

NHS foundation trusts: consolidated accounts 2017/18

About NHS Improvement

NHS Improvement is responsible for overseeing NHS foundation trusts, NHS trusts and independent providers. We offer the support these providers need to give patients consistently safe, high quality, compassionate care within local health systems that are financially sustainable. By holding providers to account and, where necessary, intervening, we help the NHS to meet its short-term challenges and secure its future.

NHS Improvement is the operational name for the organisation that brings together Monitor, NHS Trust Development Authority (NHS TDA), Patient Safety including the National Reporting and Learning System, the Advancing Change team and the Intensive Support Teams.

Foreword

Consolidated NHS foundation trust accounts

Paragraph 17 of Schedule 8 to the Health and Social Care Act 2012 ("the 2012 Act") requires Monitor (NHS Improvement) to prepare consolidated NHS foundation trust accounts and send a copy to the Secretary of State. Under the 2012 Act the Secretary of State can direct the content and form of the accounts and may also direct NHS Improvement to send the consolidated accounts to the Comptroller and Auditor General for audit.

NHS Improvement has prepared these consolidated accounts in line with the direction issued by the Secretary of State in June 2018. From 2017/18 onwards, the consolidated NHS foundation trust accounts are no longer audited by the Comptroller and Auditor General or laid before Parliament.

Consolidated NHS provider accounts

NHS Improvement has also prepared consolidated NHS provider accounts. These are audited by the Comptroller and Auditor General and laid before Parliament. The consolidated provider accounts also include a review of financial performance and consolidated annual governance statement. This publication is available separately on the NHS Improvement website.

Preparation of these accounts

These consolidated foundation trust accounts are an extraction of the foundation trust sector information (with applicable consolidation adjustments) from the data set used to prepare the consolidated provider accounts, which are subject to audit. However these consolidated foundation trust accounts have not been audited as a set of accounts in their own right. They are presented here to comply with the legislative requirement placed on Monitor.

Legislative background for NHS foundation trust accounts

Paragraph 25 of Schedule 7 to the National Health Service Act 2006 ("the 2006 Act") requires each NHS foundation trust to prepare annual accounts for the period beginning with the date on which it is authorised and ending with the following 31 March and for each successive 12-month period, and to submit the accounts to Monitor (NHS Improvement). These annual accounts must be audited by auditors appointed by the NHS foundation trust's council of governors. The trust must lay a copy of the accounts, and any auditor's report on them, before Parliament and send them to Monitor (NHS Improvement). NHS foundation trusts that cease to exist as separate legal entities before the end of the year continue to prepare accounts for their final period as directed by NHS Improvement and have them audited, but do not present them to a council of governors.

Changes in legal status: NHS foundation trusts

These consolidated accounts incorporate the results of all NHS foundation trusts. Entities that had a change in legal status in 2016/17 or 2017/18 are as follows:

1 April 2016	Opening number of NHS foundation trusts (includes Birmingham Community Healthcare NHS Foundation Trust and Sussex Community NHS Foundation Trust, which were authorised as NHS foundation trusts on 1 April 2016)	155
1 May 2016	Authorisation of Mersey Care NHS Foundation Trust and Wirral Community NHS Foundation Trust	2
1 July 2016	Dissolution of Calderstones Partnership NHS Foundation Trust upon acquisition by Mersey Care NHS Foundation Trust	-1
1 February 2017	Dissolution of Birmingham Women's NHS Foundation Trust upon acquisition by Birmingham Children's Hospital NHS Foundation Trust	-1
31 March 2017	Number of NHS foundation trusts at end of year	155
1 April 2017	Authorisation of Essex Partnership University NHS Foundation Trust as newly formed entity. This follows the dissolution of: North Essex Partnership University NHS Foundation Trust and South Essex Partnership University NHS Foundation Trust	1 -2
1 October 2017	Authorisation of Manchester University NHS Foundation Trust as newly formed entity. This follows the dissolution of: Central Manchester University Hospitals NHS Foundation Trust and University Hospital of South Manchester NHS Foundation Trust	1 -2
1 November 2017	Dissolution of Mid Staffordshire NHS Foundation Trust *	-1
31 March 2018	Number of NHS foundation trusts at end of year	152

* Mid Staffordshire NHS Foundation Trust's provider licence was revoked on 1 November 2014 and the trust ceased to provide services. It continued to exist as a shell legal entity until its dissolution on 1 November 2017.

Statement of Accounting Officer's Responsibilities

Ian Dalton is the Chief Executive and Accounting Officer of NHS Improvement (Monitor legal entity for the purpose of this document). In this capacity he is responsible for ensuring that NHS Improvement prepares consolidated NHS foundation trust accounts to send to the Secretary of State in accordance with paragraph 17 of Schedule 8 to the 2012 Act. He is not the accounting officer for each individual NHS foundation trust; this is the role of each NHS foundation trust's chief executive, designated as accounting officer by the National Health Service Act 2006. NHS Improvement is responsible for determining, with the approval of the Secretary of State, the form of accounts each NHS foundation trust must adopt. This is described within the NHS foundation trust annual reporting manual (FT ARM), which is based on HM Treasury's Financial reporting manual (FReM). The manual sets out the responsibilities of each NHS foundation trust accounting officer to:

- apply suitable accounting policies consistently
- make reasonable judgements and estimates
- make a statement within the accounts on whether applicable accounting standards have been followed, and to disclose and explain any material departures
- ensure the use of public funds complies with the relevant legislation, delegated authorities and guidance
- prepare the accounts on a going concern basis (except in the unlikely event that it is intended to discontinue all the NHS foundation trust's services and not to transfer them within the public sector).

In discharging its responsibilities under paragraph 17 of Schedule 8 to the 2012 Act, NHS Improvement has prepared a set of consolidated accounts complying with directions given by the Secretary of State, on a basis consistent with the individual NHS foundation trusts' accounts and consolidated in accordance with IFRS, as amended for NHS foundation trusts by the FReM, the FT ARM and the Department of Health and Social Care Group Accounting Manual.

The directions given by the Secretary of State require NHS Improvement to prepare consolidated accounts so as to:

- give a true and fair view of the state of affairs as at the end of the financial year and the comprehensive income and expenditure, changes in taxpayers' equity and cash flows for the financial year then ended
- disclose any material expenditure or income that has not been applied for the purposes intended by Parliament or material transactions that have not conformed to the authorities that govern them.

Consolidated foundation trust statement of comprehensive income for the year ended 31 March 2018

	Note	2017/18			2016/17		
		Before impairments and transfers £m	Revaluations, impairments and transfers £m	After impairments and transfers £m	Before impairments and transfers £m	Revaluations, impairments and transfers £m	After impairments and transfers £m
Operating income from patient care activities	3	46,666	-	46,666	45,060	-	45,060
Other operating income	3	6,164	-	6,164	6,024	-	6,024
Total operating income		52,830	-	52,830	51,084	-	51,084
Operating expenses	4	(52,008)	(445)	(52,453)	(50,045)	(941)	(50,986)
Operating surplus/(deficit)		822	(445)	377	1,039	(941)	98
Finance income		22	-	22	18	-	18
Finance expenses	7	(543)	-	(543)	(514)	-	(514)
PDC dividends payable		(471)	-	(471)	(499)	-	(499)
Net finance costs		(992)	-	(992)	(995)	-	(995)
Other gains/(losses)		223	-	223	121	-	121
Share of profit of associates/joint ventures		9	-	9	6	-	6
Gains arising from transfers by absorption	26	-	36	36	-	10	10
Losses arising from transfers by absorption	26	-	(37)	(37)	-	-	-
Corporation tax expense		(2)	-	(2)	-	-	-
Surplus/(deficit) for the year		60	(446)	(386)	171	(931)	(760)
Other comprehensive income/(expenditure)							
Will not be reclassified to income and expenditure:							
Net impairments charged to the revaluation reserve		-	(295)	(295)	-	(683)	(683)
Revaluations		-	823	823	-	231	231
Remeasurements of the net defined benefit pension scheme liability/asset		9	-	9	(5)	-	(5)
Other reserve movements		(4)	-	(4)	5	-	5
May be reclassified to income and expenditure when certain conditions are met:							
Fair value gains/(losses) on available-for-sale financial investments		(1)	-	(1)	9	-	9
Other comprehensive income/(expense)		4	528	532	9	(452)	(443)
Total comprehensive income/(expense) for the period		64	82	146	180	(1,383)	(1,203)

Discontinued operations are not material so are not shown separately on the face of the statement of comprehensive income.

**Consolidated foundation trust statement of financial position
for the year ended 31 March 2018**

	Note	31 March 2018 £m	31 March 2017 £m
Non-current assets			
Intangible assets	9	709	604
Property, plant and equipment	10	27,604	26,549
Investment property		253	182
Investments in joint ventures and associates		79	74
Other investments/financial assets		205	214
Trade and other receivables	12	302	271
Other assets		4	15
Total non-current assets		29,156	27,909
Current assets			
Inventories	11	631	596
Trade and other receivables	12	4,251	3,782
Other investments/financial assets		20	18
Other current assets		1	-
Non-current assets for sale and assets in disposal groups		49	53
Cash and cash equivalents	13	3,948	3,413
Total current assets		8,900	7,862
Current liabilities			
Trade and other payables	15	(5,645)	(5,340)
Borrowings	17	(922)	(605)
Other financial liabilities		(1)	(1)
Provisions	18	(261)	(270)
Other liabilities	16	(587)	(549)
Total current liabilities		(7,416)	(6,765)
Total assets less current liabilities		30,640	29,006
Non-current liabilities			
Trade and other payables	15	(23)	(23)
Borrowings	17	(9,956)	(8,907)
Other financial liabilities		-	(2)
Provisions	18	(293)	(322)
Other liabilities	16	(159)	(158)
Total non-current liabilities		(10,431)	(9,412)
Total assets employed		20,209	19,594
Financed by			
Public dividend capital		15,289	14,955
Revaluation reserve		5,776	5,312
Other reserves		141	144
Income and expenditure reserve		(1,403)	(1,218)
Charitable fund reserves	23	406	401
Total taxpayers' equity		20,209	19,594

The notes on pages 10 to 55 form part of these consolidated foundation trust accounts.

Ian Dalton
Chief Executive
3 July 2018

Consolidated foundation trust statement of changes in equity 31 March 2018

	Public dividend capital	Revaluation reserve	Other reserves	Income and expenditure reserve	NHS charitable fund reserves	Total
Note	£m	£m	£m	£m	£m	£m
Taxpayers' and others' equity at 1 April 2017 - brought forward	14,955	5,312	144	(1,218)	401	19,594
Surplus/(deficit) for the year	-	-	-	(428)	42	(386)
Transfers by absorption: transfers between reserves	31	16	(1)	(46)	-	-
Adjustments to prior period accounted for in-year *	-	4	-	36	(5)	35
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits	-	(12)	-	12	-	-
Other transfers between reserves	-	(27)	-	28	-	1
Impairments	6	(295)	-	-	-	(295)
Revaluations	6	822	-	-	1	823
Transfer to retained earnings on disposal of assets	-	(40)	-	40	-	-
Fair value gains on available-for-sale financial investments	-	-	-	-	(1)	(1)
Other recognised gains and losses	-	(2)	-	-	-	(2)
Remeasurements of the defined net benefit pension scheme liability/asset	-	-	2	7	-	9
Public dividend capital received	433	-	-	-	-	433
Public dividend capital written off	(130)	-	-	129	-	(1)
Other reserve movements	-	(2)	(4)	37	(32)	(1)
Taxpayers' and others' equity at 31 March 2018	15,289	5,776	141	(1,403)	406	20,209

* Adjustments here in the consolidated financial statements to reserves reflect adjustments made by local NHS foundation trusts to their prior year reserves. They are not material to the consolidated financial statements, so the prior year has not been restated in these accounts.

Consolidated foundation trust statement of changes in equity for the year ended 31 March 2017

	Note	Public dividend capital £m	Revaluation reserve £m	Other reserves £m	Income and expenditure reserve £m	NHS charitable fund reserves £m	Total £m
Taxpayers' and others' equity at 1 April 2016		14,710	5,807	97	(511)	367	20,470
At start of period for new FTs	27	62	86	48	92	2	290
Surplus/(deficit) for the year		-	-	-	(839)	79	(760)
Transfers by absorption: transfers between reserves		9	4	(4)	(9)	-	-
Previous prior period adjustments accounted for in 2016/17		-	(2)	-	(123)	(13)	(138)
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits		-	(16)	-	16	-	-
Other transfers between reserves		-	(76)	(1)	76	-	(1)
Impairments	6	-	(683)	-	-	-	(683)
Revaluations	6	-	231	-	-	-	231
Transfer to retained earnings on disposal of assets		-	(29)	-	29	-	-
Fair value gains on available-for-sale financial investments		-	-	-	-	9	9
Other recognised gains and losses		-	(1)	1	4	-	4
Remeasurements of the defined net benefit pension scheme liability/asset		-	-	3	(8)	-	(5)
Public dividend capital received		181	-	-	-	-	181
Public dividend capital repaid		(6)	-	-	-	-	(6)
Public dividend capital written off		(1)	-	-	1	-	-
Other reserve movements		-	(9)	-	54	(43)	2
Taxpayers' and others' equity at 31 March 2017		14,955	5,312	144	(1,218)	401	19,594

Information on reserves

Public dividend capital

Public dividend capital (PDC) is a type of public sector equity finance based on the excess of assets over liabilities at the time of establishment of a predecessor NHS trust. Additional PDC may also be issued to NHS providers by the Department of Health and Social Care. A charge, reflecting the cost of capital utilised by an NHS provider, is payable to the Department of Health and Social Care as the PDC dividend.

