



Improvement

# NHS foundation trusts: consolidated accounts 2018/19

## 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.

## NHS England and NHS Improvement

The NHS Long Term Plan says that when organisations work together they provide better care for the public. That is why on 1 April 2019 NHS Improvement and NHS England united as one: our aim is to provide leadership and support to the wider NHS. Nationally, regionally and locally, we champion frontline staff who provide a world-class service and constantly work to improve the care given to the people of England.

## Foreword

### 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.

### 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 for Health and Social Care.

NHS Improvement has prepared these consolidated accounts in line with the direction issued by the Secretary of State in June 2018. 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 2017/18 or 2018/19 are as follows:

1 April 2017	<b>Opening number of NHS foundation trusts</b> (includes 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)	<b>154</b>
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	<b>Number of NHS foundation trusts at end of year</b>	<b>152</b>
1 April 2018	Dissolution of Heart of England NHS Foundation Trust on acquisition by University Hospitals Birmingham NHS Foundation Trust.	-1
1 July 2018	Dissolution of Burton Hospitals NHS Foundation Trust on acquisition by Derby Teaching Hospitals NHS Foundation Trust; entity renamed as University Hospitals of Derby and Burton NHS Foundation Trust.	-1
31 March 2019	<b>Number of NHS foundation trusts at end of year</b>	<b>150</b>

\* 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 was the accounting officer for NHS Improvement (being the Monitor and TDA legal entities) for the 2018/19 financial year and up to 28 June 2019. Bill McCarthy, as incoming interim accounting officer, received assurances from Ian Dalton as part of authorising these accounts.

The Accounting Officer of NHS Improvement (Monitor legal entity for the purpose of this document) 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 statement of comprehensive income for the year ended 31 March 2019

	2018/19			2017/18			
		Before revaluations, impairments and transfers	Revaluations, impairments and transfers	After revaluations, impairments and transfers	Before revaluations, impairments and transfers	Revaluations, impairments and transfers	After revaluations, impairments and transfers
	Note	£m	£m	£m	£m	£m	£m
Operating income from patient care activities	3	49,134	-	49,134	46,666	-	46,666
Other operating income	4	6,799	-	6,799	6,164	-	6,164
<b>Total operating income</b>		<b>55,933</b>	<b>-</b>	<b>55,933</b>	<b>52,830</b>	<b>-</b>	<b>52,830</b>
Operating expenses	5, 6	(55,041)	(703)	(55,744)	(52,008)	(445)	(52,453)
<b>Operating surplus/(deficit)</b>		<b>892</b>	<b>(703)</b>	<b>189</b>	<b>822</b>	<b>(445)</b>	<b>377</b>
Finance income		45	-	45	22	-	22
Finance expenses	9	(596)	-	(596)	(543)	-	(543)
PDC dividends payable		(454)	-	(454)	(471)	-	(471)
<b>Net finance costs</b>		<b>(1,005)</b>	<b>-</b>	<b>(1,005)</b>	<b>(992)</b>	<b>-</b>	<b>(992)</b>
Other gains/(losses)		261	-	261	223	-	223
Share of profits/(losses) of joint ventures/associates		10	-	10	9	-	9
Gains arising from transfers by absorption	28	1	73	74	-	36	36
Losses arising from transfers by absorption	28	-	(5)	(5)	-	(37)	(37)
Corporation tax expense		(4)	-	(4)	(2)	-	(2)
<b>Surplus/(deficit) for the year</b>		<b>155</b>	<b>(635)</b>	<b>(480)</b>	<b>60</b>	<b>(446)</b>	<b>(386)</b>
<b>Other comprehensive income/(expenditure)</b>							
<b>Will not be reclassified to income and expenditure:</b>							
Net impairments charged to the revaluation reserve	8	-	(512)	(512)	-	(295)	(295)
Revaluations	8	-	445	445	-	823	823
Fair value gains/(losses) on equity instruments designated at fair value through OCI		1	-	1	-	-	-
Other reserve movements		(8)	-	(8)	5	-	5
<b>May be reclassified to income and expenditure when certain conditions are met:</b>							
Fair value gains/(losses) on financial assets mandated at fair value through OCI		3	-	3	(1)	-	(1)
<b>Other comprehensive income/(expense)</b>		<b>(4)</b>	<b>(67)</b>	<b>(71)</b>	<b>4</b>	<b>528</b>	<b>532</b>
<b>Total comprehensive income/(expense) for the period</b>		<b>151</b>	<b>(702)</b>	<b>(551)</b>	<b>64</b>	<b>82</b>	<b>146</b>

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

## Consolidated statement of financial position as at 31 March 2019

		31 March 2019 £m	31 March 2018 £m
<b>Non-current assets</b>			
Intangible assets	11	858	709
Property, plant and equipment	12	28,034	27,604
Investment property		183	253
Investments in joint ventures and associates		75	79
Other investments / financial assets		174	205
Receivables	14	379	302
Other assets		5	4
<b>Total non-current assets</b>		<b>29,708</b>	<b>29,156</b>
<b>Current assets</b>			
Inventories	13	679	631
Receivables	14	4,763	4,251
Other investments / financial assets		45	20
Other current assets		-	1
Non-current assets held for sale and assets in disposal groups		25	49
Cash and cash equivalents	15	4,762	3,948
<b>Total current assets</b>		<b>10,274</b>	<b>8,900</b>
<b>Current liabilities</b>			
Trade and other payables	16	(6,134)	(5,645)
Borrowings	18	(1,959)	(922)
Other financial liabilities		-	(1)
Provisions	20	(279)	(261)
Other liabilities	17	(606)	(587)
<b>Total current liabilities</b>		<b>(8,978)</b>	<b>(7,416)</b>
<b>Total assets less current liabilities</b>		<b>31,004</b>	<b>30,640</b>
<b>Non-current liabilities</b>			
Trade and other payables	16	(15)	(23)
Borrowings	18	(10,594)	(9,956)
Provisions	20	(292)	(293)
Other liabilities	17	(151)	(159)
<b>Total non-current liabilities</b>		<b>(11,052)</b>	<b>(10,431)</b>
<b>Total assets employed</b>		<b>19,952</b>	<b>20,209</b>
<b>Financed by</b>			
Public dividend capital		15,709	15,289
Revaluation reserve		5,688	5,776
Other reserves		130	141
Income and expenditure reserve		(1,849)	(1,403)
Charitable fund reserves	25	274	406
<b>Total taxpayers' equity</b>		<b>19,952</b>	<b>20,209</b>

The accompanying notes are an integral part of these accounts. They are presented on pages 10 to 58.

Bill McCarthy  
Interim Accounting Officer  
2 July 2019

## Consolidated statement of changes in equity for the year ended 31 March 2019

	Note	Public dividend capital £m	Revaluation reserve £m	Other reserves £m	Income and expenditure reserve £m	NHS charitable fund reserves £m	Total £m
<b>Taxpayers' and others' equity at 1 April 2018 - brought forward</b>		<b>15,289</b>	<b>5,776</b>	<b>141</b>	<b>(1,403)</b>	<b>406</b>	<b>20,209</b>
Impact of implementing IFRS 15 on 1 April 2018		-	-	-	-	-	-
Impact of implementing IFRS 9 on 1 April 2018		-	-	-	(4)	-	(4)
Surplus/(deficit) for the year		-	-	-	(515)	35	(480)
Transfers by absorption: transfers between reserves	28	43	51	(4)	(89)	-	1
Adjustments to prior period accounted for in-year *		-	9	-	14	(139)	(116)
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits		-	(5)	-	5	-	-
Other transfers between reserves		-	(34)	(4)	38	-	-
Impairments	8	-	(512)	-	-	-	(512)
Revaluations	8	-	445	-	-	-	445
Transfer to retained earnings on disposal of assets		-	(42)	-	42	-	-
Fair value gains/(losses) on financial assets mandated at fair value through Other Comprehensive Income (OCI)		-	-	-	-	3	3
Fair value gains/(losses) on equity instruments designated at fair value through OCI		-	-	1	-	-	1
Remeasurements of the defined net benefit pension scheme liability/asset		-	-	(4)	(6)	-	(10)
Public dividend capital received		416	-	-	-	-	416
Public dividend capital repaid		(3)	-	-	-	-	(3)
Public dividend capital written off		(36)	-	-	36	-	-
Other reserve movements**		-	-	-	33	(31)	2
<b>Taxpayers' and others' equity at 31 March 2019</b>		<b>15,709</b>	<b>5,688</b>	<b>130</b>	<b>(1,849)</b>	<b>274</b>	<b>19,952</b>

\* These adjustments reflect local NHS foundation trusts' adjustments to prior year reserves. The aggregated adjustments are not considered material to the consolidated financial statements and so prior year balances have not been restated.

\*\* Other reserve movements includes a transfer between charitable funds and NHS foundation trust income and expenditure reserves representing a transfer of resources eliminated from income and expenditure on consolidation.

## Consolidated statement of changes in equity for the year ended 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
<b>Taxpayers' and others' equity at 1 April 2017</b>	<b>14,955</b>	<b>5,312</b>	<b>144</b>	<b>(1,218)</b>	<b>401</b>	<b>19,594</b>
Surplus/(deficit) for the year	-	-	-	(428)	42	(386)
Transfers by absorption: transfers between reserves	28	31	16	(46)	-	-
Previous prior period adjustments accounted for in 2017/18	-	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)	-	27	-	-
Impairments	8	(295)	-	-	-	(295)
Revaluations	8	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)	-	-	130	-	-
Other reserve movements*	-	(2)	(4)	37	(32)	(1)
<b>Taxpayers' and others' equity at 31 March 2018</b>	<b>15,289</b>	<b>5,776</b>	<b>141</b>	<b>(1,403)</b>	<b>406</b>	<b>20,209</b>



## **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 the predecessor NHS trust or at time of creation of an NHS foundation trust. Additional PDC may also be issued to NHS foundation trusts by the Department of Health and Social Care. A charge, reflecting the cost of capital utilised by an NHS foundation trust, 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 25.

