

# Consolidated NHS provider accounts 2017/18

HC1349

collaboration trust respect innovation courage compassion



# Consolidated NHS provider accounts 2017/18

1 April 2017 – 31 March 2018

Presented to Parliament under Direction of the Secretary of State for Health and Social Care pursuant to sections 7(1), 8(1), 272 and 278 of the National Health Service Act 2006

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# Foreword

## Introduction

We are delighted to present consolidated provider accounts for the first time. This reflects an ambition of NHS Improvement and follows extensive work alongside the Department of Health and Social Care (DHSC) to redesign financial reporting for NHS providers (ie NHS trusts and NHS foundation trusts). We are very grateful to NHS providers for their cooperation in reporting their data to us.

The results of providers continue to be consolidated into the DHSC group accounts. But from 2017/18 onwards, the DHSC group accounts utilise the provider sub-consolidation prepared by NHS Improvement. These accounts do not include the results of the constituent legal bodies of NHS Improvement (Monitor and the NHS Trust Development Authority): the accounts for these bodies are published separately as they are not the parent bodies of NHS trusts and NHS foundation trusts.

In the weeks following publication of this document we will publish the underlying data to enable local scrutiny and to facilitate trusts in comparing their financial information with others. The data will also feed into NHS Improvement's Model Hospital tool in the Autumn.

The remainder of this foreword provides further information on the legal requirements for NHS trust and NHS foundation trust accounts and on changes in the provider sector.

## NHS trusts

Paragraph 3(1) of Schedule 15 to the National Health Service Act 2006 (the 2006 Act) requires each NHS trust to prepare annual accounts for each financial year ending 31 March. Paragraph 5(1) of Schedule 15 to the 2006 Act requires NHS trusts to submit these annual accounts to the Secretary of State. The Secretary of State has directed<sup>1</sup> the NHS Trust Development Authority (NHS TDA) (one of the constituent bodies of NHS Improvement) to exercise this function of receiving NHS trust accounts. These annual accounts must be audited by auditors appointed by the NHS trust.

NHS trusts that cease to exist as separate legal entities during the year (including upon authorisation as an NHS foundation trust) prepare accounts for their final period as directed by the Secretary of State and have them audited.

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<sup>1</sup> Published in FAQ 14 of Additional Guidance document at <https://www.gov.uk/government/publications/department-of-health-group-accounting-manual-2017-to-2018>

## NHS foundation trusts

Paragraph 25 of Schedule 7 to 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 (one of the constituent bodies of 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 NHS Improvement (Monitor).

NHS foundation trusts that cease to exist as separate legal entities and/or cease to provide services 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 the council of governors.

## Basis of preparation for consolidated NHS provider accounts

The Secretary of State has directed NHS Improvement (the NHS TDA legal entity) to prepare consolidated NHS provider accounts for each financial year from 2017/18. The accounts presented in this report have been prepared as a consolidation of the audited accounts submitted by NHS trusts and NHS foundation trusts that were in existence during the 2017/18 financial year, together with comparative information for 2016/17. We give details below of providers whose legal status changed during this time.

The NHS TDA has requested the Comptroller and Auditor General (C&AG), and the C&AG has agreed, to perform an audit of these consolidated NHS provider accounts.

## Consolidated NHS foundation trust accounts

Paragraph 17 of Schedule 8 to the 2012 Act requires Monitor (to prepare consolidated NHS foundation trust accounts and send a copy to the Secretary of State. These are available separately on our website.