Revaluation reserve

Increases in asset values arising from revaluations are recognised in the revaluation reserve, except where, and to the extent that, they reverse impairments previously recognised in operating expenses, in which case they are reversed in operating expenses. Subsequent downward movements in asset valuations are charged to the revaluation reserve to the extent that a previous gain was recognised unless the downward movement represents a clear consumption of economic benefit or a reduction in service potential.

Other reserves

This reserve reflects balances formed on the creation of predecessor NHS bodies, and in some historic mergers before the use of transfer by absorption. Other reserves also include non-controlling interests. Non-controlling interests represent the equity in a subsidiary of an NHS foundation trust which is not attributable, directly or indirectly, to the NHS foundation trust.

Income and expenditure reserve

The balance of this reserve represents the accumulated surpluses and deficits of NHS foundation trusts.

NHS charitable funds reserves

This balance represents the ring-fenced funds held by the NHS charitable funds consolidated within these financial statements. These reserves are classified as restricted or unrestricted and a breakdown is provided in note 23.

Consolidated foundation trust statement of cash flows

		2017/18	2016/17
	Note	£m	£m
Cash flows from operating activities			
Operating surplus/ (deficit)		377	98
Non-cash income and expense:			
Depreciation and amortisation	4	1,343	1,347
Net impairments	6	445	941
Donations/grants credited to income		(110)	(119)
Non-cash movements in on-SoFP pension liability		4	1
(Increase) in receivables and other assets		(526)	(862)
(Increase) in inventories		(33)	(14)
Increase in payables and other liabilities		238	53
(Decrease) in provisions		(43)	(14)
Corporation tax (paid)/received		(2)	-
NHS charitable funds net adjustments to operating cash flows		(3)	1
Other movements in operating cash flows		(4)	(8)
Net cash generated from operating activities		1,686	1,424
Cash flows from investing activities			
Interest received		14	10
Purchase of financial assets/investments		(33)	(284)
Sale of financial assets/investments		37	258
Purchase of intangible assets		(201)	(151)
Sales of intangible assets		-	1
Purchase of property, plant, equipment and investment property		(1,963)	(1,922)
Sales of property, plant, equipment and investment property		258	181
Receipt of cash donations to purchase capital assets		91	108
Cash from acquisitions and disposals of business units and subsidiaries		1	-
NHS charitable funds investing cash flows		12	(4)
Net cash generated used in investing activities		(1,784)	(1,803)
Cash flows from financing activities			
Public dividend capital received		433	181
Public dividend capital repaid		-	(6)
Movement in loans from the Department of Health and Social Care		1,343	1,264
Movement in other loans		16	13
Capital element of finance lease rental payments		(31)	(43)
Capital element of PFI, LIFT and other service concession payments		(134)	(114)
Interest paid on finance lease liabilities		(12)	(13)
Interest paid on PFI, LIFT and other service concession obligations		(401)	(393)
Other interest paid		(123)	(97)
PDC dividend paid		(464)	(515)
Cash flows used in other financing activities		-	3
Net cash generated from/(used in) financing activities		627	280
Increase/Decrease in cash and cash equivalents		529	(99)
Cash and cash equivalents at 1 April		3,412	3,461
Cash and cash equivalents at start of period for new FTs	27	-	48
Cash and cash equivalents transferred under absorption accounting		2	2
Adjustments to prior period accounted for in year		1	-
Cash and cash equivalents at 31 March		3,944	3,412

Total cash and cash equivalents is reconciled to the Statement of Financial Position in note 13.

Cash flows from discontinued operations are not material so are not shown separately on the face of the Statement of Cash Flows.

Notes to the financial statements

Note 1 Accounting policies and other information

Basis of preparation

Paragraph 17 of Schedule 8 to the Health and Social Care Act 2012 requires Monitor to prepare a consolidated set of financial statements for NHS foundation trusts. NHS Improvement, in exercising the duties conferred on Monitor, has produced the consolidated accounts of NHS foundation trusts in accordance with directions issued by the Secretary of State.

NHS Improvement, in exercising the statutory functions conferred on Monitor, is responsible for issuing an accounts direction to NHS foundation trusts under the NHS Act 2006. NHS Improvement has directed that the financial statements of NHS foundation trusts shall meet the accounting requirements of the Department of Health and Social Care Group Accounting Manual (GAM) which shall be agreed with the Secretary of State. In line with the direction issued by the Secretary of State for these consolidated accounts, the following financial statements have been prepared in accordance with the GAM 2017/18 in relevant respects.

The accounting policies contained within the GAM are broadly consistent with those specified in HM Treasury's Financial Reporting Manual (FRoM), which itself follows International Financial Reporting Standards (IFRS), to the extent that it is meaningful and appropriate in the public sector context. The GAM's divergences from the FRoM are designed to ensure an appropriate financial reporting framework for the NHS foundation trust sector and have been approved by HM Treasury's Financial Reporting Advisory Board.

Where NHS foundation trusts have discretion over their accounting policies we have confirmed that any inconsistencies are not material to these accounts or adjustments have been made.

Where an NHS trust is authorised as an NHS foundation trust during the year, these accounts only contain the transactions since the date of authorisation as an NHS foundation trust.

Accounting convention

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

Note 1.1 Consolidation

Basis of consolidation

These accounts consolidate the accounts of all NHS foundation trusts that have been in existence during 2017/18 using the principles of IFRS as adopted by the FRoM, together with comparative data for the sector. It presents the consolidated results of the NHS foundation trust sector after the elimination of inter-foundation trust balances and transactions. Monitor, as part of NHS Improvement, is not the parent undertaking for NHS foundation trusts and its results are not incorporated within these accounts. As there is no parent entity within this consolidation, only consolidated group statements are presented.

The accounting policies used by NHS foundation trusts are the same as those used by all NHS providers, hence the use of the term 'providers' in the policies that follow.

Where an NHS provider combines with, transfers a function to, or receives a function from another entity within the Whole of Government Accounts boundary (including other NHS providers) this represents a 'machinery of government change' regardless of the mechanism used to effect the combination.

Machinery of government changes in 2017/18 and 2016/17

Where functions are transferred to NHS providers from other NHS or local government bodies (or vice versa), the transaction is accounted for as a transfer by absorption. The assets and liabilities transferred are recognised in the accounts as at the date of transfer and prior year comparatives are not restated. The assets and liabilities are not adjusted to fair value prior to recognition. The net gain/loss corresponding to the net assets/liabilities transferred is recognised within non-operating income/expenditure.

In absorption transfers for property, plant and equipment assets and intangible assets, the cost and accumulated depreciation and amortisation balances from the transferring entity's accounts are preserved on recognition in the acquirer's accounts. Where the transferring body recognised revaluation reserve balances attributable to the assets, the NHS provider makes a transfer from its income and expenditure reserve to its revaluation reserve. Where the Department of Health and Social Care transfers Public Dividend Capital (PDC) from the divesting body to the receiving body as part of an absorption transaction, this is treated as a transfer from the income and expenditure reserve to the PDC reserve by the NHS provider. This ensures that the absorption gain/loss is calculated in line with the requirements of the FReM and also that the balance of PDC is preserved where this is transferred by the Department of Health and Social Care.

Where functions are transferred to another NHS or local government body, the assets and liabilities transferred are derecognised from the accounts as at the date of transfer and prior year comparatives are not restated. The net loss / gain corresponding to the net assets / liabilities transferred is recognised within non-operating income/expenditure. Any revaluation reserve balances attributable to assets de-recognised are transferred to the income and expenditure reserve.

More details of transfers in 2017/18 and 2016/17 are provided in note 26.

Other business combinations

Where NHS providers acquire businesses from outside of the Whole of Government Accounts boundary, these are accounted for in accordance with IFRS 3.

Subsidiaries

Under IFRS 10, an NHS provider controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power over the investee occurs where the provider has existing rights that give it the current ability to direct the relevant activities. 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 non-controlling interests are included within Other Reserves in the Statement of Financial Position.

The amounts consolidated are drawn from the published financial statements of the subsidiaries for the year, except where a subsidiary's financial year end is before 1 January or after 1 July. In these cases the actual amounts for each month of the year to 31 March are obtained from the subsidiary and consolidated.

Where a subsidiary's accounting policies are not aligned with those of the NHS provider (including where they report under UK GAAP) amounts are adjusted during local consolidation where the differences are material. Inter-entity balances, transactions and gains/losses are eliminated in full on consolidation. Subsidiaries classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

NHS charitable funds

NHS providers are the corporate trustees to various NHS charitable funds. Forty-five NHS foundation trusts have individually assessed their relationships to the respective charitable funds and determined they meet the definition of subsidiaries under IFRS 10 and have consolidated them locally.

The charitable fund's statutory accounts are prepared to 31 March in accordance with the UK Charities Statement of Recommended Practice (SORP) which is based on UK Generally Accepted Accounting Principles (UK GAAP). On consolidation, necessary adjustments are made to the charity's assets, liabilities and transactions to:

- recognise and measure them in accordance with the NHS provider's accounting policies; and
- eliminate intra-group transactions, balances, gains and losses.

Associates

Associate entities are those over which an NHS provider has the power to exercise a significant influence. Associate entities are recognised in these financial statements using the equity method. The investment is initially recognised at cost. It is increased or decreased subsequently to reflect the NHS provider's share of the entity's profit or loss or other gains and losses (e.g. revaluation gains on the entity's property, plant and equipment) following acquisition. It is also reduced when any distribution e.g. share dividends are received by the NHS provider from the associate.

Associates which are classified as 'held for sale' are measured at the lower of their carrying value and 'fair value less costs to sell'.

Joint ventures

Joint ventures are arrangements in which the NHS provider has joint control with one or more other parties, and where it has the rights to the net assets of the arrangement.

Joint ventures are accounted for using the equity method.

Joint operations

Joint operations are arrangements in which the NHS provider has joint control with one or more other parties and has the rights to the assets, and obligations for the liabilities, relating to the arrangement. The NHS provider includes within its financial statements its share of the assets, liabilities, income and expenses.

Statement of Comprehensive Income (SOCl) policy

The SOCl in these consolidated accounts is presented to separately identify the surplus/deficit before impairments and transfers as this is how NHS Improvement has reported on the performance of NHS providers during the year.

Note 1.2 Income

Income in respect of services provided is recognised when, and to the extent that, performance occurs and is measured at the fair value of the consideration receivable. The main source of income for the NHS providers are contracts with commissioners in respect of health care services. Most contracts run to 31 March, reducing the risk of cut-off issues. At the year end, NHS providers accrue income relating to activity delivered in that year. Where a patient spell is incomplete at the year end, income relating to the partially completed spell is accrued by the NHS provider, and this usually should be agreed with the commissioner.

Where income is received for a specific activity which is to be delivered in a subsequent financial year, that income is deferred.

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 sums due under the sale contract.

The value of the benefit received when accessing funds from the Government's apprenticeship service is recognised as income at the point of receipt of the training service. Where these funds are paid directly to an accredited training provider, the corresponding notional expense is also recognised at the point of recognition for the benefit.

Additional contributions from central bodies (such as the Department of Health and Social Care) designated as revenue contributions are recognised as revenue when received or receivable, and are separately disclosed.

Note 1.3 Revenue government and other grants

Government grants are grants from Government bodies other than income from commissioners for the provision of services. Grants from the Department of Health and Social Care are accounted for as government grants, as are grants from the Big Lottery Fund. Where a grant is used to fund revenue expenditure it is credited to operating income to match that expenditure. Where the grant is used to fund capital expenditure, it is credited to the Statement of Comprehensive Income once conditions attached to the grant have been met.

Note 1.4 Expenditure on employee benefits

Short-term employee benefits

Salaries, wages and employment-related payments, such as social security costs and the apprenticeship levy, are recognised in the period in which the service is received from employees. The cost of annual leave entitlement earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry-forward leave into the following period.

NHS pension scheme

Past and present employees are covered by the provisions of the two NHS Pension Schemes. Both schemes are unfunded, defined benefit schemes that cover NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as a defined contribution scheme: the cost to the NHS body is taken as equal to the employers' pension contributions payable to the scheme for the accounting period. The contributions are charged to operating expenses as 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 operating expenses at the time of committing to the retirement, regardless of the method of payment.

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

a) Accounting valuation

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and is accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2018 is based on valuation data as 31 March 2016, 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 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 using pension scheme data 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.