## Consolidated statement of cash flows for the year ended 31 March 2019

		2018/19	2017/18
	Note	£m	£m
<b>Cash flows from operating activities</b>			
<b>Operating surplus/ (deficit)</b>		189	377
Non-cash income and expense:			
Depreciation and amortisation	5.1	1,390	1,343
Net impairments	8	703	445
Donations/grants credited to income		(98)	(110)
Non-cash movements in on-SoFP pension liability		5	4
(Increase) in receivables and other assets		(466)	(526)
(Increase) in inventories		(42)	(33)
Increase in payables and other liabilities		463	238
Increase/(Decrease) in provisions		3	(43)
Corporation tax (paid)		(3)	(2)
NHS charitable funds net adjustments to operating cash flows		-	(3)
Other movements in operating cash flows		(25)	(4)
<b>Net cash generated from operating activities</b>		<b>2,119</b>	<b>1,686</b>
<b>Cash flows from investing activities</b>			
Interest received		39	14
Purchase of financial assets/investments		(165)	(33)
Sale of financial assets/investments		144	37
Purchase of intangible assets		(277)	(201)
Purchase of property, plant, equipment and investment property		(2,206)	(1,963)
Sales of property, plant, equipment and investment property		246	258
Receipt of cash donations to purchase capital assets		87	91
Cash from acquisitions and disposals of business units and subsidiaries		-	1
NHS charitable funds investing cash flows		(1)	12
<b>Net cash generated used in investing activities</b>		<b>(2,133)</b>	<b>(1,784)</b>
<b>Cash flows from financing activities</b>			
Public dividend capital received		416	433
Public dividend capital repaid		(3)	-
Movement in loans from the Department of Health and Social Care		1,527	1,343
Movement in other loans		89	16
Capital element of finance lease rental payments		(35)	(31)
Capital element of PFI, LIFT and other service concession payments		(138)	(134)
Interest paid on finance lease liabilities		(10)	(12)
Interest paid on PFI, LIFT and other service concession obligations		(416)	(401)
Other interest paid		(163)	(123)
PDC dividend (paid)		(462)	(464)
<b>Net cash generated from financing activities</b>		<b>805</b>	<b>627</b>
<b>Increase in cash and cash equivalents</b>		<b>791</b>	<b>529</b>
<b>Cash and cash equivalents at 1 April</b>		<b>3,944</b>	<b>3,412</b>
Cash and cash equivalents transferred under absorption accounting	15	27	2
Adjustments to prior period accounted for in year		(5)	1
<b>Cash and cash equivalents at 31 March</b>	15	<b>4,757</b>	<b>3,944</b>

Total cash and cash equivalents is reconciled to the Consolidated Statement of Financial Position in note 15

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

NHS foundation trusts have confirmed their accounting policies are consistent with the GAM in all material respects. 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 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 financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the policies below.

#### Consolidated Statement of Comprehensive Income (SOI) policy

The SOI in these consolidated accounts is presented to separately identify the surplus or deficit before impairments of non-financial assets and transfers as this is how NHS Improvement has reported on the performance of NHS providers during the year. We consider that the notional gain/loss associated with a transfer by absorption is outside of the operational performance management of an NHS provider. Impairments on property, plant and equipment and other non-financial assets are usually considered outside of a provider's control. Fair value movements are not included within the 'impairments and transfers' column as providers are held to account for the effects of funds being invested in this way.

#### 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 £55.9 billion, we have used a materiality threshold of £500 million, which is 0.89% of operating revenues.

### Note 1.1 Consolidation and other entities

#### Basis of consolidation

These accounts consolidate the accounts of all NHS foundation trusts that have been in existence during 2018/19 using the principles of IFRS as adopted by the FRoM. They present the consolidated results of the NHS foundation trust sector after the elimination of inter-NHS foundation trust balances and transactions. Monitor, as part of NHS Improvement, is not the parent of 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.

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 2018/19 and 2017/18

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 NHS provider 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 DHSC 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 DHSC.

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 2018/19 and 2017/18 are provided in note 28.

#### 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 Consolidated 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. NHS providers have individually assessed their relationships to the respective charitable funds to determine whether they meet the definition of subsidiaries under IFRS 10. Some NHS providers consolidate their linked NHS charity as a result. Other providers may also have charities meeting the definition of local control that are not locally consolidated on the grounds of materiality. These consolidated accounts only include charities locally consolidated by NHS foundation trusts.

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 comprehensive 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.

### **Note 1.2 Contract income**

Where income is derived from contracts with customers, it is accounted for under IFRS 15. The GAM expands the definition of a contract to include legislation and regulations which enables an entity to receive cash or another financial asset that is not classified as a tax by the Office of National Statistics (ONS). As directed by the GAM, the transition to IFRS 15 in 2018/19 has been completed in accordance with paragraph C3 (b) of the Standard: applying the Standard retrospectively but recognising the cumulative effects at the date of initial application (1 April 2018).

Revenue in respect of goods/services provided is recognised when (or as) performance obligations are satisfied by transferring promised goods/services to the customer and is measured at the amount of the transaction price allocated to those performance obligations. At the year end, each NHS provider accrues income relating to performance obligations satisfied in that year. Where the provider's entitlement to consideration for those goods or services is unconditional a contract receivable will be recognised. Where entitlement to consideration is conditional on a further factor other than the passage of time, a contract asset will be recognised. Where consideration received or receivable relates to a performance obligation that is to be satisfied in a future period, the income is deferred and recognised as a contract liability.

The main source of income for NHS providers is contracts with commissioners for healthcare services. Most contracts run to 31 March in each year.

### **Revenue from NHS contracts**

A performance obligation relating to delivery of a spell of health care is generally satisfied over time as healthcare is received and consumed simultaneously by the customer as the Trust performs it. The customer in such a contract is the commissioner, but the customer benefits as services are provided to their patient. Even where a contract could be broken down into separate performance obligations, healthcare generally aligns with paragraph 22(b) of the Standard entailing a delivery of a series of goods or services that are substantially the same and have a similar pattern of transfer. At the year end, each NHS provider accrues income relating to activity delivered in that year, where a patient care spell is incomplete. This accrual is disclosed as a contract receivable as entitlement to payment for work completed is usually only dependent on the passage of time.

Where contract challenges from commissioners are expected to be upheld, the provider reflects this in the transaction price and derecognises the relevant portion of income.

NHS providers also receive income from commissioners under Commissioning for Quality and Innovation (CQUIN) schemes. Each provider agrees schemes with its commissioner(s) but they affect how care is provided to patients. That is, the CQUIN payments are not considered distinct performance obligations in their own right; instead they form part of the transaction price for performance obligations under the overall contract with the commissioner.

### **Revenue from research contracts**

Where research contracts fall under IFRS 15, revenue is recognised as and when performance obligations are satisfied. For some contracts, NHS providers assess that the research project constitutes one performance obligation over the course of the multi-year contract. In many cases it is assessed that the provider's interim performance does not create an asset with alternative use for the provider, and the provider has an enforceable right to payment for the performance completed to date. It is therefore considered that the performance obligation is satisfied over time, and the provider recognises revenue each year over the course of the contract. Some research income alternatively falls within the provisions of IAS 20 for government grants.

### **NHS injury cost recovery scheme**

NHS providers receive income under the NHS injury cost recovery scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid, for instance by an insurer. Providers recognise the income when performance obligations are satisfied. In practical terms this means that treatment has been given, they receive notification from the Department of Work and Pensions' Compensation Recovery Unit, have completed the NHS2 form and have confirmed there are no discrepancies with the treatment. The income is measured at the agreed tariff for the treatments provided to the injured individual, less an allowance for unsuccessful compensation claims and doubtful debts in line with IFRS 9 requirements of measuring expected credit losses over the lifetime of the asset.

## **Note 1.3 Other forms of income**

### **Grants and donations**

Government grants are grants from Government bodies other than income from commissioners for the provision of services. 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 Consolidated Statement of Comprehensive Income once conditions attached to the grant have been met. Donations are treated in the same way as government grants.

### **Apprenticeship service income**

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 from the NHS provider's Digital Apprenticeship Service (DAS) account held by the Department for Education, the corresponding notional expense is also recognised at the point of recognition for the benefit.

### **Provider sustainability fund (PSF)**

The PSF enables NHS providers to earn income linked to the achievement of financial controls and performance targets. Access to both the core elements of PSF are unlocked as NHS providers meet their financial control totals. A further element of the fund is distributed to all providers which accepted a control total, in proportion to their delivery according to agreed plans. PSF is accounted for by providers as variable consideration as guided by the DHSC GAM. With the full amount of allocated PSF funding being allocated to providers based on their 2018/19 results, the total amount is recognised in these consolidated provider accounts. More information is provided in note 4.

## 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. Details of the benefits payable and rules of the Schemes can be found on the NHS Pensions website at [www.nhsbsa.nhs.uk/pensions](http://www.nhsbsa.nhs.uk/pensions). Both schemes are unfunded, defined benefit schemes that cover NHS employers, general practices and other bodies, allowed under the direction of the Secretary of State for Health and Social Care 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 2019 is based on valuation data as 31 March 2018, updated to 31 March 2019 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 2016. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health and Social Care, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate. As a result the employer contribution rate will increase to 20.6% of pensionable pay from April 2019.

The 2016 funding valuation was also expected to test the cost of the Scheme relative to the employer cost cap set following the 2012 valuation. Following a judgment from the Court of Appeal in December 2018 Government announced a pause to that part of the valuation process pending conclusion of the continuing legal process.

## 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 Consolidated 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.

<b>NHS provider</b>	<b>Pension fund</b>	<b>Administering body</b>
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
Cheshire and Wirral Partnership NHS Foundation Trust	Merseyside Pension Fund	Wirral Metropolitan Borough 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 Teaching NHS Foundation Trust	East Riding of Yorkshire County Council Pension Fund	East Riding of Yorkshire County Council
Midlands Partnership NHS Foundation Trust	Staffordshire County Council Pension Fund	Staffordshire 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
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 foundation trust financial statements.

<b>NHS provider</b>	<b>Pension Fund</b>	<b>Administering body</b>
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.

Assets are measured subsequently at valuation. Assets which are held for their service potential and are in use (ie operational assets used to deliver either front line services or back office functions) are measured at their current value in existing use. Assets that were most recently held for their service potential but are surplus with no plan to bring them back into use are measured at fair value where there are no restrictions on sale at the reporting date and where they do not meet the definitions of investment properties or assets held for sale.

Current values in existing use are determined as follows:

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

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.

Revaluations of property, plant and equipment are performed with sufficient regularity to ensure that carrying values are not materially different from those that would be determined at the end of the reporting period.

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.

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees and, where capitalised in accordance with IAS 23, borrowing costs. Assets are revalued and depreciation commences when the assets are brought into use.

IT equipment, transport equipment, furniture and fittings, and plant and machinery that are held for operational use are valued at depreciated historic cost where these assets have short useful lives or low values or both, as this is not considered to be materially different from current 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 Consolidated 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 Consolidated 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) and Local Improvement Finance Trust (LIFT) transactions

PFI and LIFT 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 element of the annual unitary payment increase due to cumulative indexation is treated as contingent rent and is expensed as incurred.

The service charge is recognised in operating expenses and the finance cost is charged to finance costs in the Consolidated 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.

## Useful economic lives of property, plant and equipment

Useful economic lives assigned to categories of property, plant and equipment vary between NHS foundation trusts according to specific local circumstances. The ranges of useful economic lives across the sector are:

	<b>Min life Years</b>	<b>Max life Years</b>
Buildings, excluding dwellings	1	193
Dwellings	1	136
Plant & machinery	1	31
Transport equipment	1	15
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 NHS 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. Assets that were most recently held for their service potential but are surplus with no plan to bring them back into use are measured at fair value where there are no restrictions on sale at the reporting date and where they do not meet the definitions of investment properties or assets held for sale.

