland Tyne and Wear NHS Foundation Trust  
 Northumbria Healthcare Foundation Trust  
 NHS Prescription Services  
 NHS South Tees Clinical Care Commissioning Group  
 NHS South Tyneside Clinical Commissioning Group  
 South Tyneside NHS Foundation Trust  
 NHS Sunderland Clinical Commissioning Group  
 The Newcastle Upon Tyne Hospitals NHS Foundation Trust

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

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

**25 Related Parties (Continued)****25.4 Related party transactions: Subsidiary Company**

City Hospitals Independent Commercial Enterprises Ltd (CHoICE) operates in the same way as a 'High Street Pharmacy', providing Outpatient Dispensing services at both Sunderland Royal Hospital and Sunderland Eye Infirmary. CHoICE invoices 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.

On 1st February 2017 the Foundation Trust contracted out the management of its whole estate, including Hard and Soft Facilities Management Services, to CHoICE. Under formal contractual, legally binding, arrangements CHoICE then provides to the Trust a fully operational healthcare facility. These arrangements allow for VAT to be recovered on goods and services where previously the Foundation Trust was unable to make a recovery. This tax efficiency allows for funds to be reinvested in healthcare services with the ultimate aim of improving the patient experience.

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

	2017/18		2016/17	
	Income £000	Expenditure £000	Income £000	Expenditure £000
Invoices from CHoICE relating to the cost of drugs dispensed	0	4,168	0	3,462
Dispensing Fee	0	1,153	0	884
Fully operational healthcare facility unitary charge	0	34,715	0	4,312
Service Level Agreement	4,140	0	639	0

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

	Receivables	Payables	Receivables	Payables
	£000	£000	£000	£000
CHoICE Ltd	35,844	37,324	40,181	40,373

In 2016/17 the Trust entered into an Alliance with South Tyneside NHSFT. As a result of this a single Executive/Management team has been implemented. The Trust had expenditure in the year with South Tyneside NHSFT of £1,192,666, largely related to Service Level Agreements for Urology, Oral Surgery and Vascular services. Income in the year from South Tyneside NHSFT was £2,960,637 and mainly related to recharges for the Executive team and other senior staff, charges for MSK, Medical Physics, ENT, Community Dental and Ophthalmology services.

## 25 Related Parties (Continued)

### 25.5 Related party transactions: Charitable Funds

The Trust is the corporate trustee to City Hospitals Sunderland NHS Foundation Trust Charitable Funds. The Foundation Trust assessed its relationship to the Charitable Fund and determined it to be a subsidiary in accordance with IAS 27, as the Trust has the power to govern the financial and operating policies of the Charitable Fund so as to obtain benefits from its activities for itself, its patients or its staff. Charitable Funds has been incorporated within the group accounts since 2016/17.

The main financial statements disclose the Foundation Trust's financial position alongside that of the group (which comprises the Foundation Trust, subsidiary (CHoICE Ltd) and the Charitable Fund).

#### City Hospitals Sunderland NHS Foundation Charitable Funds – Summary Statement of Financial Activities

	Year Ended		Year Ended	
	31 March 2018	Intra-group eliminations	31 March 2017	Intra-group eliminations
	£000	£000	£000	£000
Donated income	1,400	(300)	833	(60)
Income from charitable activities	80	(26)	91	(40)
Income from other trading activities	26	0	9	0
Investment income	61	0	56	0
<b>Total income and endowments</b>	<b>1,567</b>	<b>(326)</b>	<b>989</b>	<b>(100)</b>
Raising Funds	59	0	53	0
Charitable activities	477	(122)	459	(166)
Contributions to the Foundation Trust	631	(631)	71	(71)
<b>Total expenditure</b>	<b>1,167</b>	<b>(753)</b>	<b>583</b>	<b>(237)</b>
Net (Losses) / gains on investments	26	0	312	0
<b>Net movement in funds</b>	<b>426</b>	<b>427</b>	<b>718</b>	<b>137</b>

#### City Hospitals Sunderland NHS Foundation Charitable Funds – Summary Statement of Financial Position

	Year Ended		Year Ended	
	31 March 2018	Intra-group eliminations	31 March 2017	Intra-group eliminations
	£000	£000	£000	£000
Investments	2,329	0	2,374	0
Trade and other receivables	75	0	212	0
Cash and cash equivalents	2,308	0	1,897	0
Trade and other payables	(110)	(75)	(307)	(243)
<b>Total net assets</b>	<b>4,602</b>	<b>(75)</b>	<b>4,176</b>	<b>(243)</b>
Represented by:				
Endowment funds	159	0	159	0
Restricted income funds	171	0	167	0
Unrestricted income funds	4,272	0	3,850	0
	<b>4,602</b>	<b>0</b>	<b>4,176</b>	<b>0</b>

The total funds are represented in the Group accounts as the Charitable Funds Reserve.