## Changes in legal status of NHS providers

These consolidated NHS provider accounts incorporate the results of all NHS trusts and NHS foundation trusts. Entities where their legal status changed in 2016/17 or 2017/18 are as follows:



		NHS trusts	NHS FTs	All providers
1 April 2016	<b>Opening number of providers</b> (Birmingham Community Healthcare NHS Trust and Sussex Community NHS Trust were authorised as NHS foundation trusts on 1 April 2016)	<b>84</b>	<b>155</b>	<b>239</b>
1 May 2016	Mersey Care NHS Trust and Wirral Community NHS Trust authorised as NHS foundation trusts	-2	+2	239
1 July 2016	Dissolution of Calderstones Partnership NHS Foundation Trust on acquisition by Mersey Care NHS Foundation Trust		-1	238
1 January 2017	Manchester Mental Health and Social Care NHS Trust acquired by Greater Manchester West NHS Foundation Trust; entity renamed as Greater Manchester Mental Health NHS Foundation Trust	-1		237
1 February 2017	Dissolution of Birmingham Women's NHS Foundation Trust on acquisition by Birmingham Children's Hospital NHS Foundation Trust; entity renamed as Birmingham Women's and Children's NHS Foundation Trust		-1	236
31 March 2017	<b>Number of providers at end of year</b>	<b>81</b>	<b>155</b>	<b>236</b>
1 April 2017	Hinchingbrooke Health Care NHS Trust acquired by Peterborough and Stamford Hospitals NHS Foundation Trust; entity renamed as North West Anglia NHS Foundation Trust	-1		235
1 April 2017	Authorisation of Essex Partnership University NHS Foundation Trust as newly formed entity. This follows the dissolution of North Essex Partnership University NHS Foundation Trust and South Essex Partnership University NHS Foundation Trust		+1	
			-2	234
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	233
1 November 2017	Dissolution of Mid Staffordshire NHS Foundation Trust *		-1	232
31 March 2018	<b>Number of providers at end of year</b>	<b>80</b>	<b>152</b>	<b>232</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.



# Review of financial performance

## Summary in numbers

	2017/18	2016/17
Number of NHS providers in existence during the year	235	239
Surplus/(deficit) before impairments and transfers	(£986 million)	(£816 million)
Surplus/(deficit) before impairments and transfers excluding Sustainability and Transformation Fund (STF) income	(£2,779 million)	(£2,628 million)
Number of NHS providers recording a deficit before impairments, transfers and consolidation of charitable funds	101	106
Sector cash balance at year end	£4,875 million	£4,167 million
Capital expenditure (purchases and new finance leases of property, plant and equipment and intangible assets, accruals basis)	£3,377 million	£3,112 million

## Commentary

The NHS provider sector has delivered a net deficit before impairments and losses on transfers by absorption for the year ended 31 March 2018 of £986 million (2016/17: £816 million net deficit) and held cash of £4.9 billion as at 31 March 2018 (31 March 2017: £4.2 billion). This includes the results of Mid Staffordshire NHS Foundation Trust, which was formally dissolved on 1 November 2017 after ceasing to provide healthcare services on 1 November 2014.