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 foundation trusts according to specific local circumstances. The range of useful economic lives across the sector is:

	<b>Min life Years</b>	<b>Max life Years</b>
<b>Intangible assets - internally generated</b>		
Information technology	1	23
Development expenditure	1	12
Websites	1	12
<b>Intangible assets - purchased</b>		
Software	1	23
Licences & trademarks	1	15
Patents	1	8
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 NHS 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 assets and financial liabilities**

### **Recognition**

Financial assets and financial liabilities arise where providers are party to the contractual provisions of a financial instrument, and as a result have a legal right to receive or a legal obligation to pay cash or another financial instrument. The GAM expands the definition of a contract to include legislation and regulations which give rise to arrangements that in all other respects would be a financial instrument and do not give rise to transactions classified as a tax by ONS.

This includes the purchase or sale of non-financial items (such as goods or services), which are entered into in accordance with the provider's normal purchase, sale or usage requirements and are recognised when, and to the extent which, performance occurs, ie, when receipt or delivery of the goods or services is made.

### **Classification and measurement**

Financial assets and financial liabilities are initially measured at fair value plus or minus directly attributable transaction costs except where the asset or liability is not measured at fair value through income and expenditure. Fair value is taken as the transaction price, or otherwise determined by reference to quoted market prices or valuation techniques.

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.

Financial assets are subsequently measured at amortised cost, fair value through income and expenditure or fair value through other comprehensive income.

Financial liabilities are subsequently measured at amortised cost or fair value through income and expenditure.

### **Financial assets and financial liabilities at amortised cost**

Financial assets and financial liabilities at amortised cost are those held with the objective of collecting contractual cash flows and where cash flows are solely payments of principal and interest. This includes cash equivalents, contract and other receivables, trade and other payables, rights and obligations under lease arrangements and loans receivable and payable.

After initial recognition, these financial assets and financial liabilities are measured at amortised cost using the effective interest method less any impairment (for financial assets). The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

Interest revenue or expense is calculated by applying the effective interest rate to the gross carrying amount of a financial asset or amortised cost of a financial liability and recognised in the Consolidated Statement of Comprehensive Income and a financing income or expense. In the case of loans held from the Department of Health and Social Care, the effective interest rate is the nominal rate of interest charged on the loan.

### **Financial assets measured at fair value through other comprehensive income**

A financial asset is measured at fair value through other comprehensive income where business model objectives are met by both collecting contractual cash flows and selling financial assets and where the cash flows are solely payments of principal and interest. Movements in the fair value of financial assets in this category are recognised as gains or losses in other comprehensive income except for impairment losses. On derecognition, cumulative gains and losses previously recognised in other comprehensive income are reclassified from equity to income and expenditure, except where the provider elected to measure an equity instrument in this category on initial recognition.

In some cases providers have irrevocably elected to measure some equity instruments at fair value through other comprehensive income. This is not material to these consolidated accounts.

### **Financial assets and financial liabilities at fair value through income and expenditure**

Financial assets measured at fair value through income and expenditure are those that are not otherwise measured at amortised cost or at fair value through other comprehensive income. This category also includes financial assets and liabilities acquired principally for the purpose of selling in the short term (held for trading) and derivatives. Derivatives which are embedded in other contracts, but which are separable from the host contract are measured within this category. Movements in the fair value of financial assets and liabilities in this category are recognised as gains or losses in the Consolidated Statement of Comprehensive income.

In some cases providers have irrevocably elected to measure some financial assets at fair value through income and expenditure. This is not material to these consolidated accounts.

### **Impairment of financial assets**

For all financial assets measured at amortised cost including lease receivables, contract receivables and contract assets or assets measured at fair value through other comprehensive income, providers recognise an allowance for expected credit losses.

Providers adopt the simplified approach to impairment for contract and other receivables, contract assets and lease receivables, measuring expected losses as at an amount equal to lifetime expected losses. For other financial assets, the loss allowance is initially measured at an amount equal to 12-month expected credit losses (stage 1) and subsequently at an amount equal to lifetime expected credit losses if the credit risk assessed for the financial asset significantly increases (stage 2).

For financial assets that have become credit impaired since initial recognition (stage 3), expected credit losses at the reporting date are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

Expected losses are charged to operating expenditure within the Consolidated Statement of Comprehensive Income and reduce the net carrying value of the financial asset in the Consolidated Statement of Financial Position.

### **De-recognition**

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

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

## 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. After initial recognition the asset is accounted for an item of property plant and equipment. 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 Consolidated 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 Consolidated 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 31 March 2019.

		Nominal rate
Short-term	Up to 5 years	0.76%
Medium-term	After 5 years up to 10 years	1.14%
Long-term	Exceeding 10 years	1.99%

In 2018/19 HM Treasury moved to providing discount rates for general provision on a nominal rate basis. Expected future cash flows are therefore adjusted for the impact of inflation before discounting using nominal rates. The following inflation rates are set by HM Treasury, effective 31 March 2019.

	Inflation rate
Year 1	2.00%
Year 2	2.00%
Into perpetuity	2.10%

Early retirement provisions and injury benefit provisions both use the HM Treasury's pension discount rate of 0.29% 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 providers is disclosed at note 20.3.

### *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 21 where an inflow of economic benefits is probable.

Contingent liabilities are not recognised, but are disclosed in note 21, unless the probability of a transfer of economic benefits is remote. Contingent liabilities are defined as:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the 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 the trust, is payable as public dividend capital dividend. The charge is calculated at the rate set by HM Treasury (currently 3.5%) on the average relevant net assets of the trust during the financial year. Relevant net assets are calculated as the value of all assets less the value of all liabilities, except for

- (i) 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 Provider Sustainability Fund (PSF) incentive or bonus schemes.

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 the audit of the annual accounts.

### **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.

### **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 CO<sub>2</sub> 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 CO<sub>2</sub> they emit during the financial year. Therefore, registered NHS providers should recognise a liability and related expense in respect of this obligation as CO<sub>2</sub> emissions are made.

The carrying amount of the liability at 31 March will, therefore, reflect the CO<sub>2</sub> 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.

**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 provider 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 (FRoM) 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 GAM and FT Annual Reporting Manual direct NHS providers to disclose in their annual report and accounts if there are any uncertainties around going concern, including if the adoption of the going concern basis is solely based on the interpretation in the FRoM to focus on the continued provision of services.

All NHS foundation trust financial statements have been prepared on a going concern basis in 2018/19 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.

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 (2017/18: 41). 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 41 NHS foundation trusts comprise 29% of total operating income. A listing of these NHS foundation trusts is available in the consolidated provider accounts. 52 NHS foundation trusts received interim cash revenue support funding from the Department of Health and Social Care during 2018/19 totalling £1.4 billion.

## Note 1.25 Critical accounting judgements and key sources of estimation uncertainty

In preparing the consolidated NHS foundation trust accounts, NHS Improvement applies the following accounting judgements:

- 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 net amounts are not material. We are satisfied that the gross mismatches which net together to this immaterial position do not constitute a material error.
- These consolidated accounts are prepared on a going concern basis as detailed within the section above.

and the following estimations:

- Accounting policy note 1.7 sets out how property plant and equipment is 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 is 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 across NHS providers, but local valuation assumptions may have material effects on each local valuation.
- Useful lives of PPE - as shown in note 12.1, property plant and equipment (PPE) is material to these consolidated accounts. In note 1.7 we disclose, for each category of PPE, the lowest minimum and the highest maximum in the ranges of useful lives used by NHS foundation trusts. Useful lives are the period over which assets are depreciated. We do not collect information from providers on average useful lives, but in taking the median average lowest and median average highest, and the mean average of those, an approximate average can be computed to assess the impact of the accounting estimates.

As shown in note 12.1, buildings and plant & equipment depreciation comprise 50% and 29% of total PPE depreciation charged in-year respectively. Utilising the methodology outlined above, a very approximate average useful life in these categories is 39 years and 10 years respectively. In average terms, making all asset lives one year shorter would approximately increase the annual depreciation charge by £16m for buildings and £40m for plant & machinery. This is not material. Based on a materiality of £1 billion, ten times this 'one year effect' would be required to lead to a material error based on these approximate averages.

The depreciation charge in these accounts comprises the depreciation charges in each NHS foundation trust's accounts, which in themselves relate to many assets. It is therefore not possible to thoroughly interrogate this accounting estimate upon consolidation, but given the impact locally each NHS foundation trust's accounting estimates in this area are subject to review by each local external auditor.

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

NHS providers made preparations through 2018/19 for the potential impact of the UK's exit from the European Union, including planning for the case of a 'no deal' EU Exit, including following recommendations in the Department of Health and Social Care's EU Exit Operational Guidance. The NHS's overall approach includes planning and contingency measures being taken centrally, as well as actions that are the responsibility of individual providers. Each provider has identified an EU Exit Senior Responsible Officer, who participated in regional planning work by the NHS. Individual providers have managed relevant risks as part of their existing governance and risk management arrangements.

## 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
<i>Standards, amendments or interpretations issued and effective from 2019/20:</i>		
IFRS 3 Business combinations (amendment)	An entity 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.
IFRS 9 Financial instruments (amendments)	Amendments dealing with prepayments with negative compensation.	Annual periods beginning on or after 1 January 2019
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.
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.
IAS 19 Employee benefits (amendments)	Amendments relate to dealing with the effects of plan amendment, curtailment or settlement.	Annual periods beginning on or after 1 January 2019.
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.
IAS 28 Investments in associates and joint ventures (amendment)	Amendments to clarify where interests are excluded from IFRS 9 measurement.	Annual periods beginning on or after 1 January 2019.
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.
<i>Standards, amendments or interpretations issued and effective for later periods:</i>		
IFRS 3 Business combinations (amendment)	Amendment clarifies the definition of a business.	Annual periods beginning on or after 1 January 2020. Not yet EU endorsed.
IFRS 16 Leases	Original issue	For public sector - applicable from 2020/21. 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 1 and IAS 8 (amendments)	These amendments clarify the definition of material and its application.	Annual periods beginning on or after 1 January 2020. Not yet endorsed for use in the EU.

## Estimated impact of future standards

### IFRS 16 Leases

IFRS 16 has not yet been formally adopted for the public sector by HM Treasury and may be subject to interpretation and/or adaptation. However decisions have been taken by HM Treasury on key aspects of accounting which does enable estimates of the impact of the standard to be made.

#### *Definition of a lease*

IFRS 16 brings some changes to the definition of a lease compared to IFRIC 4 and IAS 17 currently. HM Treasury has decided that, as a practical expedient, entities will grandfather in (i.e. carry forward) their current assessment of whether a contract contains a lease. We have not collected detailed information from providers to enable us to quantify the effects of this but given the practical expedient we do not expect this part of IFRS 16 to have a material impact. The key impact will be in changing the accounting for arrangements currently identified as leases.

#### *Lessee accounting: single model of accounting*

For lessees, the current (IAS 17) distinction between operating leases and finance leases is removed. Under IFRS 16, a right-of-use asset and lease liability are included in the statement of financial position for all leased assets. Note 10.2 in these accounts shows annual lease payments for operating leases of £514 million and future commitments under these contracts of £2.2 billion.

HM Treasury updated its IFRS 16 implementation guidance in April 2019, to include guidance on how the right-of-use asset should be measured. Given the timing of this decision and the complexity of valuing assets in some cases, it has not been possible to collect data from providers on the impact these leases will have in the Consolidated Statement of Financial Position. But given the annual payments it is clear that this will have a material impact on gross assets.