Restricted funds are funds donated for a specific purpose. Unrestricted funds may be designated for a particular area but are not restricted on the purpose of expenditure. Endowment funds relate to capital funds where the Charity does not hold the power to convert capital into income. The capital must generally be held indefinitely; the income generated by the investment of the funds can be used for charitable purposes at the discretion of the Trustees.

## 26. Financial Instruments

### 26.1a Financial assets by category

	Group		Foundation Trust	
	Total	Loans and receivables	Total	Loans and receivables
	£000	£000	£000	£000
<b>Assets as per Statement of Financial Position</b>				
Trade and other receivables excluding non financial assets - Note 15	19,992	19,992	20,033	20,033
Loan to subsidiary - Note 13	0	0	700	700
Cash and cash equivalents - Note 17	7,381	7,381	2,812	2,812
Cash and cash equivalents - NHS charitable funds	2,308	2,308	0	0
NHS charitable funds: other financial assets	2,329	2,329	0	0
<b>Total at 31 March 2018</b>	<b>32,010</b>	<b>32,010</b>	<b>23,545</b>	<b>23,545</b>
Trade and other receivables excluding non financial assets - Note 15	15,837	15,837	21,617	21,617
Loan to subsidiary - Note 13	0	0	800	800
Cash and cash equivalents - Note 17	5,084	5,084	2,081	2,081
Cash and cash equivalents - NHS charitable funds	1,897	1,897	0	0
NHS charitable funds: financial assets	2,586	2,586	0	0
<b>Total at 31 March 2017</b>	<b>25,404</b>	<b>25,404</b>	<b>24,498</b>	<b>24,498</b>

### 26.1b Financial liabilities by category

	Group		Foundation Trust	
	Total	Other financial liabilities	Total	Other financial liabilities
	£000	£000	£000	£000
<b>Liabilities as per Statement of Financial Position</b>				
Borrowings (excluding finance leases) – Note 19	53,519	53,519	53,519	53,519
NHS charitable funds: financial liabilities	35	35	0	0
Trade and other payables excluding non financial liabilities – Note 18	26,867	26,867	22,804	22,804
<b>Total at 31 March 2018</b>	<b>80,421</b>	<b>80,421</b>	<b>76,323</b>	<b>76,323</b>
Borrowings (excluding finance leases) – Note 19	56,815	56,815	56,815	56,815
NHS charitable funds: financial liabilities	64	64	0	0
Trade and other payables excluding non financial liabilities – Note 18	24,576	24,576	22,172	22,172
<b>Total at 31 March 2017</b>	<b>81,455</b>	<b>81,455</b>	<b>78,987</b>	<b>78,987</b>

**26. Financial Instruments (Continued)****26.2a Fair values of financial assets**

	Group			
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
<b>Total</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	Foundation Trust			
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Loan to subsidiary	600	600	700	700
<b>Total</b>	<u>600</u>	<u>600</u>	<u>700</u>	<u>700</u>

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

**26.2b Fair values of financial liabilities**

	Group			
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Borrowings	49,812	49,812	53,086	53,086
Obligations under finance leases	0	0	0	0
<b>Total</b>	<u>49,812</u>	<u>49,812</u>	<u>53,086</u>	<u>53,086</u>
	Foundation Trust			
	31 March 2018	31 March 2018	31 March 2017	31 March 2017
	Book Value £000	Fair Value £000	Book Value £000	Fair Value £000
Borrowings	49,812	49,812	53,086	53,086
Obligations under finance leases	6,392	6,392	7,111	7,111
<b>Total</b>	<u>56,204</u>	<u>56,204</u>	<u>60,197</u>	<u>60,197</u>

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

**26.3 Maturity of financial liabilities**

	Group		Foundation Trust	
	31 March 2018 £000	31 March 2017 £000	31 March 2018 £000	31 March 2017 £000
Less than one year	30,609	28,369	26,511	25,901
In more than one year but not more than two years	3,273	3,273	3,273	3,273
In more than two years but not more than five years	9,821	9,821	9,821	9,821
In more than five years	36,718	39,992	36,718	39,992
<b>Total</b>	<u>80,421</u>	<u>81,455</u>	<u>76,323</u>	<u>78,987</u>

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

**26. Financial Instruments (Continued)****26.4 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 Group's main net operating costs are incurred under annual service contracts with local Clinical Commissioning Groups, which are financed from resources voted annually by Parliament. The Group receives such contract income in accordance with Payment by Results (PBR) and block contract income, 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 Group 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 Group 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 Group is not, therefore, exposed to significant liquidity risks in this area.