Other pension schemes

Local Government Pension Scheme

Some NHS provider employees are members of the Local Government Pension Scheme ('LGPS') which is a defined benefit pension scheme, administered locally through local pension funds. Where an NHS provider is able to identify its share of the underlying scheme assets and liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position') by the provider and are consolidated here.

The assets are measured at fair value and the liabilities at the present value of future obligations. The increase in the liability arising from pensionable service earned during the year is recognised within operating expenses. The expected gain during the year from scheme assets is recognised within finance income. The net interest cost during the year arising from the unwinding of the discount on the net scheme liabilities is recognised within finance costs.

Remeasurements of the defined benefit plan are recognised as 'other comprehensive income' in the Statement of Comprehensive Income.

Where an NHS provider is unable to identify its share of the underlying scheme liabilities these are accounted for as defined contribution pension schemes ('off Statement of Financial Position') and employer contributions are charged to expenditure as they fall due.

The following schemes are accounted for 'on Statement of Financial Position'. For further details please refer to individual NHS foundation trust financial statements.

NHS foundation trust	Pension fund	Administering body
Black Country Partnership NHS Foundation Trust	West Midlands Pension Fund	Wolverhampton City Council
Cambridgeshire and Peterborough NHS Foundation Trust	Cambridgeshire County Council Pension Fund	Cambridgeshire County Council
Cheshire and Wirral Partnership NHS Foundation Trust	Cheshire Pension Fund	Cheshire West and Chester Council
East London NHS Foundation Trust	Bedfordshire Pension Fund	Bedford Borough Council
Essex Partnership University NHS Foundation Trust	Essex Pension Fund	Essex County Council
Greater Manchester Mental Health NHS Foundation Trust	Greater Manchester Pension Fund	Tameside Metropolitan Borough Council
Hertfordshire Partnership University NHS Foundation Trust	Hertfordshire County Council Pension Fund	Hertfordshire County Council
Humber NHS Foundation Trust	East Riding of Yorkshire County Council Pension Fund	East Riding of Yorkshire County Council
Oxford Health NHS Foundation Trust	Buckinghamshire County Council Pension scheme	Buckinghamshire County Council
Rotherham Doncaster and South Humber NHS Foundation Trust	South Yorkshire Pension Fund	South Yorkshire Pension Authority
Salford Royal NHS Foundation Trust	Greater Manchester Pension Fund	Tameside Metropolitan Borough Council
Sheffield Health and Social Care NHS Foundation Trust	South Yorkshire Pension Fund	South Yorkshire Pension Authority
South Staffordshire and Shropshire Healthcare NHS Foundation Trust	Staffordshire County Council Pension Fund	Staffordshire County Council
Wirral Community NHS Foundation Trust	Merseyside Pension Fund	Wirral Metropolitan Borough Council

The following schemes are accounted for 'off-Statement of Financial Position'. For further details please refer to individual NHS provider financial statements.

NHS foundation trust	Pension Fund	Administering body
Camden and Islington NHS Foundation Trust	London Borough of Islington Council Pension Fund	London Borough of Islington Council
Northumbria Healthcare NHS Foundation Trust	Northumberland County Council Pension Fund	Northumberland County Council
South Tyneside NHS Foundation Trust	South of Tyne and Wear Pension Fund	South Tyneside Council

Other pension schemes

Some NHS providers have employees who are members of defined benefit pension schemes other than the NHS Pension Scheme and the Local Government Pension Scheme. Where an NHS provider is able to identify its share of the underlying scheme liabilities these are accounted for as a defined benefit pension scheme ('on Statement of Financial Position'). Otherwise, these are accounted for as defined contribution pension schemes ('off Statement of Financial Position').

There are currently no defined benefit pension arrangements accounted for 'on Statement of Financial Position' by NHS providers apart from LGPS schemes.

Defined contribution pension schemes

Some NHS providers have employees who are members of defined contribution pension schemes. In accounting for these schemes the trust recognises expenditure for its employer contributions as they fall due. The National Employment Savings Trust (NEST) is a common example of such a scheme.

Note 1.5 Expenditure on other goods and services

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

Note 1.6 Discontinued operations

Discontinued operations occur where activities either cease without transfer to another entity, or transfer to an entity outside of the boundary of Whole of Government Accounts, such as private or voluntary sectors. Such activities are accounted for in accordance with IFRS 5. Activities that are transferred to other bodies within the boundary of Whole of Government Accounts are 'machinery of government changes' and treated as continuing operations.

Note 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 trust;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably; and
- the item has cost of at least £5,000; or
- collectively, a number of items have a cost of at least £5,000 and individually have cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have similar disposal dates and are under single managerial control.

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

Measurement

Valuation

All property, plant and equipment assets are measured initially at cost, representing the costs directly attributable to acquiring or constructing the asset and bringing it to the location and condition necessary for it to be capable of operating in the manner intended by management.

IAS 16 permits property, plant and equipment to be valued either at cost less accumulated depreciation or at a revalued amount, being fair value at the date of revaluation less subsequent depreciation and impairment. The GAM, in accordance with the FReM, does not allow NHS providers to apply the historical cost model after initial recognition, except for assets which have a short useful economic life or low value or both.

Assets which are held for their service potential and are in use (i.e. operational assets used to deliver either front line services or back office functions) are measured at their current value in existing use.

All land and buildings are re-valued at regular intervals, at least once every 5 years is recommended, to ensure the valuations are kept up to date. Valuations are carried out by professional valuers in accordance with the Royal Institution of Chartered Surveyors (RICS) Appraisal and Valuation Manual insofar as these terms are consistent with the agreed requirements of the GAM. Interim revaluations are also carried out as necessary to ensure that the carrying amount of each asset does not differ materially from its proper valuation at the reporting date.

An item of property, plant and equipment which is surplus 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 or IFRS 5.

Valuation guidance issued by RICS states that valuations are performed net of VAT where the VAT is recoverable by the entity. This commonly applies to schemes procured under a Private Finance Initiative (PFI), where the construction is completed by a special purpose vehicle and the costs have recoverable VAT for the trust.

Application of Property Plant and Equipment accounting policy

For specialised assets, current value in existing use is interpreted as the present value of the asset's remaining service potential, which is assumed to be at least equal to the cost of replacing that service potential. In line with the GAM, specialised assets are therefore valued as their depreciated replacement cost (DRC) on a modern equivalent asset (MEA) basis. This valuation method therefore applies to the majority of NHS providers' property asset base. The MEA method assumes that the existing asset would be replaced with a modern asset of equivalent capacity and function. This asset need not be restricted to the current location and thus, where it would meet the contractual location requirements of the service being provided, an alternative site may instead be used as the basis of valuation. It is for individual NHS providers to determine whether the alternative site approach is appropriate when undertaking an MEA based valuation.

Non-specialised operational assets used in the provision of services are valued at their market value in existing use.

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 trust 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 over their remaining useful economic lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated.

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

Revaluation gains and losses

Revaluation gains are recognised in the revaluation reserve, except where, and to the extent that, they directly relate to a revaluation decrease that has previously been recognised in operating expenses, in which case they are reversed in operating expenditure. Revaluation losses are charged to the revaluation reserve to the extent that there is an available balance for the asset concerned, and thereafter are charged to operating expenses.

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

Impairments

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

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

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

De-recognition

Assets intended for disposal are reclassified as 'held for sale' once the criteria in IFRS 5 are met.

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, government grant and other grant funded assets

Donated and grant funded property, plant and equipment assets are capitalised at their current valuation 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.

Private finance initiative (PFI) transactions

PFI transactions which meet the IFRIC 12 definition of a service concession, as interpreted in HM Treasury's *FReM*, are accounted for as 'on-Statement of Financial Position' by NHS providers. In accordance with IAS 17, the underlying assets are initially recognised as property, plant and equipment, together with an equivalent finance lease liability. Subsequently, the assets are accounted for as property, plant and equipment and/or intangible assets as appropriate.

The annual contract payments are apportioned between the repayment of the liability, a finance cost and the charges for services. The finance cost is calculated using the implicit interest rate for the scheme.

The service charge is recognised in operating expenses and the finance cost is charged to finance costs in the Statement of Comprehensive Income. Maintenance spend is charged to operating expenses or capitalised as property, plant and equipment depending upon the nature of the expenditure.

Local Improvement Finance Trust (LIFT) schemes also meet the IFRIC 12 definition of a service concession and so are accounted for in the same way.

Useful economic lives of property, plant and equipment

Useful economic lives assigned to categories of property, plant and equipment vary between NHS providers according to specific local circumstances. The range of useful economic lives across the sector is:

	Min life	Max life
	Years	Years
Buildings, excluding dwellings	1	193
Dwellings	1	136
Plant & machinery	1	65
Transport equipment	1	20
Information technology	1	21
Furniture & fittings	1	25

Land is not depreciated by NHS foundation trusts and so is not included in the above table.

Finance-leased assets are depreciated over the shorter of the useful economic life or the lease term, unless the NHS provider expects to acquire the asset at the end of the lease term in which case the assets are depreciated in the same manner as owned assets above.

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The figures disclosed here are the minimum and maximum used across the foundation trust sector for each category of asset.

Note 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 trust's business or which arise from contractual or other legal rights. They are recognised only where it is probable that future economic benefits will flow to, or service potential be provided to, the trust and where the cost of the asset can be measured reliably.

Internally generated intangible assets

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

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

Software

Software which is integral to the operation of hardware, eg 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, eg application software, is capitalised as an intangible asset.

Measurement

Intangible assets are recognised initially at cost, comprising all directly attributable costs needed to create, produce and prepare the asset to the point that it is capable of operating in the manner intended by management.

Subsequently intangible assets are measured at current value in existing use. Where no active market exists, intangible assets are valued at the lower of depreciated replacement cost and the value in use where the asset is income generating. Revaluations gains and losses and impairments are treated in the same manner as for property, plant and equipment. An intangible asset which is surplus with no plan to bring it back into use is valued at fair value under IFRS 13, if it does not meet the requirements of IAS 40 or IFRS 5.

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.

Useful economic lives assigned to categories of intangible asset vary between NHS providers according to specific local circumstances. The range of useful economic lives across the sector is:

	Min life Years	Max life Years
Intangible assets - internally generated		
Information technology	1	20
Development expenditure	1	12
Websites	1	12
Intangible assets - purchased		
Software	1	20
Licences & trademarks	1	15
Patents	1	8
Goodwill	1	10
Other	1	15

Useful economic lives reflect the total life of an asset and not the remaining life of an asset. The figures disclosed here are the minimum and maximums used across the foundation trust sector for each category of asset.

Note 1.9 Investment properties

Investment properties are measured at fair value. Changes in fair value are recognised as gains or losses in income/expenditure.

Only those assets which are held solely to generate a commercial return are considered to be investment properties. Where an asset is held, in part, for support service delivery objectives, then it is considered to be an item of property, plant and equipment. Properties occupied by employees, whether or not they pay rent at market rates, are not classified as investment properties.

Note 1.10 Inventories

Inventories are valued at the lower of cost and net realisable value. NHS providers measure the cost of inventories using either a first in first out (FIFO) method or the weighted average cost method.

Note 1.11 Financial instruments and financial liabilities

Recognition

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

Financial assets or financial liabilities in respect of assets acquired or disposed of through finance leases are recognised and measured in accordance with the accounting policy for leases described below.

NHS providers are permitted to recognise and de-recognise, as applicable, regular way purchases or sales using either the trade or settlement date.

All other financial assets and financial liabilities are recognised when an NHS provider 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 an NHS provider 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 'Fair Value through Income and Expenditure', 'Loans and receivables' or 'Available-for-sale financial assets'.

Financial liabilities are classified as 'Fair value through Income and Expenditure' or as 'Other financial liabilities'.

Financial assets and financial liabilities at 'fair value through income and expenditure'

Financial assets and financial liabilities at 'fair value through income and expenditure' are financial assets or financial liabilities held for trading. A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Derivatives which are embedded in other contracts but which are not 'closely-related' to those contracts are separated-out from those contracts and measured in this category.

Assets and liabilities in this category are classified as current assets and current liabilities. These financial assets and financial liabilities are recognised initially at fair value, with transaction costs expensed in the income and expenditure account. Subsequent movements in the fair value are recognised as gains or losses in income or expenditure.

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.

NHS provider 'loans and receivables' comprise investments, NHS trade and other receivables, non-NHS trade and other receivables, and accrued income.

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.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets which are either designated in this category or not classified in any of the other categories. They are included in long-term assets unless an NHS provider intends to dispose of them within 12 months of the Statement of Financial Position date.

Available-for-sale financial assets are recognised initially at fair value, including transaction costs, and measured subsequently at fair value, with gains or losses recognised in reserves and reported in the Statement of Comprehensive Income as an item under 'other comprehensive income'. When items classified as 'available-for-sale' are sold or impaired, the accumulated fair value adjustments recognised are transferred from reserves and recognised under 'Finance Costs' in the Statement of Comprehensive Income.

Financial liabilities

All financial liabilities 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.