There is a corresponding impact on the consolidated statement of comprehensive income: such assets will now be depreciated, and finance charges will be recorded. Finance lease modelling for lessees usually results in higher I&E charges in the earlier parts of lease terms, as finance leases involve recognition of finance charges which reduce over time as the principal is repaid. The precise effect of this on the statement of comprehensive income in the consolidated accounts will be a function of many different leases all at different stages of the lease contract across many providers. As such it is considered impracticable to accurately predict the impact on the statement of comprehensive income for a given period at this stage.

#### *Lessor accounting*

IFRS 16 retains the distinction between operating and finance leases for lessors. Thus there is a difference in approach between lessees and lessors. Appropriate elimination adjustments will be performed in preparing these consolidated provider accounts under IFRS 16. The figures quoted above for lessee operating leases have been adjusted to remove amounts within the NHS foundation trust sector. There are far fewer lease arrangements where providers are the lessor. As shown in these accounts, NHS foundation trusts currently have £61 million of lessor annual income under operating leases and less than £1 million under finance leases. This is not material to the consolidated accounts.

### Other standards

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

## 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

All income from patient care activities relates to contract income recognised in line with accounting policy 1.2

### Note 3.1 Income from patient care activities (by nature)

	2018/19 £m	2017/18 £m
<b>Acute services</b>		
Elective income	6,122	5,903
Non elective income	9,000	8,505
Outpatient income	5,338	5,144
A & E income	1,438	1,338
Other NHS clinical income (including high cost drugs income)	12,663	12,363
<b>Mental health services</b>		
Cost and volume contract income	444	439
Block contract income	6,109	5,858
Clinical partnerships providing mandatory services	189	195
Clinical income for the secondary commissioning of mandatory services	52	50
Other clinical income from mandatory services	223	198
<b>Ambulance services</b>		
A & E income	871	838
Patient transport service income	106	106
Other income	59	59
<b>Community services</b>		
Community services income from CCGs and NHS England	4,133	3,827
Community services income from other sources	951	960
<b>All services</b>		
Private patient income	534	496
AfC pay award central funding	512	-
Other clinical income	390	387
<b>Total income from activities</b>	<b>49,134</b>	<b>46,666</b>

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 3.2 Income from patient care activities (by source)**

	2018/19 £m	2017/18 £m
<b>Income from patient care activities received from:</b>		
CCGs and NHS England	45,730	43,807
Local authorities	1,588	1,552
Department of Health and Social Care	521	6
NHS trusts	116	128
NHS other	122	160
Non-NHS: private patients	524	489
Non-NHS: overseas patients (chargeable to patient)	47	45
Injury cost recovery scheme	122	121
Non NHS: other	364	358
<b>Total income from activities</b>	<b>49,134</b>	<b>46,666</b>

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

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

	2018/19 £m	2017/18 £m
Income recognised this year	47	45
Cash payments received in-year	23	19
Amounts added to provision for impairment of receivables	18	22
Amounts written off in-year	15	20

**Note 4 Other operating income**

	2018/19	2017/18		
	Contract income £m	Non- contract income £m	Total £m	Total £m
Research and development	638	105	743	690
Education and training	1,792	13	1,805	1,761
Receipt of capital grants and donations		98	98	110
Charitable and other contributions to expenditure		78	78	65
Non-patient care services to other bodies	655		655	653
Provider sustainability / sustainability and transformation fund income (PSF / STF)*	1,726		1,726	1,245
Support from the Department of Health and Social Care for mergers		44	44	60
Rental revenue from operating leases		61	61	63
Income in respect of staff costs where accounted on gross basis	186		186	176
Incoming resources excluding investment income, relating to NHS charitable funds		66	66	71
PFI support income	28		28	24
Car parking	164		164	155
Pharmacy sales	124		124	83
Clinical excellence awards	70		70	72
Catering	78		78	76
Other	835	38	873	860
<b>Total other operating income</b>	<b>6,296</b>	<b>503</b>	<b>6,799</b>	<b>6,164</b>

\* 137 NHS foundation trusts received income from the Provider Sustainability Fund (previously the Sustainability and Transformation Fund) in 2018/19 (2017/18: 140). This is part of the £2.45 billion fund available to all NHS providers in 2018/19 (2017/18: £1.8 billion). £19 million of the fund in was allocated to the 'Get It Right First Time' initiative (2017/18: £7m) across all NHS providers.



## Note 5.1 Operating expenses

	2018/19	2017/18
	£m	£m
Purchase of healthcare from NHS and DHSC bodies	231	244
Purchase of healthcare from non-NHS and non-DHSC bodies	969	798
Purchase of social care	170	170
Employee expenses - staff (including executive directors)	35,248	33,197
Non-executive directors	22	22
Supplies and services - clinical	4,260	4,200
Supplies and services - general	881	824
Drug costs	4,851	4,688
Inventories written down	6	7
Consultancy costs	151	155
Establishment	607	572
Premises	2,165	2,010
Transport (including patient travel)	422	392
Depreciation on property, plant and equipment	1,253	1,222
Amortisation on intangible assets	137	121
Net Impairments	703	445
Movement in credit loss allowance: contract receivables/assets	59	-
Movement in credit loss allowance: all other receivables & investments	19	96
Increase in other provisions	23	(1)
Change in provisions discount rate(s)	(4)	4
Fees payable to the external auditor *		
audit services- statutory audit	11	11
other auditor remuneration (external auditor only)	2	2
Internal audit costs, including local counter fraud services	17	16
Clinical negligence	1,179	1,117
Legal fees	58	52
Insurance	36	34
Research and development	435	367
Education and training	301	270
Rentals under operating leases	514	472
Early retirements	2	2
Redundancy	25	40
Charges to operating expenditure for on-SoFP IFRIC 12 schemes (e.g. PFI / LIFT) on IFRS basis**	549	527
Charges to operating expenditure for off-SoFP PFI / LIFT schemes	-	-
Car parking & security	26	24
Hospitality	5	5
Losses, ex gratia & special payments	12	10
Grossing up consortium arrangements	15	12
Other services, eg external payroll	62	67
Other	291	227
NHS charitable funds: Other resources expended	31	32
<b>Total</b>	<b>55,744</b>	<b>52,453</b>

\* These are the audit fees disclosed by NHS foundation trusts for the audit of their local accounts only. These consolidated accounts are not audited.

\*\* This line does not contain all the charges relating to PFI and similar schemes in these accounts. An analysis of payments made can be found in note 23.3.

## Note 5.2 Other auditors' remuneration

	2018/19 £m	2017/18 £m
Other remuneration paid to the external auditor is made up as follows:		
1. Audit of accounts of any associate of the provider	0.2	0.1
2. Audit-related assurance services *	1.0	1.1
3. Taxation compliance services	-	-
4. All taxation advisory services not falling within item 3 above	-	0.1
5. Internal audit services	-	-
6. All assurance services not falling within items 1 to 5	0.5	0.5
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	0.4	0.3
<b>Total</b>	<b>2.1</b>	<b>2.1</b>

\* Audit related assurance services includes fees paid by NHS foundation trusts for external assurance on quality reports.

## Note 6.1 Employee benefits

	Permanent £m	Other £m	2018/19 Total £m	2017/18 Total £m
Salaries and wages	26,725	961	27,686	26,085
Social security costs	2,638	43	2,681	2,512
Apprenticeship levy	131	2	133	124
Employers' contributions to NHS pensions	3,206	41	3,247	3,070
Pension cost - other	12	1	13	12
Other employment benefits	-	2	2	3
Termination benefits	11	1	12	19
Temporary staff (including agency)	-	2,033	2,033	1,874
NHS charitable funds staff	4	-	4	5
<b>Total gross staff costs</b>	<b>32,727</b>	<b>3,084</b>	<b>35,811</b>	<b>33,704</b>
Recoveries in respect of seconded staff	(70)	(2)	(72)	(73)
<b>Total staff costs</b>	<b>32,657</b>	<b>3,082</b>	<b>35,739</b>	<b>33,631</b>
<b>Included within:</b>				
Costs capitalised as part of assets	125	16	141	104

Staff costs here and in note 5.1 differ as note 6.1 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 6.2 Average number of employees (WTE basis)

	Permanent Number	Other Number	2018/19 Total Number	2017/18 Total Number
Medical and dental	67,449	12,575	80,024	76,658
Ambulance staff	13,437	126	13,563	12,770
Administration and estates	157,858	9,459	167,317	163,460
Healthcare assistants and other support staff	132,305	15,768	148,073	131,165
Nursing, midwifery and health visiting staff	223,262	23,458	246,720	248,151
Nursing, midwifery and health visiting learners	4,529	635	5,164	3,885
Scientific, therapeutic and technical staff	90,785	4,442	95,227	95,795
Healthcare science staff	15,298	449	15,747	13,036
Social care staff	1,557	339	1,896	1,509
Other	1,689	848	2,537	3,577
<b>Total average numbers</b>	<b>708,169</b>	<b>68,099</b>	<b>776,268</b>	<b>750,006</b>

### Of which:

Number of employees (WTE) engaged on capital projects	2,050	238	2,288	1,792
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## Note 6.3 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.

Note 6.4 provides further analysis of the 'other departures' disclosed below.

2018/19	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
<b>Exit package cost band (including any special payment element)</b>			
<£10,000	154	1,251	1,405
£10,000 - £25,000	181	216	397
£25,001 - 50,000	145	101	246
£50,001 - £100,000	89	45	134
£100,001 - £150,000	27	6	33
£150,001 - £200,000	10	4	14
>£200,000	5	4	9
<b>Total number of exit packages by type</b>	<b>611</b>	<b>1,627</b>	<b>2,238</b>
Total resource cost (£m)	21	17	38

2017/18	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
<£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
<b>Total number of exit packages by type</b>	<b>956</b>	<b>1,800</b>	<b>2,756</b>
Total resource cost (£m)	33	20	53

#### Note 6.4 Exit packages: other (non-compulsory) departure payments

	2018/19		2017/18	
	Payments agreed Number	Total value of agreements £m	Payments agreed Number	Total value of agreements £m
Voluntary redundancies including early retirement contractual costs	94	2	150	5
Mutually agreed resignations (MARS) contractual costs	266	6	319	8
Early retirements in the efficiency of the service contractual costs	10	-	9	-
Contractual payments in lieu of notice	1,266	5	1,273	6
Exit payments following employment tribunals or court orders	38	2	39	1
Non-contractual payments requiring HM Treasury approval*	20	1	13	-
<b>Total</b>	<b>1,694</b>	<b>16</b>	<b>1,803</b>	<b>20</b>

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

In 2018/19 there were no non-contractual payments requiring HM Treasury approval made that were in excess of the individuals' salaries (2017/18: 2 payments totalling £209,000).

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 in note 6.4 does not match the total numbers in note 6.3 which is the number of individuals.

Exit packages disclosed in this note differ from the redundancy figure included within note 5.1. The redundancy figure in note 5.1 relates to additional costs which are not exit packages payable directly to the employee.