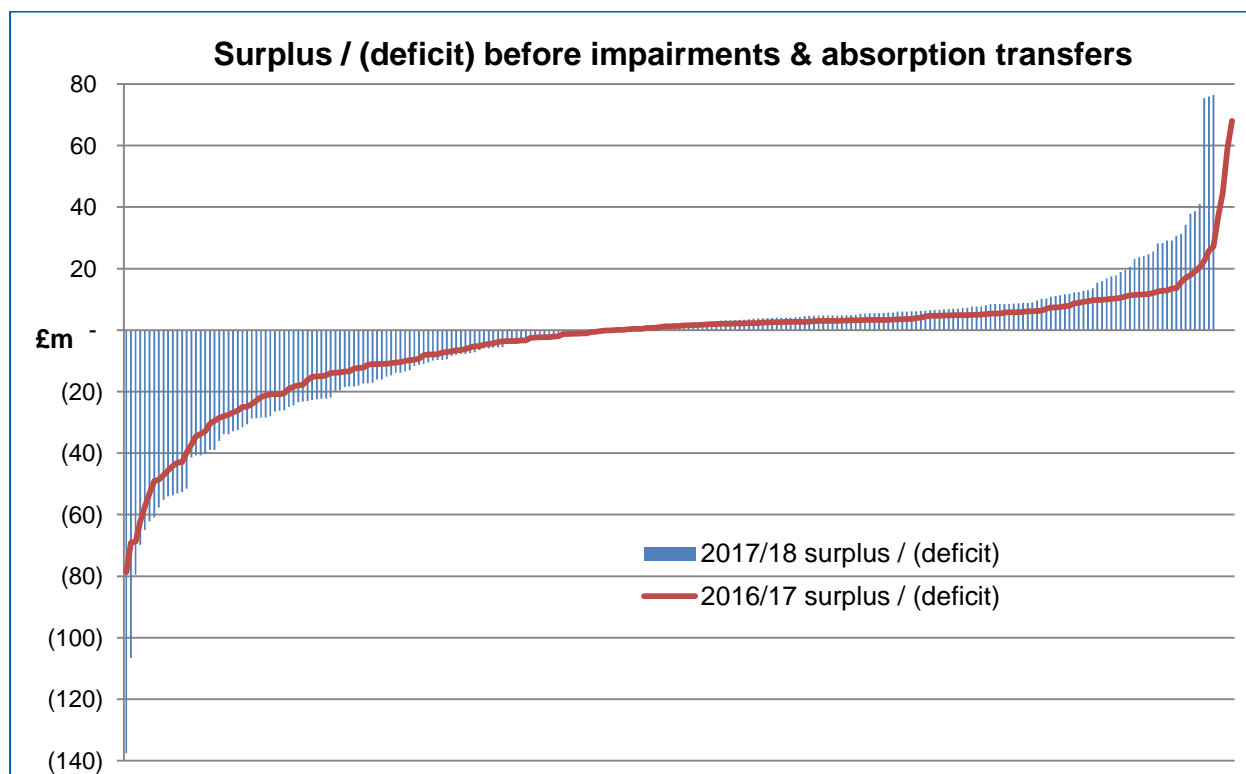
Where NHS charitable funds are locally deemed to be controlled by an NHS provider, the financial results of the charities are consolidated within these accounts. Fifty NHS providers consolidate charitable funds, contributing an aggregate surplus of £8 million (2016/17: £41 million) and net assets of £449 million (31 March 2017 £446 million).

The sector received £1.8 billion of income from the Sustainability and Transformation Fund (STF). The sector deficit before impairments and transfers, excluding STF income, was £2,779 million (2016/17: £2,628 million).

The following table shows the profile of NHS providers that made up the sector during 2017/18. Providers are classified by their principal services but they may also provide other services.

	Acute	Mental health	Ambulance	Specialist	Community	Charitable funds	Total
Number of NHS providers	137	53	10	17	18	n/a	<b>235</b>
% of sector turnover	75%	14%	3%	5%	3%	<0.1%	<b>100.0%</b>
% share of £1.8 billion STF income	73%	12%	2%	10%	3%	n/a	<b>100%</b>
Surplus/(deficit) before impairments and transfers (£m)	(1,658)	300	40	274	50	8	<b>(986)</b>
Number of providers reporting deficit before impairments and transfers	89	5	0	4	3	n/a	<b>101</b>

NHS providers are not required to break even every year. NHS trusts do have a duty to break even on a cumulative basis but there is no equivalent requirement for NHS foundation trusts. An in-year deficit may arise from the investment of previous surpluses or from financial conditions or operational pressures in that particular year. The results for the year showed that, excluding the consolidation of charitable funds, 134 (57%) (2016/17: 133 (56%)) NHS providers delivered a surplus or broke even and 101 providers reported a deficit before impairments and transfers by absorption, compared to 106 providers recording a deficit in 2016/17. The gross deficit of all providers in deficit rose from £1,840 million to £2,373 million in 2017/18. Of the 133 trusts that reported a surplus in 2016/17, 21 (16%) reported a deficit in 2017/18, while equally 21 (20%) of the trusts that reported a deficit in 2016/17 have recorded a surplus in 2017/18.