Determination of fair value

For financial assets and financial liabilities carried at fair value, the carrying amounts are determined from quoted market prices, independent appraisals or discounted cash flow analysis.

Impairment of financial assets

At the reporting date, NHS providers assess whether any financial assets, other than those held at 'fair value through income and expenditure' are 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 cash flows 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.

Note 1.12 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, in hand and cash equivalents. Cash equivalents are readily convertible investments of known value which are subject to an insignificant risk of change in value.

Note 1.13 Leases

Finance leases

Where substantially all risks and rewards of ownership of a leased asset are borne by an NHS provider, the asset is recorded as property, plant and equipment and a corresponding liability is recorded. The value at which both are recognised is the lower of the fair value of the asset or the present value of the minimum lease payments, discounted using the interest rate implicit in the lease. The implicit interest rate is that which produces a constant periodic rate of interest on the outstanding liability.

The asset and liability are recognised at the inception of the lease and de-recognised when the liability is discharged, cancelled or expires. The annual rental is split between the repayment of the liability and a finance cost. The annual finance cost is calculated by applying the implicit interest rate to the outstanding liability and is charged to finance costs in the Statement of Comprehensive Income.

Operating leases

Other 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. The aggregate benefit of operating lease incentives is recognised as a reduction of rental expense over the lease term.

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.

Note 1.14 Provisions

An NHS provider 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 the HM Treasury's discount rates effective for 2017/18.

		Real rate
Short-term	Up to 5 years	-2.42%
Medium-term	After 5 years up to 10 years	-1.85%
Long-term	Exceeding 10 years	-1.56%

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of 0.10% in real terms.

Clinical negligence costs

NHS Resolution (previously known as NHS Litigation Authority) operates a risk pooling scheme under which an NHS provider pays an annual contribution to NHS Resolution, which, in return, settles all clinical negligence claims. Although NHS Resolution is administratively responsible for all clinical negligence cases, the legal liability remains with an NHS provider. The total value of clinical negligence provisions carried by NHS Resolution on behalf of NHS foundation trusts is disclosed at note 18.3.

Non-clinical risk pooling

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

Note 1.15 Contingencies

Contingent assets (that is, assets arising from past events whose existence will only be confirmed by one or more future events not wholly within the entity's control) are not recognised as assets, but are disclosed in note 19 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 19, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control; or
- present obligations arising from past events but for which it is not probable that a transfer of economic benefits will arise or for which the amount of the obligation cannot be measured with sufficient reliability.

Note 1.16 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. Additional PDC may also be issued to NHS foundation trusts by the Department of Health and Social Care. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

A charge, reflecting the cost of capital utilised by an NHS provider, is payable as PDC dividend. The charge is calculated at the rate set by the Secretary of State with the consent of HM Treasury (currently 3.5%) on the average relevant net assets of an NHS provider during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for (i) donated assets (including lottery funded assets), (ii) average daily cash balances held with the Government Banking Services (GBS) and National Loans Fund (NLF) deposits, excluding cash balances held in GBS accounts that relate to a short-term working capital facility, (iii) any PDC dividend balance receivable or payable, and (iv) any receivable associated with sustainability and transformation fund (STF) incentive and bonus payments at the year end. In accordance with the requirements laid down by the Department of Health and Social Care (as the issuer of PDC), the dividend for the year is calculated on the actual average relevant net assets as set out in the 'pre-audit' version of the annual accounts. The dividend thus calculated is not revised should any adjustment to net assets occur as a result of the audit of the entity's annual financial statements, except for correction of any error in the calculation of the dividend itself.

In line with rules set by the Department of Health and Social Care, the PDC dividend calculation is based upon each provider's group accounts (i.e. including any subsidiaries) but excluding any consolidated charitable funds.

Note 1.17 Value added tax

Most of the activities of NHS providers 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. Where an NHS provider consolidates the activities of a subsidiary, these activities may be within the scope of VAT rules.

Note 1.18 Corporation tax

The Finance Act 2004 amended S519A Income and Corporation Taxes Act 1998 to provide power to HM Treasury to make certain non-core activities of NHS providers potentially subject to corporation tax. NHS providers may also incur corporation tax liabilities through subsidiaries which are consolidated into their financial statements.

Corporation tax expense recognised in these financial statements represents the sum of the tax currently payable and deferred tax.

Current tax is the expected tax payable on the taxable surpluses generated during the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Note 1.19 Foreign exchange

The functional and presentation currency of NHS providers is sterling. A transaction which is denominated in a foreign currency is translated into the functional currency at the spot exchange rate on the date of the transaction.

Where an NHS provider has assets or liabilities denominated in a foreign currency at the reporting 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 reporting date) are recognised as income or expense in the period in which they arise. Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

Note 1.20 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme

The CRC scheme is a mandatory cap and trade scheme for non-transport CO₂ emissions. Some NHS providers have emissions above this cap and participate in the scheme. Where NHS providers are registered with the CRC scheme, they are required to surrender to the Government an allowance for every tonne of CO₂ they emit during the financial year. Therefore, registered NHS providers should recognise a liability and related expense in respect of this obligation as CO₂ emissions are made.

The carrying amount of the liability at 31 March will, therefore, reflect the CO₂ emissions that have been made during that financial year, less the allowances (if any) surrendered voluntarily during the financial year in respect of that financial year.

The liability will be measured at the amount expected to be incurred in settling the obligation. This will be the cost of the number of allowances/tonnes required to settle the obligation.

Note 1.21 Third party assets

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

However, they are disclosed in a separate note to the accounts in accordance with the requirements of the FReM (see note 14 to the accounts).

Note 1.22 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 would 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.

Losses and special payments notes within individual NHS foundation trust financial statements are compiled directly from each trust's losses and compensations register which reports on an accruals basis without provisions for future losses.

Note 1.23 Gifts

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

Note 1.24 Going concern

HM Treasury's Financial Reporting Manual (FRm) defines that a public sector body that is not classified as a trading entity will be a going concern where there is the anticipated continuation of the provision of services in the future. The same definition is applied by NHS providers in preparing their financial statements. NHS Improvement has therefore prepared these consolidated financial statements on a going concern basis which reflects the basis on which the underlying NHS foundation trusts' financial statements have been prepared on the assumption that the Department of Health and Social Care will provide the necessary cash funding to enable the continuation of services if local NHS funds are insufficient through their regime for funding of NHS providers.

The FT ARM directs NHS foundation trusts to disclose in their annual reports and financial statements where the going concern basis is adopted based on the interpretation in the FRm to focus on the continued provision of services by amending their statement on going concern.

All NHS foundation trust financial statements, with the exception of Mid Staffordshire NHS Foundation Trust, have been prepared on a going concern basis and all received unqualified true and fair audit opinions on the accounts. NHS Improvement has prepared these consolidated accounts on a going concern basis which reflects the basis on which the underlying accounts have been prepared.

Mid Staffordshire NHS Foundation Trust ceased to provide services on 1 November 2014 but continued to exist as a shell entity for the purposes of outstanding legal matters. The Trust was dissolved on 1 November 2017. As its functions at the point of dissolution (the discharge of legal responsibilities which have now concluded) did not transfer to another entity, the closing period accounts were prepared on a non-going concern basis. The Trust recorded £77,000 of expenditure in 2017/18 and had a nil balance sheet at the time of dissolution. Given the specific circumstances for this entity, this is not considered to affect the going concern basis of these consolidated accounts.

The auditors of 41 NHS foundation trusts have included a 'material uncertainty' paragraph within the audit report to draw attention to the going concern disclosure in those financial statements, plus 2 NHS foundation trust audit reports included an 'emphasis of matter' relating to the demise of the organisation and the transfer of its services to another entity (2016/17: 34 emphases of matter for going concern¹). These are entered by auditors where providers are dependent on future funding from the Department of Health and Social Care and the Department has not confirmed the provision of this funding going forwards. These 43 NHS foundation trusts comprise 28% of total operating income and a listing of the 43 is provided in the consolidated provider accounts published separately by NHS Improvement.

Given the definition of going concern in the public sector described above, these consolidated NHS foundation trust accounts have been prepared on a going concern basis.

¹ Auditing standards changed for the 2017/18 financial year. The 2016/17 figures here refer to emphases of matter for going concern in audit reports. The terminology is comparable.

Note 1.25 Critical accounting judgements and key sources of estimation uncertainty

In preparing the consolidation of NHS foundation trust accounts, NHS Improvement applies the following accounting judgement:

- intra-group transactions and balances between NHS foundation trusts are eliminated upon consolidation. Where differences are identified in the amounts recorded, adjustments are made to these amounts to ensure all intra-group balances eliminate. Any difference between these amounts and the amounts recognised as expenditure and payables are not further adjusted as these amounts are not material;

and the following estimations:

- these consolidated accounts are prepared on a going concern basis as detailed within the section above.
- accounting policy note 1.7 sets out how property plant and equipment is valued and measured. In applying the RICS guidance to valuing an asset, the valuation used by the NHS provider will depend on the local assumptions used, including the floor area for assets. For a specialised asset valued on a depreciated replacement cost (DRC) basis as a modern equivalent (MEA), this includes the assumption of whether 'alternative site' or 'no alternative' site is used for the valuation. Further, RICS guidance says that valuations should be stated net of VAT where VAT would be recoverable on the cost of replacing the service potential. Whether this applicable in each local valuation is a matter of local judgement, with guidance on the parameters for this judgement provided in the DHSC GAM. The accounting policy of DRC:MEA is applied consistently for specialised assets in the NHS provider consolidated accounts, but local valuation assumptions may have material effects on each local valuation.

Critical accounting estimates and judgements made in the preparation of individual NHS foundation trust accounts are disclosed locally by each NHS foundation trust.

Note 1.26 Early adoption of standards, amendments and interpretations

The consolidated NHS foundation trust financial statements have not adopted any IFRSs, amendments or interpretations early.

Note 1.27 Standards, amendments and interpretations in issue but not yet effective or adopted

International Accounting Standard 8, accounting policies, changes in accounting estimates and errors, requires disclosure in respect of new IFRSs, amendments and interpretations that are, or will be, applicable after the accounting period. There are a number of IFRSs, amendments and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this accounting period.

Standard	Description of amendment	Effective date
IFRS 1 First-time Adoption of International Financial Reporting Standards (amendment)	Amendments to remove short-term exemptions	Annual periods beginning on or after 1 January 2018
IFRS 2 Share-based Payment (amendment)	Amendments to clarify the classification and measurement of share-based payment transactions	Annual periods beginning on or after 1 January 2018
IFRS 3 Business Combinations (amendment)	A company remeasures its previously held interest in a joint operation when it obtains control of the business.	Annual periods beginning on or after 1 January 2019. Not yet EU endorsed.
IFRS 4 Insurance Contracts (amendment)	Amendments regarding the interaction of IFRS 4 and IFRS 9	Will apply with IFRS 9 adoption, for annual periods beginning on or after 1 January 2018.
IFRS 9 Financial Instruments	Finalised version, incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition.	Annual periods beginning on or after 1 January 2018
IFRS 11 Joint Arrangements (amendment)	An entity does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.	Annual periods beginning on or after 1 January 2019. Not yet EU endorsed.
IFRS 15 Revenue from Contracts with Customers	Original issue	Annual periods beginning on or after 1 January 2018
IFRS 16 Leases	Original issue	Annual periods beginning on or after 1 January 2019. Not yet adopted by the FReM
IFRS 17 Insurance Contracts	Original issue	Annual periods beginning on or after 1 January 2021. Not yet endorsed for use in the EU.
IAS 7 Statement of Cash Flows (amendment)	Amendments as result of the Disclosure initiative	Adopted by the FReM from 2018/19
IAS 12 Income Taxes (amendment)	Amendment to clarify an entity accounts for all income tax consequences of dividend payments in the same way.	Annual periods beginning on or after 1 January 2019. Not yet EU endorsed.
IAS 23 Borrowing Costs (amendment)	Amendment to clarify that an entity treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.	Annual periods beginning on or after 1 January 2019. Not yet EU endorsed.
IAS 28 Investments in Associates and Joint Ventures (amendment)	Amendments to clarify certain fair value measurements	Annual periods beginning on or after 1 January 2018
IAS 39 Financial Instruments: Recognition and Measurement (amendment)	Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception	Applicable in line with IFRS 9

Standard	Description of amendment	Effective date
IAS 40 Investment Property (amendment)	Amendments to clarify transfers or property to, or from, investment property	Annual periods beginning on or after 1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Clarifies the accounting for receipts or payments in advance denominated in foreign currencies	Annual periods beginning on or after 1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	Interprets how to determine taxable profits when there are uncertainties under IAS 12.	Annual periods beginning on or after 1 January 2019. Not yet EU endorsed.

Estimated impact of future standards:

IFRS 9 Financial Instruments

To estimate the future impact of IFRS 9 on these accounts, information was collected from foundation trusts for the key areas of change. These results have informed the conclusions below for these consolidated accounts.