## Note 7 Pension costs

All NHS providers participate in the NHS Pension Scheme. This is a statutory, defined benefit scheme, the regulations of which are laid down in the NHS Pension Scheme Regulations 1995 (SI 1995 No. 300). NHS providers pay contributions at rates specified from time to time by the Secretary of State, as advised by the Government Actuary and with the consent of HM Treasury.

For 2018/19, the contribution rate was 14.3% (2017/18: 14.3%). It is not possible for the NHS provider sector to identify its share of the underlying scheme liabilities. Therefore, the scheme is accounted for as a defined contribution scheme in these accounts.

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

As set out in accounting policy 1.4, some NHS providers also have employees who are members of other pension schemes. Membership of these individual schemes is not material to the consolidated NHS provider accounts.

## Note 8 Impairment of non-financial assets

Impairments are either charged to operating expenditure or the revaluation reserve. More detail is provided in accounting policy 1.7 and 1.8. Impairments reduce the value of assets. The note below provides detail about the reasons for impairments.

			2018/19	2017/18
	Impairments	Reversals	Net	Net
	£m	£m	impairments	impairments
			£m	£m
<b>Net impairments charged to operating surplus / deficit resulting from:</b>				
Loss or damage from normal operations	1	-	1	-
Over specification of assets	-	(1)	(1)	-
Abandonment of assets in course of construction	4	-	4	5
Unforeseen obsolescence	62	-	62	17
Loss as a result of catastrophe	-	-	-	10
Changes in market price	593	(162)	431	235
Other causes	228	(22)	206	178
<b>Total net impairments charged to operating surplus / deficit</b>	<b>888</b>	<b>(185)</b>	<b>703</b>	<b>445</b>
Impairments charged to the revaluation reserve	600	(88)	512	295
<b>Total net impairments</b>	<b>1,488</b>	<b>(273)</b>	<b>1,215</b>	<b>740</b>

Net impairments taken to operating surplus / deficit relate to property, plant and equipment (£685 million) and intangible assets (£18 million). Impairments charged to the revaluation reserve relate solely to property, plant and equipment.

In addition there are revaluation surpluses taken to the revaluation reserve of £445 million (2017/18: £823 million), as can be seen in the Statement of Changes in Equity.

## Note 9 Finance expenditure

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

	2018/19	2017/18
	£m	£m
<b>Interest incurred on:</b>		
Loans from the Department of Health and Social Care	158	121
Other loans	8	6
Finance leases	10	12
Interest on late payment of commercial debt	-	1
Main finance costs on PFI and LIFT schemes obligations	262	262
Contingent finance costs on PFI and LIFT scheme obligations	153	139
Other finance costs	3	1
<b>Total finance expenditure - financial liabilities</b>	<b>594</b>	<b>542</b>
Finance expense - unwinding of discount on provisions	2	1
<b>Total finance expenditure</b>	<b>596</b>	<b>543</b>

## Note 10 Operating leases

### Note 10.1 Operating lease income

This note discloses income generated and expected future receipts from operating lease agreements where NHS foundation trusts are the lessor.

	2018/19 £m	2017/18 £m
<b>Operating lease revenue</b>		
Minimum lease receipts	56	56
Contingent rent	2	2
Other	3	5
<b>Total</b>	<b>61</b>	<b>63</b>
	<b>31 March 2019</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
<b>Future minimum lease receipts due:</b>		
- not later than one year;	47	47
- later than one year and not later than five years;	108	102
- later than five years.	356	363
<b>Total</b>	<b>511</b>	<b>512</b>

### Note 10.2 Operating lease expense

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

	2018/19 £m	2017/18 £m
<b>Operating lease expense</b>		
Minimum lease payments	517	474
Contingent rents	1	1
Less sublease receipts received	(4)	(3)
<b>Total</b>	<b>514</b>	<b>472</b>
	<b>31 March 2019</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
<b>Future minimum lease payments due:</b>		
On leases of land expiring		
- not later than one year;	5	11
- later than one year and not later than five years;	5	8
- later than five years.	21	29
On leases of buildings expiring		
- not later than one year;	312	264
- later than one year and not later than five years;	705	513
- later than five years.	782	524
On other leases expiring		
- not later than one year;	127	120
- later than one year and not later than five years;	214	213
- later than five years.	52	60
<b>Total</b>	<b>2,223</b>	<b>1,742</b>
Future minimum sublease receipts to be received	(4)	(3)

**Note 11.1 Intangible assets - 2018/19**

	Software licences	Licences & trademarks	Information technology	Development expenditure	Intangible assets under construction	Other	Total
	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/gross cost at 1 April 2018 - brought forward</b>	<b>846</b>	<b>21</b>	<b>244</b>	<b>103</b>	<b>129</b>	<b>2</b>	<b>1,345</b>
Transfers by absorption	10	-	-	3	-	-	13
Adjustments to prior period accounted for in-year	-	-	-	-	7	-	7
Additions	92	2	25	20	132	1	272
Impairments	-	-	-	-	(18)	-	(18)
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	56	1	29	2	(68)	-	20
Revaluations	-	-	(5)	10	(10)	-	(5)
Disposals / derecognition	(21)	-	-	(4)	-	-	(25)
<b>Valuation/gross cost at 31 March 2019</b>	<b>983</b>	<b>24</b>	<b>293</b>	<b>134</b>	<b>172</b>	<b>3</b>	<b>1,609</b>
<b>Amortisation at 1 April 2018 - brought forward</b>	<b>463</b>	<b>7</b>	<b>130</b>	<b>36</b>	-	-	<b>636</b>
Transfers by absorption	5	-	-	1	-	-	6
Adjustments to prior period accounted for in-year	-	-	-	-	-	-	-
Provided during the year	95	3	26	13	-	-	137
Impairments	-	-	-	-	-	-	-
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	1	-	-	-	-	-	1
Revaluations	-	-	(5)	-	-	-	(5)
Disposals / derecognition	(20)	-	-	(4)	-	-	(24)
<b>Amortisation at 31 March 2019</b>	<b>544</b>	<b>10</b>	<b>151</b>	<b>46</b>	-	-	<b>751</b>
<b>Net book value at 31 March 2019</b>	<b>439</b>	<b>14</b>	<b>142</b>	<b>88</b>	<b>172</b>	<b>3</b>	<b>858</b>
<b>Net book value at 1 April 2018</b>	<b>383</b>	<b>14</b>	<b>114</b>	<b>67</b>	<b>129</b>	<b>2</b>	<b>709</b>

The total net impairment of £18 million shown in this note was charged to operating expenses.

**Note 11.2 Intangible assets - 2017/18**

	<b>Software licences</b>	<b>Licences &amp; trademarks</b>	<b>Information technology</b>	<b>Development expenditure</b>	<b>Intangible assets under construction</b>	<b>Other</b>	<b>Total</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Valuation/gross cost at 1 April 2017</b>	<b>753</b>	<b>13</b>	<b>202</b>	<b>71</b>	<b>106</b>	-	<b>1,145</b>
Transfers by absorption	2	-	-	5	-	-	7
Previous prior period adjustments accounted for in 2017/18	(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)
<b>Valuation/gross cost at 31 March 2018</b>	<b>846</b>	<b>21</b>	<b>244</b>	<b>103</b>	<b>129</b>	<b>2</b>	<b>1,345</b>
<b>Amortisation at 1 April 2017</b>	<b>406</b>	<b>5</b>	<b>107</b>	<b>23</b>	-	-	<b>541</b>
Transfers by absorption	1	-	-	4	-	-	5
Previous prior period adjustments accounted for in 2017/18	(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)
<b>Amortisation at 31 March 2018</b>	<b>463</b>	<b>7</b>	<b>130</b>	<b>36</b>	-	-	<b>636</b>
<b>Net book value at 31 March 2018</b>	<b>383</b>	<b>14</b>	<b>114</b>	<b>67</b>	<b>129</b>	<b>2</b>	<b>709</b>
<b>Net book value at 1 April 2017</b>	<b>347</b>	<b>8</b>	<b>95</b>	<b>48</b>	<b>106</b>	-	<b>604</b>



**Note 12.1 Property, plant and equipment - 2018/19**

	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
<b>Valuation/gross cost at 1 April 2018 - brought forward</b>	<b>2,818</b>	<b>21,822</b>	<b>244</b>	<b>1,472</b>	<b>5,322</b>	<b>245</b>	<b>2,044</b>	<b>375</b>	<b>14</b>	<b>34,356</b>
Transfers by absorption	20	190	-	2	46	-	7	3	-	268
Adjustments to prior period recorded in-year	(20)	(159)	(5)	(7)	(3)	-	(5)	(3)	(7)	(209)
Additions	24	533	21	1,130	350	20	217	15	-	2,310
Impairments	(127)	(1,152)	(10)	(9)	(4)	-	(2)	-	-	(1,304)
Reversals of impairments	24	184	1	1	-	-	-	-	-	210
Reclassifications	3	715	7	(989)	126	8	75	5	-	(50)
Revaluations	80	(186)	(4)	-	(17)	-	(5)	(1)	-	(133)
Transfers to/ from assets held for sale	(7)	(6)	-	-	-	-	-	-	-	(13)
Disposals / derecognition	(25)	(47)	(1)	(1)	(197)	(27)	(93)	(11)	-	(402)
<b>Valuation/gross cost at 31 March 2019</b>	<b>2,790</b>	<b>21,894</b>	<b>253</b>	<b>1,599</b>	<b>5,623</b>	<b>246</b>	<b>2,238</b>	<b>383</b>	<b>7</b>	<b>35,033</b>
<b>Accumulated depreciation at 1 April 2018 - brought forward</b>	<b>30</b>	<b>1,309</b>	<b>22</b>	<b>9</b>	<b>3,598</b>	<b>157</b>	<b>1,364</b>	<b>261</b>	<b>2</b>	<b>6,752</b>
Transfers by absorption	-	3	-	-	27	-	4	2	-	36
Adjustments to prior period recorded in-year	(20)	(168)	(3)	-	(3)	-	(3)	(3)	(2)	(202)
Provided during the year	-	622	7	-	363	21	214	26	-	1,253
Impairments	9	151	6	1	-	-	-	-	-	167
Reversals of impairments	(2)	(61)	-	(1)	-	-	-	-	-	(64)
Reclassifications	-	(30)	-	-	-	-	-	(1)	-	(31)
Revaluations	(6)	(535)	(12)	-	(18)	-	(6)	(1)	-	(578)
Transfers to/ from assets held for sale	-	-	-	-	-	-	-	-	-	-
Disposals / derecognition	-	(12)	(1)	(1)	(191)	(26)	(92)	(11)	-	(334)
<b>Accumulated depreciation at 31 March 2019</b>	<b>11</b>	<b>1,279</b>	<b>19</b>	<b>8</b>	<b>3,776</b>	<b>152</b>	<b>1,481</b>	<b>273</b>	<b>-</b>	<b>6,999</b>
<b>Net book value at 31 March 2019</b>	<b>2,779</b>	<b>20,615</b>	<b>234</b>	<b>1,591</b>	<b>1,847</b>	<b>94</b>	<b>757</b>	<b>110</b>	<b>7</b>	<b>28,034</b>
<b>Net book value at 1 April 2018</b>	<b>2,788</b>	<b>20,513</b>	<b>222</b>	<b>1,463</b>	<b>1,724</b>	<b>88</b>	<b>680</b>	<b>114</b>	<b>12</b>	<b>27,604</b>

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

Of the total net impairments of £1,197 million shown in this note, £685 million was charged to operating expenses and £512 million to the revaluation reserve.