**Interest Rate Risk**

All of the Group's financial assets and financial liabilities carry nil or fixed rates of interest. The Group is not, therefore, exposed to significant interest-rate risk. The only risk is therefore regarding the level of interest generated on the Group'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 2017/18 was £102k (£82k 2016/17) and the exposure is therefore limited.

Finance Lease arrangements are subject to a fixed rate of interest.

**Foreign Currency Exchange Rate Risk**

The Group 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 Group. Credit risk arises from deposits with banks as well as credit exposures to the Group's commissioners and other debtors. Surplus operating cash is only invested with the National Loans Fund. The Group's cash assets are held only with Lloyds Banking Group and NatWest, the latter of which forms part of the Government Banking Service. The majority of the Group'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 15.

**27. Third party assets**

The Foundation Trust held £961 cash and cash equivalents at 31 March 2017 (£1,040 at 31 March 2016) which relates to monies held by the Foundation Trust on behalf of patients. This has been excluded from the cash and cash equivalents figure reported in the accounts.

**28. 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 £3,599,000 is calculated by applying the 3.5% Treasury rate to the average relevant net assets of £102,829,000.

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%.

## 29. Losses and special payments – Group and Foundation Trust

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

- These are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation.
- By their nature they are items that ideally should not arise.
- They are divided into different categories, which govern the way each individual case is handled.

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

Ref.	Category of loss / special payment	1 April 2017 – 31 March 2018		1 April 2016 – 31 March 2017	
		Number of cases	Value of cases (£)	Number of cases	Value of cases (£)
3a	Bad debts and claims abandoned – private patients	10	586	9	607
3b	Bad debts and claims abandoned – overseas visitors	23	110,137	4	656
3c	Bad debts and claims abandoned – other	84	6,185	110	10,552
4a	Damage to buildings, loss of equipment and property due to theft, fraud etc	0	0	1	1,048
4b	Damage to buildings, loss of equipment and property - stores losses	12	212,327	1	79,506
4c	Damage to buildings, loss of equipment and property due to other causes	16	2,500	21	3,468
7a	Ex-gratia payments for loss of personal effects	22	2,419	16	1,837
7c	Ex-gratia payments for personal injury with advice	16	48,756	21	30,104
7d	Other negligence and injury	2	8,980		
7e	Ex-gratia payments for other employment payments	1	8,250	1	1,000
7g	Other	15	2,047	19	1,387
	<b>Total Losses and Special Payments</b>	<b>201</b>	<b>402,187</b>	<b>203</b>	<b>130,165</b>

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

## 30. Underlying Group surplus

	Group 2017/18 £000	Remove Impact of 2017/18 £000	Remove Surplus in Charity 2017/18 £000	Revised Group 2017/18 £000
<b>Revenue</b>				
Operating income from patient care activities	318,982	0	0	318,982
Other operating income	44,144	0	(1,506)	42,638
Operating expenses	(388,543)	32,926	1,167	(354,450)
<b>Operating (deficit) / surplus</b>	<b>25,417</b>	<b>32,926</b>	<b>(339)</b>	<b>7,170</b>
<b>Finance costs</b>				
Finance income	102	0	(61)	41
Finance expenses - financial liabilities	(1,822)	0	(3)	(1,825)
Finance expenses - unwinding of discount on provisions	(3)	0	3	0
PDC dividends payable	(3,599)	0	0	(3,599)
<b>Net finance costs</b>	<b>(5,322)</b>	<b>0</b>	<b>(61)</b>	<b>(5,383)</b>
Losses on disposal of assets	(16)	0	(18)	(34)
Movement in fair value of other investments	8	0	(8)	0
Corporation tax expenses	(318)	0	0	(318)
<b>(Deficit) / surplus</b>	<b>(31,065)</b>	<b>32,926</b>	<b>(426)</b>	<b>1,435</b>



**City Hospitals Sunderland**  
NHS Foundation Trust

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