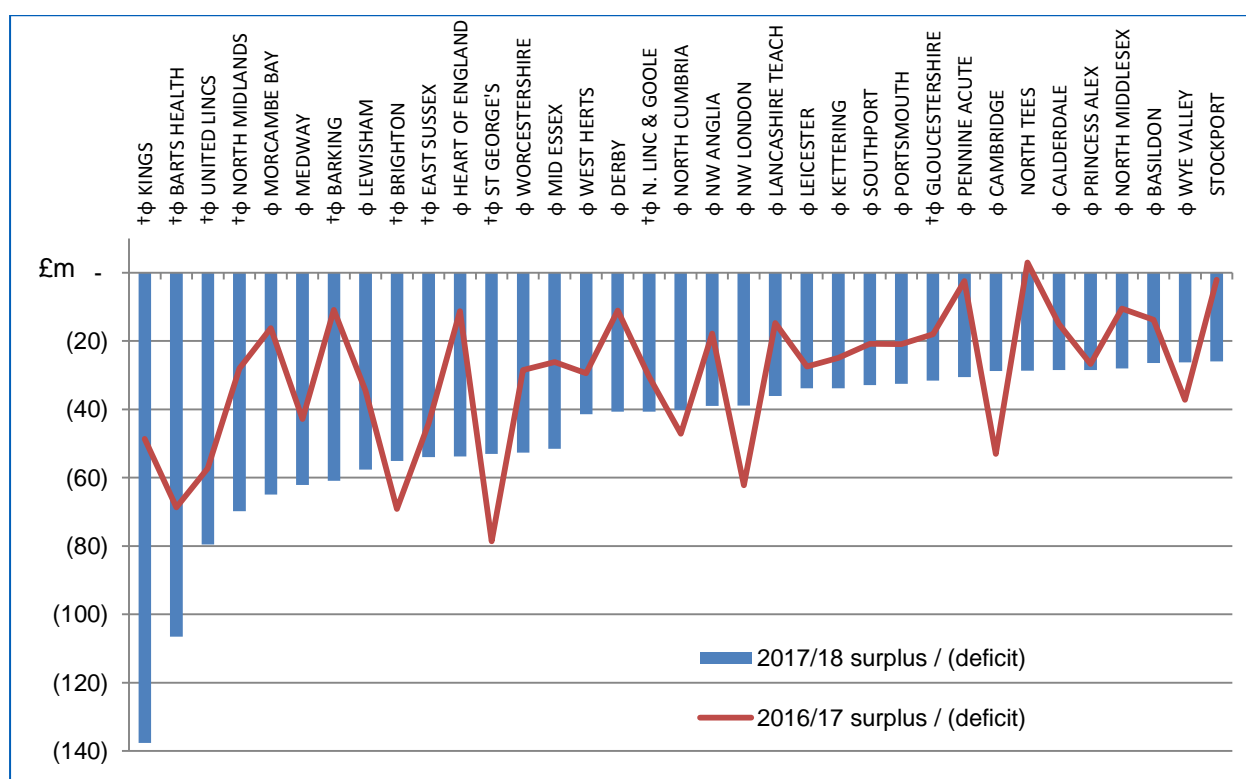


Of the 101 providers reporting deficits for 2017/18, 12 of the most financially challenged trusts are receiving intensive support in the special measures for finance programme as at 31 March 2018. The 12 trusts in the special measures programme make up 30% of the reported gross deficit value.

The largest individual deficits were at the following trusts:

- King's College Hospital NHS Foundation Trust (£137.6 million)
- Barts Health NHS Trust (£106.6.million)
- United Lincolnshire Hospitals NHS Trust (£79.6 million)
- University Hospitals of North Midlands NHS Trust (£69.9 million)
- University Hospitals of Morecambe Bay NHS Foundation Trust (£64.9 million)

The increase in deficit recorded by King's College Hospital NHS Foundation Trust accounts for more than 50% of the overall deterioration seen at the sector level compared to the previous year. The following graph details the trusts reporting a 2017/18 deficit in excess of £25 million before impairments and transfers.