**Note 12.2 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
<b>Valuation/gross cost at 1 April 2017</b>	<b>2,948</b>	<b>21,169</b>	<b>255</b>	<b>1,136</b>	<b>5,247</b>	<b>246</b>	<b>1,940</b>	<b>397</b>	<b>10</b>	<b>33,348</b>
Transfers by absorption	-	65	-	-	15	-	6	1	-	87
Previous prior period adjustments accounted for in 2017/18	(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)
<b>Valuation/gross cost at 31 March 2018</b>	<b>2,818</b>	<b>21,822</b>	<b>244</b>	<b>1,472</b>	<b>5,322</b>	<b>245</b>	<b>2,044</b>	<b>375</b>	<b>14</b>	<b>34,356</b>
<b>Accumulated depreciation at 1 April 2017</b>	<b>44</b>	<b>1,452</b>	<b>19</b>	<b>10</b>	<b>3,560</b>	<b>158</b>	<b>1,283</b>	<b>271</b>	<b>2</b>	<b>6,799</b>
Transfers by absorption	-	(1)	-	-	10	-	3	1	-	13
Previous prior period adjustments accounted for in 2017/18	(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)
<b>Accumulated depreciation at 31 March 2018</b>	<b>30</b>	<b>1,309</b>	<b>22</b>	<b>9</b>	<b>3,598</b>	<b>157</b>	<b>1,364</b>	<b>261</b>	<b>2</b>	<b>6,752</b>
<b>Net book value at 31 March 2018</b>	<b>2,788</b>	<b>20,513</b>	<b>222</b>	<b>1,463</b>	<b>1,724</b>	<b>88</b>	<b>680</b>	<b>114</b>	<b>12</b>	<b>27,604</b>
<b>Net book value at 1 April 2017</b>	<b>2,904</b>	<b>19,717</b>	<b>236</b>	<b>1,126</b>	<b>1,687</b>	<b>88</b>	<b>657</b>	<b>126</b>	<b>8</b>	<b>26,549</b>

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

**Note 12.3 Property, plant and equipment financing - 2018/19**

	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
<b>Net book value at 31 March 2019</b>										
Owned - purchased	2,616	15,282	196	1,393	1,486	92	735	96	7	<b>21,903</b>
Finance leased	38	146	15	13	110	1	13	1	-	<b>337</b>
On-SoFP PFI contracts and other service concession arrangements	29	4,164	9	127	53	-	1	-	-	<b>4,383</b>
PFI residual interests	-	-	2	-	-	-	-	-	-	<b>2</b>
Owned - government granted	-	38	-	4	2	-	-	-	-	<b>44</b>
Owned - donated	96	985	12	54	196	1	8	13	-	<b>1,365</b>
<b>NBV total at 31 March 2019</b>	<b>2,779</b>	<b>20,615</b>	<b>234</b>	<b>1,591</b>	<b>1,847</b>	<b>94</b>	<b>757</b>	<b>110</b>	<b>7</b>	<b>28,034</b>

**Note 12.4 Property, plant and equipment financing - 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
<b>Net book value at 31 March 2018</b>										
Owned - purchased	2,629	15,090	172	1,273	1,378	85	660	101	12	<b>21,400</b>
Finance leased	38	136	15	7	94	2	10	-	-	<b>302</b>
On-SoFP PFI contracts and other service concession arrangements	22	4,259	20	128	47	-	-	-	-	<b>4,476</b>
PFI residual interests	-	-	2	-	-	-	-	-	-	<b>2</b>
Owned - government granted	-	40	-	4	4	-	-	-	-	<b>48</b>
Owned - donated	99	988	13	51	201	1	10	13	-	<b>1,376</b>
<b>NBV total at 31 March 2018</b>	<b>2,788</b>	<b>20,513</b>	<b>222</b>	<b>1,463</b>	<b>1,724</b>	<b>88</b>	<b>680</b>	<b>114</b>	<b>12</b>	<b>27,604</b>

<b>Note 13 Inventories</b>	<b>31 March 2019 £m</b>	<b>31 March 2018 £m</b>
Drugs	230	203
Consumables	396	381
Energy	8	8
Other	45	39
<b>Total inventories</b>	<b>679</b>	<b>631</b>

Inventories recognised in expenses for the year were £5,988 million (2017/18 £5,535 million). Write-down of inventories recognised as expenses for the year were £7 million (2017/18: £7 million).

<b>Note 14 Receivables</b>	<b>31 March 2019 £m</b>	<b>31 March 2018 £m</b>
<b>Current</b>		
Trade receivables*	-	2,079
Contract receivables* †	4,158	-
Contract assets*	92	-
Capital receivables	52	26
Accrued income *	-	1,352
Allowance for impaired contract receivables / assets*	(356)	-
Allowance for other impaired receivables*	(28)	(358)
Deposits and advances	5	4
Prepayments	513	495
PDC dividend receivable	36	34
VAT receivable	188	151
Other receivables*	97	461
NHS charitable funds receivables	6	7
<b>Total current receivables</b>	<b>4,763</b>	<b>4,251</b>
<b>Non-current</b>		
Trade receivables*	-	21
Contract receivables*	140	-
Contract assets*	3	-
Capital receivables	29	3
Accrued income *	-	16
Allowance for impaired contract receivables / assets*	(14)	-
Allowance for other impaired receivables*	(1)	(19)
Deposits and advances	5	4
Prepayments	183	168
Other receivables*	33	108
NHS charitable funds receivables	1	1
<b>Total non-current receivables</b>	<b>379</b>	<b>302</b>
<b>Of which receivable from NHS and DHSC group bodies</b>		
Current	3,065	2,676
Non-current	2	4

\* Following the application of IFRS 15 from 1 April 2018, NHS foundation trusts' entitlement to consideration for work performed under contracts with customers is shown separately as contract receivables and contract assets. This replaces the previous analysis into trade receivables, accrued income and other receivables. IFRS 15 is applied without restatement therefore the comparative analysis of receivables has not been restated under IFRS 15.

† Current contract receivables include £1,233 million of accrued income from the Provider Sustainability Fund.

The terms 'contract receivables' and 'contract assets' are defined in accounting policy note 1.2.

## Note 15 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.

	2018/19	2017/18
	£m	£m
<b>At 1 April</b>	<b>3,948</b>	<b>3,413</b>
Adjustments to prior period accounted for in-year	(5)	2
Transfers by absorption	27	1
Net change in year	792	532
<b>At 31 March</b>	<b>4,762</b>	<b>3,948</b>
<b>Broken down into:</b>		
Cash at commercial banks and in hand (excluding charitable funds)	113	157
Cash with the Government Banking Service (excluding charitable funds)	4,216	3,562
Deposits with the National Loans Fund (excluding charitable funds)	299	80
Other current investments (excluding charitable funds)	2	3
NHS charitable funds cash and cash equivalents	132	146
<b>Total cash and cash equivalents as in SoFP</b>	<b>4,762</b>	<b>3,948</b>
Bank overdrafts	(5)	(4)
<b>Total cash and cash equivalents as in SoCF</b>	<b>4,757</b>	<b>3,944</b>

## Note 16 Trade and other payables

	31 March	31 March
	2019	2018
	£m	£m
<b>Current</b>		
Trade payables	1,772	1,578
Capital payables	462	453
Accruals	2,497	2,262
Receipts in advance	63	63
Social security costs	412	372
Other taxes payable	345	322
PDC dividend payable	3	8
Other payables*	580	587
<b>Total current trade and other payables</b>	<b>6,134</b>	<b>5,645</b>
<b>Non-current</b>		
Trade payables	2	4
Capital payables	3	2
Accruals	3	11
Receipts in advance	-	-
Other payables	7	6
<b>Total non-current trade and other payables</b>	<b>15</b>	<b>23</b>
<b>Of which payable to NHS and DHSC group bodies</b>		
Current	596	547
Non-current	1	1

\*Following adoption of IFRS 9 on 1 April 2018, loans are measured at amortised cost. Any accrued interest previously recorded as an other payable is now included in the carrying value of the loan within note 18.1. IFRS 9 is applied without restatement therefore comparatives have not been restated. The value of accrued interest reclassified on 1 April 2018 was £28 million.

## Note 17 Other liabilities

	31 March 2019 £m	31 March 2018 £m
<b>Current</b>		
Deferred income: contract liability	546	552
Deferred grants	33	32
Deferred PFI income/credits	4	1
Lease incentives	7	1
Deferred income: other	16	-
NHS charitable funds other liabilities	-	1
<b>Total other current liabilities</b>	<b>606</b>	<b>587</b>
<b>Non-current</b>		
Deferred income: contract liability	58	91
Deferred grants	6	2
Deferred PFI income/credits	24	26
Lease incentives	8	8
Deferred income: other	3	-
Net pension scheme liability	52	32
<b>Total other non-current liabilities</b>	<b>151</b>	<b>159</b>

## Note 18.1 Borrowings

	31 March 2019 £m	31 March 2018 £m
<b>Current</b>		
Bank overdrafts	5	4
Loans from the Department of Health and Social Care*	1,762	728
Other loans	20	25
Obligations under finance leases	35	28
Obligations under PFI, LIFT or other service concession contracts (finance lease element)	137	137
<b>Total current borrowings</b>	<b>1,959</b>	<b>922</b>
<b>Non-current</b>		
Loans from the Department of Health and Social Care	5,895	5,255
Other loans	261	167
Obligations under finance leases	173	135
Obligations under PFI, LIFT or other service concession contracts (finance lease element)	4,265	4,399
<b>Total non-current borrowings</b>	<b>10,594</b>	<b>9,956</b>

\*Following adoption of IFRS 9 on 1 April 2018, loans are measured at amortised cost. Any accrued interest previously recorded as an other payable in note 16 is now included in the carrying value of borrowings within this note. IFRS 9 is applied without restatement therefore comparatives have not been restated. The value of accrued interest reclassified on 1 April 2018 was £28 million.