- Classification and measurement of financial assets / financial liabilities - measurement of financial liabilities will change where loans from DHSC will move from being measured at historical cost to amortised cost, using the effective interest rate method. This change in measurement is not expected to be material.
- Changes to the impairment model - adoption of the expected loss model for calculating allowances for impaired receivables is expected to increase such allowances. The vast majority of foundation trusts have indicated that they do not anticipate the change to have a material impact. We therefore expect that while allowances for doubtful debt may increase, we do not expect a material impact on these consolidated accounts.
- The provider sector does not participate in significant levels of hedge accounting. The changes brought by IFRS 9 will not have a material impact on these accounts.

IFRS 15 Revenue from contracts

The vast majority of foundation trusts have reported that they do not expect the adoption of IFRS 15 to have a material impact on revenue recognition. This is consistent with NHS Improvement's view. The biggest impact will apply to multi-year contracts: where these exist for NHS services, there are usually annual performance obligations within them. Judgements on performance obligations will apply in areas such as multi-year research contracts, where the timing of income recognition may be affected. NHS foundation trusts have not indicated this is a material concern for them.

In existing areas of judgement affecting the timing of income recognition, such as partially completed spells, the existing methodology is largely aligned with the concept of performance obligations. There may be some cases where calculations need to be further refined, but we do not currently have information to suggest the impact of these changes would be material.

IFRS 16 Leases

IFRS 16 has not yet been adopted for the public sector by HM Treasury and may be subject to interpretation and/or adaptation. As such, it is not currently possible to estimate the potential impact but we expect the impact on these accounts to be material.

The remaining new or amended standards and interpretations are not anticipated to have a material future impact.

Note 1.28 Materiality of disclosures

In presenting a set of consolidated accounts for NHS foundation trusts, we have only presented notes where their content is material to the consolidated foundation trust financial statements. With total operating revenues of £52.8 billion, we have used a materiality threshold of £500 million, which is less than 1% of operating revenues.

Note 2 Operating segments

NHS Improvement is not the parent of NHS foundation trusts and as such does not have a function that meets the definition of the chief operating decision maker in IFRS 8.

Information on financial performance for NHS providers is reported to the NHS Improvement board; this is considered the nearest equivalent of the chief operating decision maker for the purposes of segmental reporting in the consolidated provider accounts. This can be seen in note 2 of the consolidated provider accounts.

No separate information has been presented to the NHS Improvement board during the year specifically relating to NHS foundation trusts. As such there is no segmental information to disclose in these consolidated foundation trust accounts.

Note 3 Operating income from patient care activities

Note 3.1 Income from patient care activities (by nature)

	2017/18 £m	2016/17 restated £m
Acute services		
Elective income	5,903	5,915
Non elective income	8,505	7,619
Outpatient income	5,144	5,558
A & E income	1,338	1,184
Other NHS clinical income (including high cost drugs income)	12,363	11,804
Mental health services		
Cost and volume contract income	439	447
Block contract income	5,858	5,672
Clinical partnerships providing mandatory services	195	207
Clinical income for the secondary commissioning of mandatory services	50	37
Other clinical income from mandatory services	198	160
Ambulance services		
A & E income	838	790
Patient transport service income	106	76
Other income	59	64
Community services		
Community services income from CCGs and NHS England	3,827	3,850
Community services income from other sources	960	874
All services		
Private patient income	496	476
Other clinical income	387	327
Total income from activities	46,666	45,060

A number of NHS foundation trusts have provided updated classifications within this note for the prior year. The largest changes made by NHS foundation trusts have been reflected in updates to this note to maintain comparability between years. The total has not changed and no material changes have been made to any row.

Note 3.2 Income from patient care activities (by source)

	2017/18	2016/17
	£m	£m
Income from patient care activities received from:		
CCGs and NHS England	43,807	42,272
Local authorities	1,552	1,586
Department of Health and Social Care	6	19
NHS trusts	128	92
NHS other	160	152
Non-NHS: private patients	489	462
Non-NHS: overseas patients (chargeable to patient)	45	43
Injury cost recovery scheme	121	116
Non NHS: other	358	318
Total income from activities	46,666	45,060

In this note, NHS refers to the NHS in England.

NHS foundation trusts are required to disclose the level of income from activities arising from Commissioner Requested Services (CRS) and non-Commissioner Requested Services. Additionally, where land and buildings used in the provision of CRS are disposed of during the year, narrative disclosure is required detailing how the trust will continue to meet its obligations to provide CRS. These disclosures can be found in the annual accounts of individual NHS foundation trusts.

Note 3.3 Overseas visitors (relating to patients charged directly by the NHS foundation trust)

	2017/18	2016/17
	£m	£m
Income recognised this year	45	43
Cash payments received in-year	19	16
Amounts added to provision for impairment of receivables	22	18
Amounts written off in-year	20	11

Note 3.4 Other operating income

	2017/18	2016/17
	£m	£m
Research and development	690	673
Education and training	1,761	1,724
Receipt of capital grants and donations	110	123
Charitable and other contributions to expenditure	65	67
Non-patient care services to other bodies	653	565
Support from the Department of Health and Social Care for mergers	60	70
Sustainability and Transformation Fund income *	1,245	1,213
Rental revenue from operating leases	63	52
Income in respect of staff costs where accounted on gross basis	176	163
Incoming resources excluding investment income, relating to NHS charitable funds	71	90
PFI support income **	24	33
Car parking	155	148
Pharmacy sales	83	91
Clinical excellence awards	72	76
Catering	76	75
Other income	860	861
Total other operating income	6,164	6,024

* 140 NHS foundation trusts received income from the Sustainability and Transformation fund in 2017/18 (2016/17: 143).

** PFI support income was presented as part of 'other income' in this note in the 2016/17 consolidated foundation trust accounts.

Note 4.1 Operating expenses

	2017/18	2016/17 restated
	£m	£m
Purchase of healthcare from NHS and DH bodies	244	227
Purchase of healthcare from non-NHS and non-DH bodies	798	754
Purchase of social care	170	139
Employee expenses - staff (including executive directors)	33,197	31,969
Non-executive directors	22	22
Supplies and services - clinical	4,200	4,201
Supplies and services - general	824	766
Drug costs	4,688	4,490
Inventories written down	7	6
Consultancy costs	155	162
Establishment	572	559
Premises	2,010	1,941
Transport (including patient travel)	392	366
Depreciation on property, plant and equipment	1,222	1,238
Amortisation on intangible assets	121	109
Net Impairments	445	941
Increase in provision for impairment of receivables	96	77
Increase/(decrease) in other provisions	(1)	9
Change in provisions discount rate(s)	4	27
Fees payable to the external auditor **		
audit services- statutory audit	11	11
other auditor remuneration (external auditor only)	2	7
Internal audit costs, including local counter fraud services	16	18
Clinical negligence	1,117	934
Legal fees	52	48
Insurance	34	36
Research and development	367	324
Education and training	270	220
Rentals under operating leases	472	453
Early retirements	2	2
Redundancy	40	51
Charges to operating expenditure for on-SoFP FRIC 12 schemes (e.g. PFI / LIFT) on IFRS basis *	527	500
Charges to operating expenditure for off-SoFP IFRIC 12 schemes	-	1
Car parking & security	24	22
Hospitality	5	4
Losses, ex gratia & special payments	10	11
Grossing up consortium arrangements	12	13
Other services, eg external payroll	67	61
Other	227	235
NHS charitable funds: Other resources expended	32	32
Total	52,453	50,986

* Some lines have changed in this note compared to the consolidated foundation trust accounts 2016/17 to be consistent with the consolidated provider accounts. The only material change is that revenue charges associated with IFRIC 12 schemes (eg PFI) are now disclosed separately above.

** These are the audit fees disclosed by NHS foundation trust and do not include the audit fee payable to the National Audit Office in respect of these consolidated accounts in 2016/17. This was recognised in the 2016/17 accounts of Monitor.

Note 4.2 Other auditor's remuneration

	2017/18	2016/17
	£m	£m
Other remuneration paid to the external auditor is made up as follows:		
1. Audit of accounts of any associate of the provider	-	-
2. Audit-related assurance services *	1	1
3. Taxation compliance services	-	-
4. All taxation advisory services not falling within item 3 above	-	1
5. Internal audit services	-	-
6. All assurance services not falling within items 1 to 5	1	1
7. Corporate finance transaction services not falling within items 1 to 6 above	-	-
8. Other non-audit services not falling within items 2 to 7 above	-	4
Total	<u><u>2</u></u>	<u><u>7</u></u>

* Audit related assurance services includes fees paid by providers for external assurance on quality reports.

Note 5.1 Employee benefits

	Permanent	Other	2017/18 Total	2016/17 Total
	£m	£m	£m	£m
Salaries and wages	25,139	946	26,085	24,963
Social security costs	2,472	40	2,512	2,383
Apprenticeship levy	123	1	124	-
Employer's contributions to NHS pensions	3,033	37	3,070	2,940
Pension cost - other	11	1	12	4
Other employment benefits	-	3	3	1
Termination benefits	19	-	19	22
Temporary staff (including agency)	-	1,874	1,874	2,048
NHS charitable funds staff	5	-	5	5
Total gross staff costs	<u><u>30,802</u></u>	<u><u>2,902</u></u>	<u><u>33,704</u></u>	<u><u>32,366</u></u>
Recoveries in respect of seconded staff	(71)	(2)	(73)	(61)
Total staff costs	<u><u>30,731</u></u>	<u><u>2,900</u></u>	<u><u>33,631</u></u>	<u><u>32,305</u></u>
Included within:				
Costs capitalised as part of assets	87	17	104	80

Staff costs here and in note 4.1 differ as note 5.1 also includes redundancy and early retirements costs and the costs of staff involved in research & development, education & training and internal audit services.

Individual NHS foundation trusts' accounts and annual reports contain disclosure of senior manager remuneration, the Hutton fair pay ratio and off-payroll engagements as required by the HM Treasury FReM.

Note 5.2 Average number of employees (WTE basis)

	Permanent Number	Other Number	2017/18 Total Number	2016/17 restated Total Number
Medical and dental	64,509	12,149	76,658	74,531
Ambulance staff	12,629	141	12,770	12,242
Administration and estates	154,068	9,392	163,460	160,159
Healthcare assistants and other support staff	117,507	13,658	131,165	127,162
Nursing, midwifery and health visiting staff	225,660	22,491	248,151	246,388
Nursing, midwifery and health visiting learners	3,612	273	3,885	4,078
Scientific, therapeutic and technical staff	91,296	4,499	95,795	94,549
Healthcare science staff	12,642	394	13,036	12,165
Social care staff	1,030	479	1,509	1,501
Other	2,354	1,223	3,577	4,008
Total average numbers	685,307	64,699	750,006	736,783

Of which:

Number of employees (WTE) engaged on capital projects	1,567	226	1,792	1,409
---	-------	-----	-------	-------

The 'bank' and 'agency' rows included in the consolidated foundation trust accounts 2016/17 have been removed in order to allow consistent analysis in the 'permanent' and 'other' columns in this note.

Note 5.3 Reporting of compensation schemes - exit packages

Redundancy and other departure costs have been paid in accordance with the provisions of the NHS terms and conditions of service. Exit costs are accounted for in full in the year of departure. Ill-health retirement costs are met by the pension scheme and are not included in the table.

Further disclosure of exit packages paid to senior managers can be found in the remuneration reports of individual NHS foundation trusts.

The subsequent note provides further analysis of the 'other departures' disclosed below.

2017/18	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
Exit package cost band (including any special payment element)			
<£10,000	239	1,316	1,555
£10,000 - £25,000	281	244	525
£25,001 - 50,000	234	146	380
£50,001 - £100,000	132	76	208
£100,001 - £150,000	47	13	60
£150,001 - £200,000	22	5	27
>£200,000	1	-	1
Total number of exit packages by type	956	1,800	2,756
Total resource cost (£m)	33	20	53

2016/17	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
<£10,000	205	1,363	1,568
£10,000 - £25,000	263	331	594
£25,001 - 50,000	222	202	424
£50,001 - £100,000	141	78	219
£100,001 - £150,000	51	13	64
£150,001 - £200,000	24	1	25
>£200,000	1	-	1
Total number of exit packages by type	907	1,988	2,895
Total resource cost (£m)	34	23	57

Note 5.4 Exit packages: other (non-compulsory) departure payments

	2017/18		2016/17	
	Payments agreed Number	Total value of agreements £m	Payments agreed Number	Total value of agreements £m
Voluntary redundancies including early retirement contractual costs	150	5	188	6
Mutually agreed resignations (MARS) contractual costs	319	8	475	10
Early retirements in the efficiency of the service contractual costs	9	-	16	-
Contractual payments in lieu of notice	1,273	6	1,260	6
Exit payments following employment tribunals or court orders	39	1	39	1
Non-contractual payments requiring HM Treasury approval*	13	-	20	-
Total	1,803	20	1,998	23

* Includes any non-contractual severance payment made following the judicial mediation, and amounts relating to non-contractual payments in lieu of notice.

In 2017/18 there were 2 non-contractual payments requiring HM Treasury approval made that were in excess of the individuals' salaries (2016/17: no payments).

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 here may be greater than in other notes.