† Receiving intensive support through the Financial Special Measures programme as at 31 March 2018

‡ In receipt of interim revenue support funding from the Department of Health and Social Care during 2017/18.

The Department of Health and Social Care (DHSC) provides cash support to NHS providers in financial difficulty to support the continued delivery of services on a finite basis. This interim support is normally intended to be a precursor to longer term planned investment to support the delivery of a sustainable recovery plan.

Ninety-four providers received interim cash revenue support from DHSC in 2017/18 (those with a deficit greater than £25 million are identified with  $\phi$  in the above graph). The total net interim revenue support received by all trusts from DHSC during 2017/18 to maintain the delivery of patient care was £2,631 million with an extra £319 million of interim funding to support necessary capital investment. The five providers with the biggest deficits received £589 million of the total interim DHSC support.

The financial statements of 82 (2016/17: 70<sup>2</sup>) providers received audit reports containing paragraphs highlighting material uncertainty in relation to going concern or an emphasis of matter relating to a demising organisation; 75 of which were trusts in deficit (2016/17: 63). This includes the audit report of Mid Staffordshire NHS Foundation Trust, which includes an emphasis of matter paragraph for the accounts not being prepared on a going concern basis. These trusts are listed in the consolidated annual governance statement and the accounting policies contain NHS Improvement's going concern assessment for these consolidated accounts.

All NHS provider financial statements have been prepared on a going concern basis (except Mid Staffordshire NHS Foundation Trust) and received unqualified true and fair audit opinions.

## **Oversight by NHS Improvement**

NHS Improvement's Single Oversight Framework (SOF) provides the framework for overseeing NHS trusts and NHS foundation trusts and identifying potential support needs.

NHS providers are segmented according to the level of support needed across five themes:

- Quality of care
- Finance and use of resources
- Operational performance
- Strategic change
- Leadership and improvement capability

Based on information from these themes, providers are segmented from 1 to 4, where '4' reflects providers receiving the most support, and '1' reflects providers with maximum autonomy.

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<sup>2</sup> Auditing standards changed for the 2017/18 financial year. The 2016/17 figures here refer to emphases of matter for going concern in audit reports. The terminology is comparable.

SOF at 31 March 2018					SOF at 31 March 2017				
	Number of NHS trusts	Number of NHS FTs	Total number of providers	% of sector	Number of NHS trusts	Number of NHS FTs	Total number of providers	% of sector	
<b>1</b>	5	33	<b>38</b>	16%	4	26	<b>30</b>	13%	
<b>2</b>	27	82	<b>109</b>	47%	27	86	<b>113</b>	48%	
<b>3</b>	35	29	<b>64</b>	28%	38	37	<b>75</b>	32%	
<b>4</b>	13	8	<b>21</b>	9%	12	5	<b>17</b>	7%	
<b>Total</b>	<b>80</b>	<b>152</b>	<b>232</b>		<b>81</b>	<b>154 *</b>	<b>235</b>		

\* This total differs from the number of NHS foundation trusts as at 31 March 2017 in the Foreword as Mid Staffordshire NHS Foundation Trust was no longer licensed to provide services and therefore not assigned a segment under the SOF.

Further information on SOF segmentation can be found in the consolidated annual governance statement within this report.

## Operating performance

### Operating income

In the year to 31 March 2018, 235 NHS providers generated total operating revenues of £80.6 billion, an increase of £2.1 billion (3%). The majority of this growth was in non-elective income for acute providers (£1.5 billion). Over-performance on non-elective activity is paid at less than full cost. Elective procedures which normally generate a surplus were displaced by the increased demand for urgent and emergency care, resulting in a small reduction in elective and outpatient income. Ambulance, specialist and mental health trusts all showed growth in income and community trusts a small fall. More than three quarters of all providers experienced growth in revenues during 2017/18.