## Note 18.2 Reconciliation of liabilities arising from financing activities

	Loans from DHSC £m	Other loans £m	Finance leases £m	PFI and LIFT schemes £m	Total £m
<b>Carrying value at 1 April 2018</b>	<b>5,983</b>	<b>192</b>	<b>163</b>	<b>4,536</b>	<b>10,874</b>
Impact of implementing IFRS 9 on 1 April 2018	23	4	-	-	27
<b>Cash movements:</b>					
Financing cash flows - payments and receipts of principal	1,527	89	(35)	(138)	<b>1,443</b>
Financing cash flows - payments of interest	(149)	(13)	(10)	(264)	<b>(436)</b>
<b>Non-cash movements:</b>					
Transfers by absorption	114	-	6	55	<b>175</b>
Additions	-	-	74	12	<b>86</b>
Application of effective interest rate	159	9	9	262	<b>439</b>
Other changes	-	-	1	(61)	<b>(60)</b>
<b>Carrying value at 31 March 2019</b>	<b>7,657</b>	<b>281</b>	<b>208</b>	<b>4,402</b>	<b>12,548</b>

## Note 19 Finance lease obligations

	31 March 2019 £m	31 March 2018 £m
Obligations under finance leases where NHS foundation trusts are the lessees:		
<b>Gross lease liabilities</b>	<b>335</b>	<b>270</b>
Of which liabilities are due:		
- not later than one year;	45	38
- later than one year and not later than five years;	122	104
- later than five years.	168	128
Finance charges allocated to future periods	(127)	(107)
<b>Net lease liabilities</b>	<b>208</b>	<b>163</b>
Of which payable:		
- not later than one year;	35	28
- later than one year and not later than five years;	92	77
- later than five years.	81	58
Total of future minimum sublease payments to be received at the reporting date	-	-

## Note 20.1 Provisions for liabilities and charges

	31 March 2019		31 March 2018	
	Current	Non-current	Current	Non-current
	£m	£m	£m	£m
Pensions	22	241	15	158
Other legal claims	41	4	35	21
Restructurings	8	2	12	1
Equal Pay	3	-	4	-
Redundancy	35	-	38	-
Other	170	45	157	113
<b>Total</b>	<b>279</b>	<b>292</b>	<b>261</b>	<b>293</b>

## Note 20.2 Provisions for liabilities and charges analysis

	Pensions	Other legal claims	Restructuring	Equal Pay	Redundancy	Other	Total
	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2018</b>	<b>173</b>	<b>56</b>	<b>13</b>	<b>4</b>	<b>38</b>	<b>270</b>	<b>554</b>
Adjustments to prior period accounted for in-year*	102	(19)	-	-	-	(78)	5
Transfers by absorption	2	-	-	-	2	2	6
Change in the discount rate	(4)	-	-	-	-	-	(4)
Arising during the year	17	30	6	2	30	132	217
Utilised during the year	(23)	(9)	(4)	(1)	(12)	(54)	(103)
Reclassified to liabilities held in disposal groups	-	-	-	-	-	-	-
Reversed unused	(6)	(13)	(5)	(2)	(23)	(57)	(106)
Unwinding of discount	2	-	-	-	-	-	2
<b>At 31 March 2019</b>	<b>263</b>	<b>45</b>	<b>10</b>	<b>3</b>	<b>35</b>	<b>215</b>	<b>571</b>
<b>Expected timing of cash flows:</b>							
- not later than one year;	22	41	8	3	35	170	279
- later than one year and not later than five years;	92	3	2	-	-	34	131
- later than five years.	149	1	-	-	-	11	161
<b>Total</b>	<b>263</b>	<b>45</b>	<b>10</b>	<b>3</b>	<b>35</b>	<b>215</b>	<b>571</b>

\*In 2017/18 'other' provisions included liabilities for additional pension benefits related to work-based injuries for some NHS foundation trusts. These amounts have been reclassified to pension related provisions as an in-year adjustment relating to prior periods and is not material.



- Pension provisions relate to staff who have retired early from the NHS Pensions Scheme and are calculated in accordance with DHSC guidance.
- Other legal claims include personal legal claims that have been lodged against NHS foundation trusts with NHS Resolution but not yet agreed and therefore not included in provisions held by NHS Resolution.
- Equal pay 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 20.3 Clinical negligence liabilities

NHS Resolution manages clinical and some non-clinical claims on behalf of NHS providers. For this to occur, providers pay an annual premium to NHS Resolution, who then assumes responsibility for settling claims on providers' behalf. This is called the Clinical Negligence Scheme for Trusts (CNST) which covers clinical negligence claims for incidents occurring on or after 1 April 1995. The Existing Liabilities Scheme (ELS) is centrally funded by DHSC and covers clinical negligence claims against NHS organisations for incidents occurring before 1 April 1995.

Under these schemes, 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.

As at 31 March 2019, NHS Resolution held provisions for clinical negligence liabilities totalling £18,423 million for CNST (2017/18 restated\*: £16,234 million) and £650 million for ELS (2017/18 restated\*: £636 million) on behalf of NHS foundation trusts.

\* The comparative has been restated to separately disclose ELS using information provided by NHS Resolution as opposed to a consolidation of local provider disclosures.

### Note 21 Contingent assets and liabilities

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.

	<b>31 March 2019</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
<b>Value of contingent liabilities</b>		
NHS Resolution legal claims	(13)	(7)
Employment tribunal and other employee related litigation	-	(1)
Other	(20)	(28)
<b>Gross value of contingent liabilities</b>	<b>(33)</b>	<b>(36)</b>
Amounts recoverable against liabilities	9	3
<b>Net value of contingent liabilities</b>	<b>(24)</b>	<b>(33)</b>
<b>Net value of contingent assets</b>	<b>16</b>	<b>26</b>

### Note 22 Contractual capital commitments

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

	<b>31 March 2019</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
Property, plant and equipment	721	764
Intangible assets	76	77
<b>Total</b>	<b>797</b>	<b>841</b>

## Note 23 On-SoFP PFI, LIFT or other service concession lease arrangements

### Note 23.1 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 2019 £m	31 March 2018 £m
<b>Gross PFI, LIFT or other service concession liabilities</b>	<b>9,072</b>	<b>9,562</b>
<b>Of which liabilities are due</b>		
- not later than one year;	452	460
- later than one year and not later than five years;	1,815	1,816
- later than five years.	6,805	7,286
Finance charges allocated to future periods	(4,670)	(5,026)
<b>Net PFI, LIFT or other service concession arrangement lease obligation</b>	<b>4,402</b>	<b>4,536</b>
- not later than one year;	137	137
- later than one year and not later than five years;	647	621
- later than five years.	3,618	3,778

### Note 23.2 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 2019 £m	31 March 2018 £m
<b>Total future payments due in:</b>		
- not later than one year;	1,172	1,122
- later than one year and not later than five years;	4,911	4,675
- later than five years.	21,767	21,670
<b>Total</b>	<b>27,850</b>	<b>27,467</b>
	<b>Number</b>	<b>Number</b>
Total number of PFI, LIFT and other service concession schemes accounted for on-SoFP at 31 March	99	99
Of which schemes with total future commitment in excess of £500 million	15	14

### Note 23.3 Analysis of amounts paid to service concession operators

This note shows the total amount paid to the service concession operator in the year, on an accruals basis. The constituent parts of the unitary payment are taken to the Consolidated Statement of Comprehensive Income or Consolidated Statement of Financial Position as appropriate.

	2018/19 £m	2017/18 £m
<b>Unitary payment paid to service concession operator</b>	<b>1,148</b>	<b>1,107</b>
<b>Consisting of:</b>		
- Interest charge	262	262
- Repayment of finance lease liability	138	134
- Service element	512	494
- Capital lifecycle maintenance	45	34
- Revenue lifecycle maintenance	9	9
- Contingent rent	153	139
- Addition to lifecycle prepayment	29	35

## Note 24 Financial instruments

### Note 24.1 Financial assets

	Financial assets at amortised cost £m	Financial assets at fair value through I&E £m	Financial assets at fair value through OCI* £m	Total £m
<b>Carrying values of financial assets as at 31 March 2019 under IFRS 9</b>				
Receivables excluding non financial assets	4,132	-	-	<b>4,132</b>
Investments / financial assets	73	8	23	<b>104</b>
Cash and cash equivalents at bank and in hand**	4,630	-	-	<b>4,630</b>
NHS charitable funds financial assets	198	45	38	<b>281</b>
<b>Total at 31 March 2019</b>	<b>9,033</b>	<b>53</b>	<b>61</b>	<b>9,147</b>

\* Financial assets at fair value through other comprehensive income include £51 million of investments in equity instruments designated as held at fair value through other comprehensive income on initial recognition.

\*\* Cash and cash equivalents excludes cash held by NHS charitable funds, which is shown within the final row above.

IFRS 9 Financial Instruments is applied retrospectively from 1 April 2018 without restatement of comparatives. As such, this comparative disclosure has been prepared under IAS 39 and the measurement categories differ to those in the current year analysis.

	Loans and receivables £m	Assets held at fair value through the I&E £m	Held to maturity £m	Available-for-sale £m	Total £m
<b>Carrying values of financial assets as at 31 March 2018 under IAS 39</b>					
Trade and other receivables excluding non financial assets	3,501	-	-	-	<b>3,501</b>
Other investments / financial assets	47	4	3	1	<b>55</b>
Cash and cash equivalents at bank and in hand	3,802	-	-	-	<b>3,802</b>
NHS charitable funds financial assets *	212	104	2	32	<b>350</b>
<b>Total at 31 March 2018</b>	<b>7,562</b>	<b>108</b>	<b>5</b>	<b>33</b>	<b>7,708</b>

\* Cash and cash equivalents excludes cash held by NHS charitable funds, which is shown within the final row above.

## Note 24.2 Financial liabilities

IFRS 9 Financial Instruments is applied retrospectively from 1 April 2018 without restatement of comparatives. As such, financial liabilities as at 31 March 2019 are measured in accordance with IFRS 9; comparatives are measured in accordance with IAS 39.

	<b>31 March 2019</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
<b>Carrying values of financial liabilities</b>		
Loans from the Department of Health and Social Care	7,657	5,983
Obligations under PFI, LIFT and other service concession contracts	4,402	4,536
Obligations under finance leases	208	163
Other borrowings	286	196
Trade and other payables excluding non financial liabilities	5,122	4,865
Other financial liabilities	-	1
Provisions under contract	197	224
NHS charitable funds financial liabilities	5	5
<b>Total financial liabilities</b>	<b><u>17,877</u></b>	<b><u>15,973</u></b>

All financial liabilities are held at amortised cost.

## Note 24.3 Maturity of financial liabilities

	<b>31 March 2019</b>	<b>31 March 2018</b>
	<b>£m</b>	<b>£m</b>
<b>Financial liabilities fall due in:</b>		
In one year or less	7,150	5,778
In more than one year but not more than two years	1,931	1,331
In more than two years but not more than five years	2,947	2,935
In more than five years	5,849	5,929
<b>Total financial liabilities</b>	<b><u>17,877</u></b>	<b><u>15,973</u></b>

## Note 24.4 Fair values of financial instruments

At a consolidated level, the fair values of financial instruments disclosed by individual NHS foundation trusts do not differ materially from the book values disclosed above.

## Note 24.5 Financial risk management

The risks arising from financial instruments and the NHS foundation trusts' 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 trusts.

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 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 at Note 1.24, the auditors of 41 NHS foundation trusts have included a material uncertainty paragraph within their audit opinions to draw attention to the going concern disclosure included within those accounts (2017/18: 41). 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 visitors without reciprocal arrangements, however this income contributes only 1.16% of total income from patient care activities generated in the year to 31 March 2019 (2017/18: 1.14%). 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, £4.2 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 2019 are in receivables, as disclosed in the 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 DHSC. 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 foundation trusts (see note 9) this is not a material risk to the consolidated NHS foundation trust accounts.