Exit packages disclosed in this note differ from the redundancy figure included within operating expenses. The redundancy figure in operating expenses relates to additional costs which are not exit packages payable directly to the employee.

Note 6 Impairment of assets

			2017/18 Net impairments	2016/17 Net impairments
	Impairments	Reversals	impairments	impairments
	£m	£m	£m	£m
Net impairments charged to operating surplus / deficit resulting from:				
Loss or damage from normal operations	-	-	-	23
Over specification of assets	1	(1)	-	25
Abandonment of assets in course of construction	5	-	5	3
Unforeseen obsolescence	17	-	17	14
Loss as a result of catastrophe	10	-	10	-
Changes in market price	603	(368)	235	552
Other	189	(11)	178	324
Total net impairments charged to operating surplus / deficit	825	(380)	445	941
Impairments charged to the revaluation reserve	409	(114)	295	683
Total net impairments	1,234	(494)	740	1,624

In addition there is a revaluation surplus taken to the revaluation reserve of £823 million (2016/17: £231 million), as can be seen in the Statement of Changes in Equity.

Note 7 Finance expenditure

Finance expenditure represents interest and other charges involved in the borrowing of money.

	2017/18 £m	2016/17 £m
Interest incurred on:		
Loans from the Department of Health and Social Care	121	96
Other loans	6	9
Finance leases	12	14
Interest on late payment of commercial debt	1	-
Main finance costs on PFI and LIFT schemes obligations	262	274
Contingent finance costs on PFI and LIFT scheme obligations	139	120
Other finance costs	1	1
Total finance expenditure - financial liabilities	542	514
Finance expense - unwinding of discount on provisions	1	-
Total finance expenditure	543	514

Note 8 Operating lease expenses

This note discloses costs and commitments incurred in operating lease arrangements where NHS foundation trusts are lessees.

	2017/18	2016/17
	£m	£m
Operating lease expense		
Minimum lease payments	474	455
Contingent rents	1	-
Less sublease payments received	(3)	(2)
Total	472	453
	31 March	31 March
	2018	2017
	£m	£m
Future minimum lease payments due:		
On leases of land expiring		
- not later than one year;	11	4
- later than one year and not later than five years;	8	7
- later than five years.	29	21
On leases of buildings expiring		
- not later than one year;	264	247
- later than one year and not later than five years;	513	475
- later than five years.	524	536
On other leases expiring		
- not later than one year;	120	116
- later than one year and not later than five years;	213	187
- later than five years.	60	32
Total	1,742	1,625
Future minimum sublease payments to be received	(3)	(3)

Note 9.1 Intangible assets - 2017/18

	Software licences	Licences & trademarks	Information technology	Development expenditure	Intangible assets under construction	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Valuation/gross cost at 1 April 2017 - brought forward	753	13	202	71	106	-	1,145
Transfers by absorption	2	-	-	5	-	-	7
Adjustments to prior period accounted for in-year	(10)	-	8	1	-	-	(1)
Additions	84	2	15	8	108	2	219
Impairments	(11)	-	(17)	-	(15)	-	(43)
Reversals of impairments	-	1	-	-	-	-	1
Reclassifications	46	5	41	22	(70)	-	44
Revaluations	-	-	-	-	-	-	-
Disposals / derecognition	(18)	-	(5)	(4)	-	-	(27)
Valuation/gross cost at 31 March 2018	846	21	244	103	129	2	1,345
Amortisation at 1 April 2017 - brought forward	406	5	107	23	-	-	541
Transfers by absorption	1	-	-	4	-	-	5
Adjustments to prior period accounted for in-year	(5)	-	4	-	-	-	(1)
Provided during the year	83	2	26	10	-	-	121
Impairments	(1)	-	(1)	-	-	-	(2)
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	(3)	-	(1)	3	-	-	(1)
Revaluations	-	-	-	-	-	-	-
Disposals / derecognition	(18)	-	(5)	(4)	-	-	(27)
Amortisation at 31 March 2018	463	7	130	36	-	-	636
Net book value at 31 March 2018	383	14	114	67	129	2	709
Net book value at 1 April 2017	347	8	95	48	106	-	604

Note 9.2 Intangible assets - 2016/17

	Software licences	Licences & trademarks	Information technology	Development expenditure	Intangible assets under construction	Other	Total
	£m	£m	£m	£m	£m	£m	£m
Valuation/gross cost at 1 April 2016	650	11	175	47	107	1	991
Valuation/gross cost at start period for new FTs	4	-	7	-	-	-	11
Transfers by absorption	1	-	-	-	-	-	1
Previous prior period adjustments accounted for in 2016/17	(1)	-	-	-	1	-	-
Additions	57	3	11	7	72	-	150
Impairments	-	-	-	-	(10)	(1)	(11)
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	53	1	21	19	(64)	-	30
Revaluations	-	-	(2)	-	-	-	(2)
Disposals / derecognition	(11)	(2)	(10)	(2)	-	-	(25)
Valuation/gross cost at 31 March 2017	753	13	202	71	106	-	1,145
Amortisation at 1 April 2016	335	5	95	15	-	-	450
Accumulated amortisation at start of period for new FTs	2	-	-	-	-	-	2
Transfers by absorption	-	-	-	-	-	-	-
Previous prior period adjustments accounted for in 2016/17	(1)	-	-	-	-	-	(1)
Provided during the year	75	1	24	9	-	-	109
Impairments	-	-	2	-	-	-	2
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	5	-	(2)	-	-	-	3
Revaluations	-	-	(3)	-	-	-	(3)
Disposals / derecognition	(10)	(1)	(9)	(1)	-	-	(21)
Amortisation at 31 March 2017	406	5	107	23	-	-	541
Net book value at 31 March 2017	347	8	95	48	106	-	604
Net book value at 1 April 2016	315	6	80	32	107	1	541

Note 10.1 Property, plant and equipment - 2017/18

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
Valuation/gross cost at 1 April 2017 - brought forward	2,948	21,169	255	1,136	5,247	246	1,940	397	10	33,348
Transfers by absorption	-	65	-	-	15	-	6	1	-	87
Adjustments to prior period recorded in-year	(11)	7	-	(1)	4	-	-	(4)	-	(5)
Additions	6	459	2	1,215	325	17	173	12	-	2,209
Impairments	(152)	(900)	(14)	(78)	(10)	-	(8)	-	-	(1,162)
Reversals of impairments	15	298	2	-	-	-	-	-	-	315
Reclassifications	(3)	561	(2)	(799)	73	6	45	4	4	(111)
Revaluations	69	197	4	-	(2)	-	(9)	-	-	259
Transfers to/ from assets held for sale	(39)	(12)	-	-	(4)	1	-	-	-	(54)
Disposals / derecognition	(15)	(22)	(3)	(1)	(326)	(25)	(103)	(35)	-	(530)
Valuation/gross cost at 31 March 2018	2,818	21,822	244	1,472	5,322	245	2,044	375	14	34,356
Accumulated depreciation at 1 April 2017 - brought forward	44	1,452	19	10	3,560	158	1,283	271	2	6,799
Transfers by absorption	-	(1)	-	-	10	-	3	1	-	13
Adjustments to prior period recorded in-year	(9)	(2)	-	-	1	-	-	(2)	-	(12)
Provided during the year	-	597	7	-	364	23	204	27	-	1,222
Impairments	3	15	4	9	(4)	-	-	-	-	27
Reversals of impairments	(4)	(163)	-	(10)	-	-	-	-	-	(177)
Reclassifications	-	(32)	(1)	-	(17)	-	(16)	(2)	-	(68)
Revaluations	(4)	(541)	(7)	-	(2)	-	(9)	-	-	(563)
Transfers to/ from assets held for sale	-	-	-	-	(2)	-	-	-	-	(2)
Disposals / derecognition	-	(16)	-	-	(312)	(24)	(101)	(34)	-	(487)
Accumulated depreciation at 31 March 2018	30	1,309	22	9	3,598	157	1,364	261	2	6,752
Net book value at 31 March 2018	2,788	20,513	222	1,463	1,724	88	680	114	12	27,604
Net book value at 1 April 2017	2,904	19,717	236	1,126	1,687	88	657	126	8	26,549

Details of donations received during the year including any conditions imposed by the donor are disclosed in the accounts of individual NHS foundation trusts.

Note 10.2 Property, plant and equipment - 2016/17

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
Valuation/gross cost at 1 April 2016	3,125	21,718	260	1,078	5,104	243	1,784	353	9	33,674
Valuation/gross cost at start of period for new FTs	51	275	-	5	23	2	27	7	-	390
Transfers by absorption	3	17	-	-	2	-	5	-	-	27
Previous prior period adjustments accounted for in 2016/17	(1)	(84)	-	-	(2)	-	(6)	(2)	-	(95)
Additions	1	514	2	1,012	279	10	142	14	1	1,975
Impairments	(236)	(1,445)	(11)	(16)	(4)	(3)	(6)	-	-	(1,721)
Reversals of impairments	15	126	4	2	-	-	-	-	-	147
Reclassifications	3	610	-	(943)	78	9	89	40	-	(114)
Revaluations	13	(503)	3	-	(22)	-	-	-	-	(509)
Transfers to/ from assets held for sale	(15)	(11)	(1)	-	-	(2)	-	-	-	(29)
Disposals / derecognition	(11)	(48)	(2)	(2)	(211)	(13)	(95)	(15)	-	(397)
Valuation/gross cost at 31 March 2017	2,948	21,169	255	1,136	5,247	246	1,940	397	10	33,348
Accumulated depreciation at 1 April 2016	50	1,631	20	1	3,436	147	1,171	237	2	6,695
Accumulated depreciation at start of period for new FTs	-	2	-	-	9	2	14	3	-	30
Transfers by absorption	-	1	-	-	1	-	3	-	-	5
Previous prior period adjustments accounted for in 2016/17	(1)	(32)	-	1	(1)	-	(5)	(2)	-	(40)
Provided during the year	-	629	7	-	365	25	186	26	-	1,238
Impairments	25	136	2	12	(2)	(3)	1	-	-	171
Reversals of impairments	(5)	(136)	(1)	-	-	-	-	-	-	(142)
Reclassifications	-	(79)	-	(4)	(23)	-	(2)	20	-	(88)
Revaluations	(25)	(681)	(9)	-	(24)	-	-	-	-	(739)
Transfers to/ from assets held for sale	-	(1)	-	-	-	-	-	-	-	(1)
Disposals / derecognition	-	(18)	-	-	(201)	(13)	(85)	(13)	-	(330)
Accumulated depreciation at 31 March 2017	44	1,452	19	10	3,560	158	1,283	271	2	6,799
Net book value at 31 March 2017	2,904	19,717	236	1,126	1,687	88	657	126	8	26,549
Net book value at 1 April 2016	3,075	20,087	240	1,077	1,668	96	613	116	7	26,979

Note 10.3 Property, plant and equipment financing - 2017/18

	Land	Buildings excluding dwellings	Dwellings	Assets under construction	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net book value at 31 March 2018										
Owned - purchased	2,629	15,090	172	1,273	1,378	85	660	101	12	21,400
Finance leased	38	136	15	7	94	2	10	-	-	302
On-SoFP PFI contracts and other service concession arrangements	22	4,259	20	128	47	-	-	-	-	4,476
PFI residual interests	-	-	2	-	-	-	-	-	-	2
Owned - government granted	-	40	-	4	4	-	-	-	-	48
Owned - donated	99	988	13	51	201	1	10	13	-	1,376
NBV total at 31 March 2018	2,788	20,513	222	1,463	1,724	88	680	114	12	27,604

Note 10.4 Property, plant and equipment financing - 2016/17

	Land	Buildings excluding dwellings	Dwellings	Assets under construction	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Net book value at 31 March 2017										
Owned - purchased	2,735	14,529	177	1,023	1,361	86	640	113	8	20,672
Finance leased	49	110	19	-	91	1	10	1	-	281
On-SoFP PFI contracts and other service concession arrangements	24	4,137	27	5	30	-	-	1	-	4,224
PFI residual interests	-	-	2	-	-	-	-	-	-	2
Owned - government granted	-	42	-	1	2	-	-	-	-	45
Owned - donated	96	899	11	97	203	1	7	11	-	1,325
NBV total at 31 March 2017	2,904	19,717	236	1,126	1,687	88	657	126	8	26,549

Note 11 Inventories

	31 March 2018	31 March 2017
	£m	£m
Drugs	203	190
Work in progress	1	1
Consumables	381	366
Energy	8	7
Other	38	32
Total inventories	631	596
Of which:		
Held at fair value less costs to sell	-	-

Inventories recognised in expenses for the year were £5,535m (2016/17: £5,614m). Write-down of inventories recognised as expenses for the year were £7m (2016/17: £6m).

This note has been revised since the consolidated foundation trust accounts 2016/17: the former category of 'fair value less costs to sell' is now included within 'other', with the inventories held on that basis separately disclosed.