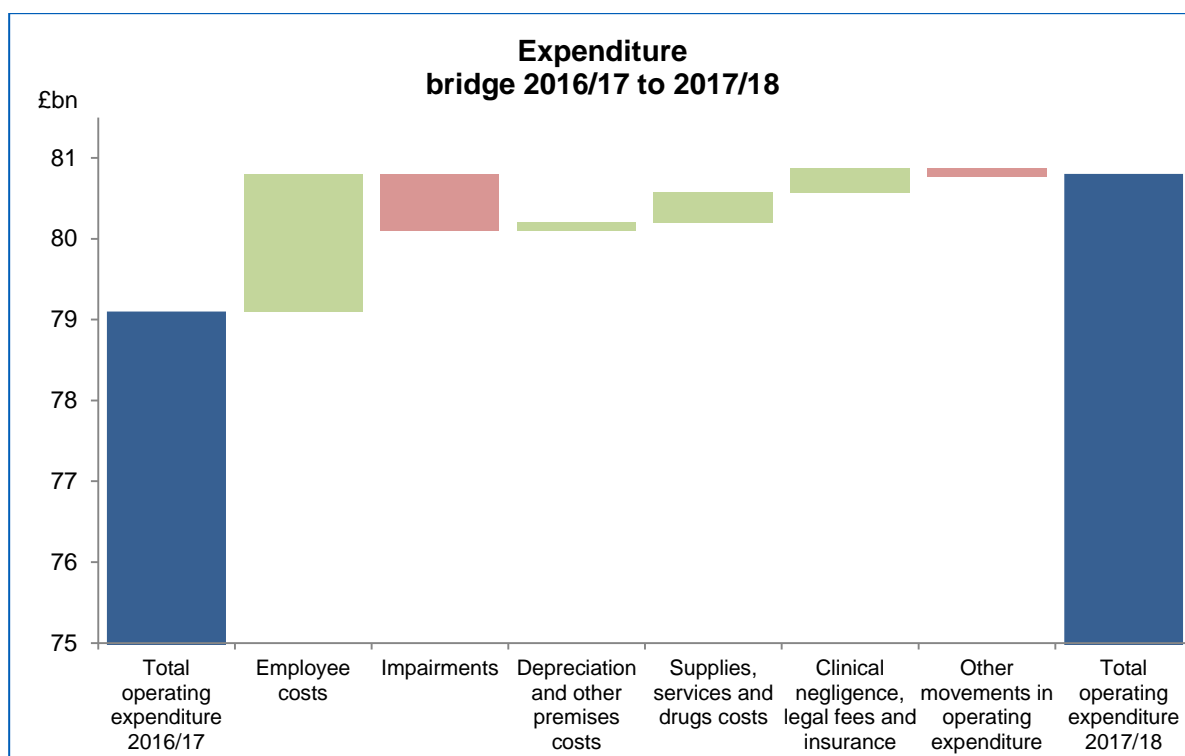
### Sustainability and Transformation Fund

The government's spending review in December 2015 included a £1.8 billion Sustainability and Transformation Fund (STF) to be distributed to providers for 2017/18. Access to STF income depended on NHS providers accepting and achieving a financial control total, 94 of which were set below break-even (after STF). Of the 212 providers that accepted control totals in 2017/18:

- 151 providers met or exceeded their full year control total and received their full entitlement of STF income
- 47 providers received part of their initial STF allocation and
- a further 14 providers did not meet their control total at any point in the year but benefited from a general distribution of the fund.

## Operating expenditure

Total operating expenditure increased by 2% from £79.1 billion to £80.8 billion in 2017/18. Before impairments, the increase in other operating expenditure is £2.4 billion (3.1%), exceeding the growth in income.



Almost 65% (£52.1 billion) of operating expenditure relates to staff costs including spend on temporary agency staff. Spend on agency staff has continued to fall in 2017/18 following control measures introduced by NHS Improvement in 2015/16. However total employee expenses have risen by 3.3% (1.2% in real terms) reflecting the deployment of additional front line staffing to meet patient needs, including increased use of bank staff in place of agency staff. Recruiting to substantive vacancies remains an area of focus for the provider sector and NHS Improvement.