## Note 25 Analysis of NHS charitable funds reserves

	31 March 2019 £m	31 March 2018 £m
<b>Restricted funds:</b>		
Endowment funds	12	143
Other restricted income funds	84	89
<b>Unrestricted funds:</b>		
Unrestricted income funds	173	170
Revaluation reserve	4	3
Other reserves	1	1
<b>Total</b>	<b>274</b>	<b>406</b>

NHS charitable funds are consolidated by 42 NHS foundation trusts where the trust determines they have control (2017/18: 45) as outlined in accounting policy 1.1. Other foundation trusts may also have charities meeting the definition of local control that are not locally consolidated on the grounds of materiality.

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.

On 1 April 2018 the Maudsley Charity became fully independent and ceased to be consolidated by South London and Maudsley NHS Foundation Trust. This has resulted in a £137 million reduction in charitable funds, of which £131 million was classified as endowment funds.

## Note 26.1 Losses and special payments

	2018/19		2017/18	
	Number of cases	Total value of cases £m	Number of cases	Total value of cases £m
<b>Losses</b>				
Cash losses	2,941	3	2,404	2
Fruitless payments	512	1	403	-
Bad debts and claims abandoned	21,455	27	24,331	31
Stores losses and damage to property	4,614	8	5,510	7
<b>Total losses</b>	<b>29,522</b>	<b>39</b>	<b>32,648</b>	<b>40</b>
<b>Special payments</b>				
Extra-contractual payments	3	1	2	-
Extra statutory and extra-regulatory payments	4	-	2	-
binding arbitration award	266	3	285	5
Special severance payments	20	1	13	-
Ex-gratia payments	4,760	8	4,769	8
<b>Total special payments</b>	<b>5,053</b>	<b>13</b>	<b>5,071</b>	<b>13</b>
<b>Total losses and special payments</b>	<b>34,575</b>	<b>52</b>	<b>37,719</b>	<b>53</b>
Compensation payments received		2		-

The total losses disclosed here are higher than the amounts included in the line 'Losses, ex gratia & special payments' in note 5.1 as NHS foundation trusts may include some losses in other lines within that note.

## **Note 26.2 Losses and special payments in excess of £300,000**

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

In 2018/19 10 individual trusts reported losses in excess of £0.3 million:

- The following two trusts have recorded pharmacy losses totalling £0.946 million:-
  - Royal Surrey County Hospital NHS Foundation Trust; and
  - Medway NHS Foundation Trust
- The following two trusts have recorded losses for out of court special payments to a contractor totalling £0.750 million:
  - Countess of Chester Hospital NHS Foundation Trust
  - Wirral University Teaching Hospital NHS Foundation Trust
- Kings College London NHS Foundation Trust recorded losses of £0.930m relating to an employment tribunal.
- Mersey Care NHS Foundation Trust recorded losses of £0.904 million relating to fraud.
- University Hospitals of Derby and Burton NHS Foundation Trust recorded losses of £0.431 million for severance payments.
- Royal United Hospitals Bath NHS Foundation Trust recorded losses of £0.337 million relating to HSE fines.
- The Dudley Group NHS Foundation Trust recorded losses of £0.314 million for delayed discharges.
- Guy's & St Thomas' NHS Foundation Trust recorded losses of £0.301 million for obsolete cardiac stock.

In 2017/18, six individual losses were reported in excess of £0.3 million totalling £3.833 million:

- Basildon and Thurrock NHS Foundation Trust;
- Guy's and St Thomas' NHS Foundation Trust;
- Royal Surrey County Hospital NHS Foundation Trust.
- Southern Health NHS Foundation Trust (2 cases); and
- Surrey and Borders Partnership NHS Foundation Trust.

## **Note 26.3 Gifts**

NHS foundation trusts granted 8 gifts with total value of £18,000 (2017/18: 118 gifts, £66,000). HM Treasury requires additional disclosure of gifts individually in excess of £300,000. No individual gift was in excess of £300,000.

## Note 27 Related parties

DHSC 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 trusts.

	Receivables		Payables	
	31 March 2019 £m	31 March 2018 restated* £m	31 March 2019 £m	31 March 2018 restated* £m
Value of balances with board members and key staff (excluding salaries)	-	-	-	-
Value of balances with other related parties:				
Non-consolidated NHS charitable funds	8	13	1	1
Subsidiaries / Associates / Joint ventures	17	18	5	10
Other	31	32	21	32
Value of allowances for expected credit losses held against related party balances	(2)	(3)	-	-
<b>Total</b>	<b>54</b>	<b>60</b>	<b>27</b>	<b>43</b>
Value of balances with related parties written off in year	-	-	-	-

	Income		Expenditure	
	2018/19 £m	2017/18 restated* £m	2018/19 £m	2017/18 restated* £m
Value of transactions with board members and key staff (excluding salaries)	-	1	-	-
Value of transactions with other related parties:				
NHS charitable funds	101	94	6	6
Subsidiaries / Associates / Joint Ventures	22	27	157	144
Other	88	80	98	95
<b>Total</b>	<b>211</b>	<b>202</b>	<b>261</b>	<b>245</b>

\* Prior year comparatives have been restated to remove balances and transactions with entities under government control included in 2017/18 in error.



## Note 28 Transfers by absorption

Most business combinations within the public sector are accounted for using absorption accounting principles. Under this approach, balances are written out by the divesting organisation and recorded by the receiving organisation at their book values at the point in transfer. A gain or loss corresponding to the value of net assets is recognised within income and expenditure. More details are provided in accounting policy 1.1.

### Transactions accounted for under absorption accounting: 2018/19

Two absorption transactions occurred within the NHS foundation trust sector during 2018/19 and the accounting entries were eliminated within these consolidated accounts. More details of the assets and liabilities involved in these transactions is given in note 31 of the consolidated NHS provider accounts. The following absorption transactions occurred between NHS foundation trusts and other government bodies during 2018/19 and so reflect absorption movements in or out of the consolidated NHS foundation trust accounts:

Receiving body	Divesting body	Date of transfer	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
			£m	£m	£m	£m	£m	£m
Mersey Care NHS Foundation Trust	Liverpool Community Health NHS Trust	1 April 2018	10	18	(9)	(1)	18	-
Midlands Partnership NHS Foundation Trust	Staffordshire and Stoke on Trent Partnership NHS Trust	1 June 2018	86	30	(29)	(74)	13	1
East Suffolk and North Essex NHS Foundation Trust	Ipswich Hospital NHS Trust	1 July 2018	142	35	(53)	(83)	41	41
Other transfers			1	-	-	(4)	(3)	-
<b>Totals</b>			<b>239</b>	<b>83</b>	<b>(91)</b>	<b>(162)</b>	<b>69</b>	<b>42</b>

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. Absorption transfers involving other providers also occurred but the net assets transferring totalled less than £1m. These transfers have not been detailed here.

### Transactions accounted for under absorption accounting: 2017/18

Four absorption transactions occurred within the NHS foundation trust sector during 2017/18 and the accounting entries were eliminated within these consolidated accounts. More details of the assets and liabilities involved in these transactions is given in note 31 of the consolidated NHS provider accounts. The following absorption transactions occurred between NHS foundation trusts and other government bodies during 2017/18 and so reflect absorption movements in or out of the consolidated NHS foundation trust accounts:

NHS foundation trust	Divesting body	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	Hinchingbrooke Health Care NHS Trust	1 April 2017	100	11	(14)	(66)	31	31
Other transfers			(25)	-	-	(7)	(32)	-
<b>Totals</b>			<b>75</b>	<b>11</b>	<b>(14)</b>	<b>(73)</b>	<b>(1)</b>	<b>31</b>

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 prior to the Trust being dissolved on 1 April 2018.

## **Note 29 New and amended IFRS standards that are effective for the current year**

### **Note 29.1 Initial application of IFRS 15**

IFRS 15 Revenue from Contracts with Customers as interpreted and adapted by the GAM has been applied by NHS foundation trusts from 1 April 2018. The standard is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of the income and expenditure reserve as at 1 April 2018. Comparative amounts have not been restated, as allowed by the transition provisions of IFRS 15.

IFRS 15 introduces a new model for the recognition of revenue from contracts with customers replacing the previous standards IAS 11, IAS 18 and related Interpretations. The core principle of IFRS 15 is that an entity recognises revenue when it satisfies performance obligations through the transfer of control of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

As directed by the GAM, providers have applied the practical expedient offered in paragraph C7A of the standard removing the need to retrospectively restate any contract modifications that occurred before the date of implementation (1 April 2018).

The impact of initial application of the standard on 1 April 2018 was immaterial to these consolidated accounts. The standard has a material effect on the classification of receivables. More details are provided in note 14.

### **Note 29.2 Initial application of IFRS 9**

IFRS 9 Financial Instruments (and related amendments to other standards) as interpreted and adapted by the GAM has been applied by NHS foundation trusts from 1 April 2018. The standard is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balances of reserves as at 1 April 2018. Comparative amounts have not been restated, as allowed by the transition provisions of IFRS 9.

IFRS 9 replaces IAS 39 and introduces a revised approach to classification and measurement of financial assets and financial liabilities, a new forward-looking 'expected credit loss' impairment model and a revised approach to general hedge accounting.

Under IFRS 9, borrowings from the Department of Health and Social Care, which were previously held at historic cost, are measured on an amortised cost basis. Consequently, on 1 April 2018 the carrying value of loans from the Department of Health and Social Care increased by £23 million, and trade payables correspondingly reduced. Further accrued interest of £4 million were also reclassified from payables in relation to other forms of borrowing.

Reassessment of allowances for credit losses under the expected loss model in conjunction with the new revenue recognition requirements of IFRS 15 resulted in derecognition of gross receivables and a subsequent reduction in the value of allowances for credit losses. This change was not material.

The GAM expands the definition of a contract in the context of financial instruments to include legislation and regulations, except where this gives rise to a tax. Implementation of this adaptation on 1 April 2018 has led to the classification of receivables relating to income under the injury cost recovery scheme as financial assets measured at amortised cost. The carrying value of injury cost recovery receivables not previously included in financial asset disclosures at 1 April 2018 was £181 million.

### **Note 30 Prior period adjustments**

#### Sector-wide changes in accounting policy

In 2018/19, there have been no changes in accounting policy requiring sector-wide restatement of comparatives. See notes 29.1 and 29.2 for the initial application of IFRS 9 and IFRS 15.

#### Other prior period adjustments applied by NHS foundation trusts

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

#### Restatement of disclosures

In some notes of these consolidated accounts, prior year disclosures have been restated compared to the consolidated NHS foundation trust accounts in 2017/18. More details are provided in each note. The affected notes are:

- Note 27 Related parties
- Note 20.3 Clinical negligence liabilities

### **Note 31 Events after the reporting date**

South Tyneside NHS Foundation Trust and City Hospitals Sunderland NHS Foundation Trust merged on 1 April 2019 to form South Tyneside and Sunderland NHS Foundation Trust. The two previous foundation trusts were dissolved and the new entity authorised as a foundation trust by NHS Improvement.

This transaction will eliminate and therefore have no impact on the 2019/20 consolidated NHS foundation trust accounts.

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