Note 12 Trade receivables and other receivables

	31 March 2018	31 March 2017
	£m	£m
Current		
Trade receivables	2,079	1,717
Capital receivables	26	46
Accrued income	1,352	1,038
Provision for impaired receivables	(358)	(320)
Deposits and advances	4	6
Prepayments	495	494
Finance lease receivables	-	1
PDC dividend receivable	34	37
VAT receivable	151	136
Corporation tax receivable	1	-
Other receivables	460	620
NHS charitable funds trade and other receivables	7	7
Total current trade and other receivables	4,251	3,782
Non-current		
Trade receivables	21	20
Capital receivables	3	4
Accrued income	16	20
Provision for impaired receivables	(19)	(13)
Deposits and advances	4	-
Prepayments	168	150
Finance lease receivables	1	1
VAT receivable	2	-
Other receivables	105	88
NHS charitable funds trade and other receivables	1	1
Total non-current trade and other receivables	302	271

There have been some immaterial reclassifications within this note, reflecting the new line name 'trade receivables'. The largest change is £93 million moved from current other receivables to current trade receivables in the prior year.

Note 12.1 Analysis of financial assets past due or impaired

	31 March 2018		31 March 2017	
	Trade and other receivables	Investments & Other financial assets	Trade and other receivables	Investments & Other financial assets
	£m	£m	£m	£m
Analysis of impaired financial assets				
0 - 30 days	46	-	46	-
30-60 Days	11	-	13	-
60-90 days	17	-	13	-
90- 180 days	42	-	36	-
Over 180 days	279	-	241	1
Total	395	-	349	1
Ageing of non-impaired financial assets past their due date				
0 - 30 days	837	1	824	1
30-60 Days	207	-	192	-
60-90 days	145	-	99	-
90- 180 days	222	-	154	-
Over 180 days	334	66	257	73
Total	1,745	67	1,526	74

Note 13 Cash and cash equivalents movements

Cash and cash equivalents comprise cash at bank, in hand and cash equivalents. Cash equivalents are readily convertible investments of known value which are subject to an insignificant risk of change in value.

	2017/18	2016/17
	£m	£m
At 1 April	3,413	3,462
At start of period for new FTs	-	48
Transfers by absorption	2	2
Adjustments to prior period accounted for in-year	1	(1)
Net change in year	532	(98)
At 31 March	3,948	3,413
Broken down into:		
Cash at commercial banks and in hand	157	140
Cash with the Government Banking Service	3,562	2,751
Deposits with the National Loans Fund	80	384
Other current investments	3	2
NHS charitable funds cash and cash equivalents	146	136
Total cash and cash equivalents as in SoFP	3,948	3,413
Bank overdrafts (GBS and commercial banks)	(4)	(1)
Total cash and cash equivalents as in SoCF	3,944	3,412

Note 14 Third party assets

The balance of third party assets, including patients' money held within the NHS foundation trusts' bank accounts at 31 March 2018 was £31 million (31 March 2017: £28 million). This has been excluded from the Statement of Financial Position as it is not an asset of the NHS foundation trusts but is held in trust on behalf of patients.

Note 15.1 Trade and other payables

	31 March 2018	31 March 2017
	£m	£m
Current		
Trade payables	1,578	1,681
Capital payables	453	364
Accruals	2,262	2,009
Receipts in advance	63	70
Social security costs	372	341
Other taxes payable	322	311
PDC dividend payable	8	4
Other payables	587	560
Total current trade and other payables	5,645	5,340
Total non-current trade and other payables	23	23

Note 16 Other liabilities

	31 March 2018	31 March 2017
	£m	£m
Current		
Deferred income and grants	584	546
Deferred PFI income/credits	1	1
Lease incentives	1	1
NHS charitable funds other liabilities	1	1
Total other current liabilities	587	549
Non-current		
Deferred income and grants	93	93
Deferred PFI income/credits	26	28
Lease incentives	8	9
Net pension scheme liability	32	28
Total other non-current liabilities	159	158

In the prior year non-current analysis, £9m has been reallocated from 'deferred income' into 'deferred PFI income/credits' to reflect the updated label for the latter line.

Note 17 Borrowings

	31 March 2018	31 March 2017
	£m	£m
Current		
Bank overdrafts	4	1
Loans from the Department of Health and Social Care	728	432
Other loans	25	17
Obligations under finance leases	28	27
PFI and other service concession contracts obligations (finance lease element)	137	128
Total current borrowings	922	605
Non-current		
Loans from the Department of Health and Social Care	5,255	4,158
Other loans	167	156
Obligations under finance leases	135	129
PFI and other service concession contracts obligations (finance lease element)	4,399	4,464
Total non-current borrowings	9,956	8,907

Note 18.1 Provisions for liabilities and charges

	31 March 2018		31 March 2017	
	Current	Non-current	Current	Non-current
	£m	£m	£m	£m
Pensions	15	158	17	177
Other legal claims	35	21	38	21
Restructurings	12	1	13	2
Continuing care	4	-	1	5
Equal Pay (including Agenda for Change)	4	-	5	2
Redundancy	38	-	40	1
Other	153	113	156	114
Total	261	293	270	322

Note 18.2 Provisions for liabilities and charges analysis

	Pensions	Other legal claims	Re-structuring	Continuing care	Equal Pay (including Agenda for Change)	Redundancy	Other	Total
At 1 April 2017	194	59	15	6	7	41	270	592
Transfers by absorption	-	1	-	-	-	1	1	3
Change in the discount rate	2	-	-	-	-	-	1	3
Arising during the year	9	20	10	-	1	33	113	186
Utilised during the year	(28)	(9)	(5)	(1)	-	(17)	(54)	(114)
Reclassified to liabilities held in disposal groups	-	-	-	-	-	1	(1)	-
Reversed unused	(5)	(15)	(7)	(1)	(4)	(21)	(64)	(117)
Unwinding of discount	1	-	-	-	-	-	-	1
At 31 March 2018	173	56	13	4	4	38	266	554
Expected timing of cash flows:								
- not later than one year;	15	35	12	4	4	38	153	261
- later than one year and not later than five years;	63	8	1	-	-	-	47	119
- later than five years.	95	13	-	-	-	-	66	174
Total	173	56	13	4	4	38	266	554

- Pension provisions relate to staff whom have retired early from the NHS Pensions Scheme and are calculated in accordance with Department of Health and Social Care guidance.
- Other legal claims include personal legal claims that have been lodged against NHS foundation trusts with NHS Resolution (previously known as NHS Litigation Authority) but not yet agreed and therefore not included in provisions held by NHS Resolution.
- Continuing care provisions relate to contractual issues between commissioners and NHS foundation trusts for the provision of continuing healthcare to patients outside of hospital.
- Equal pay (including Agenda for Change) provisions include provisions for unresolved claims relating to employment contracts.
- Redundancy and restructuring provisions are included by trusts who are undergoing change in their organisational structures.
- Included within other provisions are charges arising from the provision of services, the cost of PFI terminations, dilapidations associated with leases and other contract challenges.

Note 18.3 Clinical negligence liabilities

NHS Resolution (previously known as NHS Litigation Authority) manages clinical and some non-clinical claims on behalf of the majority of NHS providers. For this to occur, providers pay an annual premium to NHS Resolution, who then settles claims on providers' behalf. As such, most liabilities for clinical negligence are not included in providers' statements of financial position. Instead they separately disclose the amounts relating to clinical negligence cases for their trust which are included in the provisions of NHS Resolution.

The consolidated total of this amount for NHS foundation trusts at 31 March 2018 is £16,766m (31 March 2017: £13,786m).

Note 19 Contingent liabilities and contingent assets

Contingent assets and liabilities are potential assets and liabilities arising from past events, whose existence will only be confirmed by the occurrence of future events that are not entirely within the entity's control. NHS foundation trusts have reported total contingent liability and contingent asset balances as follows:

	31 March 2018	31 March 2017
	£m	£m
Net value of contingent liabilities	(33)	(42)
Net value of contingent assets	26	17

Note 20 Contractual capital commitments

At 31 March, contractual capital commitments not otherwise included in these financial statements were:

	31 March 2018	31 March 2017
	£m	£m
Property, plant and equipment	764	842
Intangible assets	77	60
Total	841	902

Note 21 On-SoFP PFI, LIFT or other service concession arrangements

Note 21.1 Imputed finance lease obligations

NHS foundation trusts have the following obligations in respect of the finance lease element of on-Statement of Financial Position PFI and LIFT schemes:

	31 March 2018	31 March 2017
	£m	£m
Gross PFI, LIFT or other service concession lease liabilities	9,562	9,558
Of which liabilities are due		
- not later than one year;	460	447
- later than one year and not later than five years;	1,816	1,738
- later than five years.	7,286	7,373
Finance charges allocated to future periods	(5,026)	(4,966)
Net PFI, LIFT or other service concession arrangement lease obligation	4,536	4,592
- not later than one year;	137	128
- later than one year and not later than five years;	621	562
- later than five years.	3,778	3,902

Note 21.2 Total service concession arrangement commitments

NHS foundation trusts have obligations to make the following payments in respect of on-Statement of Financial Position PFI, LIFT and other service concession arrangements:

	31 March 2018	31 March 2017
	£m	£m
Total future payments due in:		
- not later than one year;	1,122	1,069
- later than one year and not later than five years;	4,675	4,395
- later than five years.	21,670	21,861
Total	27,467	27,325

Note 21.3 Analysis of amounts payable to service concession operators

	2017/18	2016/17
	£m	£m
Unitary payment payable to service concession operator	1,107	1,071
Consisting of:		
- Interest charge	262	274
- Repayment of finance lease liability	134	125
- Service element	494	484
- Capital lifecycle maintenance	34	45
- Revenue lifecycle maintenance	9	6
- Contingent rent	139	120
- Addition to lifecycle prepayment	35	17

Note 22 Financial instruments

Note 22.1 Financial assets

	Loans and receivables £m	Assets held at fair value through the I&E £m	Held to maturity £m	Available-for- sale £m	Total £m
Assets as per SoFP as at 31 March 2018					
Trade and other receivables excluding non financial assets	3,501	-	-	-	3,501
Other investments/financial assets	47	4	3	1	55
Cash and cash equivalents at bank and in hand	3,801	-	-	-	3,801
NHS charitable funds financial assets	212	104	2	32	350
Total at 31 March 2018	7,561	108	5	33	7,707

	Loans and receivables £m	Assets held at fair value through the I&E £m	Held to maturity £m	Available-for- sale £m	Total £m
Assets as per SoFP as at 31 March 2017					
Trade and other receivables excluding non financial assets	3,046	-	-	-	3,046
Other investments / financial assets	61	-	5	-	66
Cash and cash equivalents at bank and in hand	3,277	-	-	-	3,277
NHS charitable funds financial assets	199	110	1	15	325
Total at 31 March 2017	6,583	110	6	15	6,714

Prior year figures for receivables have been restated to remove inter-FT balances.

Note 22.2 Financial liabilities

	31 March 2018 £m	31 March 2017 £m
Financial liabilities		
Borrowings excluding finance lease and PFI liabilities	6,178	4,764
Obligations under finance leases	163	156
Obligations under PFI, LIFT and other service concession contracts	4,537	4,592
Trade and other payables excluding non financial liabilities	4,865	4,594
Other financial liabilities	1	34
Provisions under contract	224	262
NHS charitable funds financial liabilities	5	7
Total financial liabilities	15,973	14,409

There were no financial liabilities held at fair value through income and expenditure at 31 March 2018 (31 March 2017: nil).

Prior year figures for payables and finance lease obligations have been restated to remove inter-FT balances.

Note 22.3 Maturity of financial liabilities

	31 March 2018 £m	31 March 2017 £m
Financial liabilities fall due in:		
In one year or less	5,778	5,911
In more than one year but not more than two years	1,331	701
In more than two years but not more than five years	2,935	2,489
In more than five years	5,929	5,308
Total financial liabilities	15,973	14,409

Prior year figures have been restated in line with the change made to note 22.2.

Note 22.4 Financial risk management

The risks arising from financial instruments and the NHS foundation trust sector's policies and processes in response to these risks are described below. Individual NHS foundation trusts may have their own bespoke policies and processes in place to deal with the risks they face as an entity.

Liquidity risk

The level of income generated by NHS foundation trusts is dependent on the contractual arrangements they have with their commissioners, whose resources are voted on annually by Parliament. In the majority of cases, these contractual arrangements are either based on a tariff for services performed or on a contract based on assumptions for the amount of work to be carried out by the NHS foundation trust.

Under section 63 of the National Health Service Act 2006, NHS foundation trusts are required to carry out their functions effectively, efficiently and economically and under their licence conditions, they are required to have systems and processes in place to ensure they comply with that duty and to ensure they are able to continue as a going concern as defined by generally accepted accounting practice. NHS Improvement (in exercise of Monitor's functions) supervises the risk of individual NHS foundation trusts breaching these and other licence conditions relating to finance by reviewing a range of financial information and categorising each trust according to our Single Oversight Framework. It may provide mandated support to providers where required.

Details of the Single Oversight Framework used by NHS Improvement since October 2016 to monitor these risks and risk ratings for individual NHS foundation trusts can be accessed on the NHS Improvement website (<https://improvement.nhs.uk/>).