Other cost areas have also been under pressure from rising demand across the provider sector and failure to deliver national targets. The second largest area of cost pressure for providers was drugs and other supplies and services which have increased in cost by £374 million to £14.9 billion in 2017/18 due to continuing increases in demand.

## Impact of impairments

Impairments to the carrying value of assets are charged to operating surplus except where previous revaluation surpluses remain, and a reduction is recognised in the revaluation reserve to the extent of the remaining surplus. Where the impairments are the result of a permanent loss, such as fire damage, they are always charged to expenditure. In 2017/18 net impairments charged to income and expenditure were £606 million (2016/17: £1,308 million). A further £398 million of net impairments was charged to reserves (2016/17: £1,045 million).

million), reducing previously recognised revaluation surpluses. There were 120 NHS providers that recorded a net impairment within surplus/deficit in 2017/18 (2016/17: 157) while 77 providers recorded net impairment reversals (2016/17: 40).

Of the £606 million of net impairments charged to income and expenditure, 52% arose from changes in market price, compared to 64% in 2016/17. These impairments reflect market conditions at the time of valuation.

Further details of impairments are provided in note 8 to the accounts.

## **Net finance costs**

Overall net finance costs remained fairly static in 2017/18 increasing by only 0.7% to £1,684 million. However, this includes increases in interest on loans from the Department of Health and Social care of £55 million and in contingent finance costs on private finance initiative (PFI) schemes of £29 million. These increases are offset by a reduction in Public Dividend Capital (PDC) dividend of £68 million. PDC dividend is calculated based on average net relevant assets so this decrease results directly from a decrease in the value of the asset base for the provider sector.

## **Cash balances and borrowings**

At 31 March 2018, NHS providers held cash and cash equivalents of £4.9 billion (31 March 2017: £4.2 billion). While this is an increase of £0.7 billion, the cash balance is equivalent to just 2.4 weeks' operating costs in a sector with annual revenue of £80.6 billion (2016/17: 2.0 weeks).

Of the total cash balance at the year end, £4.5 billion was held with the Government Banking Service, £80 million with the National Loans Fund and £164 million held elsewhere. Of the total cash figure, £151 million was held by NHS charitable funds and is not available to support the operating costs in providers.

The number of receivables days has increased from the previous year at 27.1 days (2016/17: 24.6 days), reflecting an increase in amounts unpaid by commissioners at the year end. Payable days have also increased to 34.2 days in 2017/18 from 33.5 days in 2016/17.