As disclosed within the accounting policies in Note 1.24, the auditors of 43 NHS foundation trusts have included a material uncertainty or emphasis of matter paragraph within their audit opinions to draw attention to the going concern disclosure included within those accounts (2016/17: 34). This includes the auditors of Mid Staffordshire NHS Foundation Trust, whose accounts were not prepared on a going concern basis. In the NHS sector, the focus is on the continuity of services and NHS Improvement's oversight regime is established to ensure that provision of commissioner requested services is maintained. As such, it is deemed that there is not a risk that the wider sector would fail to meet its liabilities as they fall due.

Credit risk

The vast majority of the NHS foundation trust sector's income is generated from public sector bodies and as such is exposed to low credit risk as these bodies are financed through taxation.

NHS foundation trusts are permitted to generate income derived from private patients and overseas patients without reciprocal arrangements, however this income contributes only 1.14% of total income from activities generated in the year to 31 March 2018 (2016/17: 1.12%). Other sources of income from non-public sector bodies amount to a small proportion of total provider income. Accordingly, the effective credit risk posed by income derived from private and overseas patients or non-public sector entities to the sector is low. Within cash and cash equivalents, £3.6 billion is held with the Government Banking Service and National Loans Fund. Individual foundation trusts have confirmed that they do not consider these deposits to be exposed to significant credit risk. The maximum exposures as at 31 March 2018 are in receivables, as disclosed in the trade and other receivables note.

Currency risk

The NHS foundation trust sector operates principally within England and as such has only negligible amounts of transactions, assets and liabilities which are not in Sterling. Therefore the NHS foundation trust sector has low exposure to currency risk.

Interest rate risk

NHS foundation trusts have the power to enter into loans and working capital facilities with commercial lenders. NHS foundation trusts are also able to borrow from the Department of Health and Social Care. The term of DHSC loans can range up to 25 years but individual DHSC loan products may be shorter, with the potential for replacement DHSC loans to be at a different interest rate. However given the total interest paid to DHSC by NHS providers (see note 7) this is not a material risk to the consolidated NHS foundation trust accounts.

Under the Single Oversight Framework (SOF), NHS foundation trusts are rated on their autonomy and potential support needs. More information about the SOF can be found in the management commentary.

Note 22.5 Fair values of financial instruments

The fair values of financial instruments do not differ materially from the book values disclosed above.

Note 23 Analysis of NHS charitable funds reserves

	2018	2017
	£m	£m
Restricted funds:		
Endowment funds	143	147
Other restricted income funds	89	73
Unrestricted funds:		
Unrestricted income funds	170	176
Revaluation reserve	3	4
Other reserves	1	1
Total	406	401

NHS charitable funds are consolidated by 45 NHS foundation trusts where the trust determines they have control (2016/17: 49) as outlined in accounting policy 1.1.

Restricted funds are funds that are to be used in accordance with specific restrictions imposed by the donor, for example where the donor has specified that their donation should be spent on a specified ward, patients, nurses or project fund. Endowment funds are funds which the trustees are required to invest or to keep and use for the charity's purposes.

Unrestricted income funds comprise those funds that the trustees are free to use for any purpose in furtherance of the charitable objects. Unrestricted funds include general funds, where the donor has not specified or restricted the use the charity may make of their donation. General funds additionally generate income from Gift Aid, investment income, interest and donations given specifically to cover running costs.

Note 24 Losses and special payments

	2017/18		2016/17	
	Total number of cases Number	Total value of cases £m	Total number of cases Number	Total value of cases £m
Losses				
Cash losses	2,404	2	2,433	1
Fruitless payments	403	-	286	-
Bad debts and claims abandoned	24,331	31	23,948	22
Stores losses and damage to property	5,510	7	5,310	7
Total losses	32,648	40	31,977	30
Special payments				
Extra-contractual payments	2	-	3	-
Extra-statutory and extra-regulatory payments	2	-	5	-
Compensation payments under court order or legally binding arbitration award	285	5	367	2
Special severance payments	13	-	10	-
Ex-gratia payments	4,769	8	5,355	8
Total special payments	5,071	13	5,740	10
Total losses and special payments	37,719	53	37,717	40
Compensation payments received		-		1

HM Treasury requires additional disclosure of losses or special payments individually in excess of £0.3 million.

In 2017/18 six individual losses were reported in excess of £0.3 million:

- The following two trusts have reported losses for HSE fines totalling £2.430 million:
 - Southern Health NHS Foundation Trust (2 cases); and
 - Surrey and Borders Partnership NHS Foundation Trust.
- Basildon and Thurrock NHS Foundation trust reported losses of £0.348 million with regard to a legionella infection claim.
- Guy's and St Thomas' NHS Foundation Trust incurred losses totalling £0.598 million as a result of fraud committed by a former employee.
- Royal Surrey County Hospital NHS Foundation Trust recorded losses of £0.457 million for pharmacy stock write offs.

In 2016/17, three individual losses were reported in excess of £0.3 million totalled £1.891 million:

- Bradford District Care NHS Foundation Trust;
- Cheshire and Wirral Partnership NHS Foundation Trust; and
- Royal Surrey County Hospital NHS Foundation Trust.

Note 25 Related parties

The Department of Health and Social Care is regarded as a related party of NHS foundation trusts. Per paragraph 25 of IAS 24, government-related entities are not required to disclose balances and transactions with entities that have the same government control. The information below is collated from that provided by NHS foundation trusts, which were advised to exclude from the data collection balances and transactions with entities within the whole of government accounts boundary.

Information on related party balances and transactions with charitable funds and group entities below only relates to where the entity has not been consolidated within the local accounts, and thus not consolidated within these consolidated foundation trust accounts.

Details of NHS foundation trusts' material related party transactions are shown in the accounts of the individual NHS foundation trust accounts.

Prior year figures have been restated since the consolidated foundation trust accounts 2016/17 as we made clearer in our guidance the need to exclude balances and transactions with entities that are consolidated locally.

	Receivables		Payables	
	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m	31 March 2017 £m
Value of balances (not salary) with board members and key staff	-	-	-	-
Value of provisions for doubtful debts held against related parties (excludes salaries)	2	2	-	-
Value of balances (other than salary) with related parties in respect of doubtful debts written off in year	-	-	-	-
Value of balances with other related parties:				
NHS charitable funds	6	15	1	-
Subsidiaries / Associates / Joint ventures	17	43	10	36
Other	176	135	153	225
Total	201	195	164	261
	Income		Expenditure	
	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m
Value of transactions with board members and key staff	1	1	-	1
Value of transactions with other related parties:				
NHS charitable funds	41	84	3	2
Subsidiaries / Associates / Joint Ventures	27	78	147	218
Other	344	467	624	932
Total	413	630	774	1,153

Note 26 Transfers by absorption

Transactions accounted for under absorption accounting: 2017/18

Five absorption transactions occurred within the NHS foundation trust sector during 2017/18 and the accounting entries were eliminated within these consolidated accounts.

The following absorption transactions occurred between NHS foundation trusts and other government bodies during 2016/17 and so reflect absorption movements in or out of the consolidated NHS foundation trust accounts:

NHS foundation trust	Nature of transaction	Date of transfer	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
			£m	£m	£m	£m	£m	£m
North West Anglia NHS Foundation Trust	Transfer from Hinchingsbrooke Health Care NHS Trust	1 April 2017	100	11	(14)	(66)	31	31
Other transfers from NHS trusts			5	-	-	-	5	-
Transfers to NHS Property Services Ltd			(30)	-	-	-	(30)	-
Transfers from local authorities			-	-	-	(7)	(7)	-
Totals			75	11	(14)	(73)	(1)	31

Other transfers from NHS trusts relate to the transfer of services from Liverpool Community Health NHS Trust to Alder Hey Children's NHS Foundation Trust, North West Boroughs Healthcare NHS Foundation Trust and Mersey Care NHS Foundation Trust.

Transactions accounted for under absorption accounting: 2016/17

Two absorption transactions occurred within the NHS foundation trust sector during 2016/17 and the accounting entries were eliminated within these consolidated accounts.

The following absorption transactions occurred between NHS foundation trusts and other government bodies during 2016/17 and so reflect absorption movements in or out of the consolidated NHS foundation trust accounts:

NHS foundation trust	Nature of transaction	Date of transfer	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
			£m	£m	£m	£m	£m	£m
Greater Manchester Mental Health NHS Foundation Trust	Transfer from Manchester Mental Health and Social Care NHS Trust	1 Jan 2017	30	6	(13)	(14)	9	9
Others			8	-	-	(7)	1	-
Totals			38	6	(13)	(21)	10	9

The other transfers are smaller transactions in the accounts of Dorset Healthcare University NHS Foundation Trust, Royal Devon and Exeter NHS Foundation Trust and Salford Royal NHS Foundation Trust.

The sum of the absorption gains and losses rows in the other notes to the accounts do not equal the balances presented in this note, as not all notes (for example payables and receivables) contain details of the movements in the year.

Note 27 Newly authorised foundation trusts

In line with the GAM and FT ARM, balances of newly authorised foundation trusts have been included within these consolidated accounts from the date of authorisation only; as such no prior period comparatives have been included for these foundation trusts. Similarly, transactions for these trusts are only included within these consolidated foundation trust accounts from the date of authorisation.

No NHS trusts were authorised as foundation trusts during 2017/18.

Newly authorised foundation trusts in 2016/17

Four foundation trusts were authorised during 2016/17. In line with the GAM and FT ARM, balances of newly authorised foundation trusts have been included within these consolidated accounts from the date of authorisation only. These new foundation trusts brought £290 million of net assets into the sector during 2016/17. The table below shows the dates of authorisation of the four new foundation trusts, and their opening balances as at their dates of authorisation as a foundation trust.

Foundation trust	Date of authorisation	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets
		£m	£m	£m	£m	£m
Birmingham Community Healthcare NHS Foundation Trust	1 April 2016	120	35	(38)	(32)	85
Sussex Community NHS Foundation Trust	1 April 2016	49	27	(25)	(8)	43
Mersey Care NHS Foundation Trust	1 May 2016	180	25	(17)	(51)	137
Wirral Community NHS Foundation Trust	1 May 2016	23	10	(8)	-	25
Totals		372	97	(88)	(91)	290

Note 28 Prior period adjustments

Sector-wide changes in accounting policy

In 2017/18, there have been no changes in accounting policy requiring sector-wide restatement of comparatives.

Other prior period adjustments applied by NHS foundation trusts

Local prior period adjustments in individual NHS foundation trusts are not material to these consolidated accounts, and so their effects are instead disclosed in the current year.

Presentational reclassifications and restatement of disclosures

In some notes of these consolidated foundation trust accounts, prior year disclosures have been subject to reclassifications compared to the consolidated foundation trust accounts 2016/17. With the exception of operating expenses, these reclassifications within notes are immaterial. More details are provided in each note. The affected notes are:

- Note 3.1 Income from patient care activities (by nature)
- Note 3.4 Other operating income
- Note 4.1 Operating expenses
- Note 5.2 Average number of employees (WTE basis)
- Note 12 Trade receivables and other receivables
- Note 16 Other liabilities
- Note 22.1 Financial assets
- Note 22.2 Financial liabilities
- Note 22.3 Maturity of financial liabilities
- Note 25 Related parties

Note 29 Events after the reporting date

On 1 April 2018, all services previously provided by Heart of England NHS Foundation Trust transferred to University Hospitals Birmingham NHS Foundation Trust and the divesting trust was dissolved. This transaction will eliminate and therefore have no impact on the 2018/19 consolidated NHS foundation trust accounts.

During 2017/18, a number of services previously provided by Liverpool Community Healthcare NHS Trust transferred to other providers. On 1 April 2018, the remaining services and assets transferred to Mersey Care NHS Foundation Trust increasing the net assets of the NHS foundation trust sector by £17m.

On 1 June 2018, all services previously provided by Staffordshire and Stoke on Trent Partnership NHS Trust transferred to South Staffordshire and Shropshire Healthcare NHS Foundation Trust and the divesting trust was dissolved. The continuing trust was renamed as Midlands Partnership NHS Foundation Trust on this date.

On 1 July 2018, all services previously provided by Burton Hospitals NHS Foundation Trust transferred to Derby Teaching Hospitals NHS Foundation Trust and the divesting trust was dissolved. The continuing trust was renamed as University Hospitals of Derby and Burton NHS Foundation Trust on this date.

On 1 July 2018, all services previously provided by Ipswich Hospital NHS Trust transferred to Colchester Hospital University NHS Foundation Trust and the divesting trust was dissolved. The continuing trust was renamed as East Suffolk and North Essex NHS Foundation Trust on this date.

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of signature by the accounting officer, as shown on the Statement of Financial Position.

Contact us:

NHS Improvement

Wellington House
133-155 Waterloo Road
London
SE1 8UG

0300 123 2257

enquiries@improvement.nhs.uk
improvement.nhs.uk

 **[@NHSImprovement](https://twitter.com/NHSImprovement)**

This publication can be made available in a number of other formats on request.