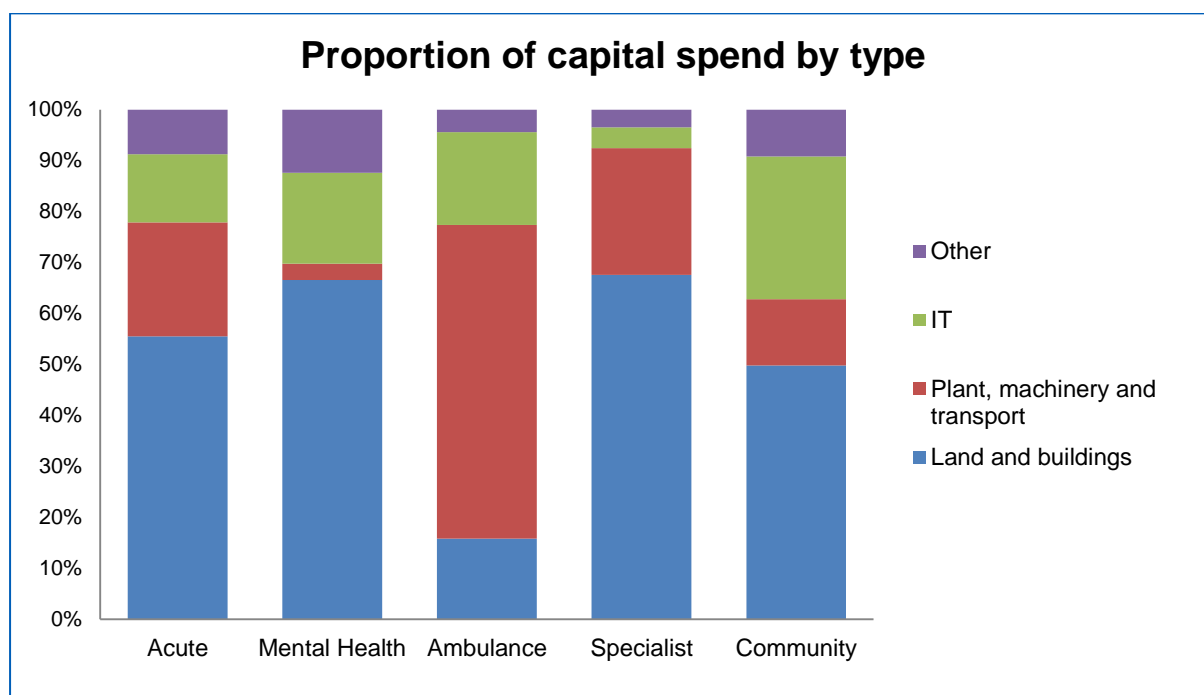
Total long-term and working capital borrowing at 31 March 2018 was £20.7 billion (31 March 2017: £18.0 billion). Of this, £11.0 billion is loan funding from the Department of Health and Social Care (31 March 2017: £8.1 billion) which has, for the first time, become the largest source of provider borrowings ahead of PFI liabilities which stand at £9.2 billion (31 March 2017: £9.4 billion).



## Capital expenditure

Total purchases and new finance leases of property, plant and equipment (PPE) and intangible assets were £3.4 billion (2016/17: £3.1 billion). The majority of capital spend was on land and buildings (57%), with a further 22% on plant, equipment and transport, 13% on information technology, and 8% on other capital. Financial pressures continue to affect providers' ability to achieve capital investment plans.

A number of trusts saw major capital developments in the year, including transfer of ownership of the new Royal Papworth Hospital, a PFI-funded heart and lung hospital in Cambridge. Royal Free NHS Foundation Trust continued its redevelopment of the Chase Farm Hospital site with the new Chase Farm Hospital due to open later this year while Brighton and Sussex NHS Trust continued its major redevelopment of the Royal Sussex County Hospital.



NHS providers continue to invest in their estates at levels significantly in excess of depreciation charges in year. On average capital expenditure was 155% of the depreciation charged.

## Events after the reporting period

As at 31 March 2018 there were 232 NHS providers. On 1 April 2018 University Hospitals Birmingham NHS Foundation Trust acquired Heart of England NHS Foundation Trust. On the same day, the remaining services, assets and liabilities of Liverpool Community Healthcare NHS Trust transferred to Mersey Care NHS Foundation Trust and the divesting trust was dissolved.

South Staffordshire and Shropshire Healthcare NHS Foundation Trust acquired Staffordshire and Stoke Partnership NHS Trust on 1 June 2018. On the same day the enlarged foundation trust was renamed Midlands Partnership NHS Foundation Trust.

Derby Teaching Hospitals NHS Foundation Trust acquired Burton Hospitals NHS Foundation Trust on 1 July 2018. The enlarged trust is now known as University Hospitals of Derby and Burton NHS Foundation Trust. Also on 1 July, Colchester Hospital NHS Foundation Trust acquired Ipswich Hospital NHS Trust and the enlarged trust was renamed East Suffolk and North Essex NHS Foundation Trust.

As at the date of authorisation of these accounts, there are 227 NHS providers.

## Understanding the sector position

An overall commentary on the performance of the provider sector is provided in NHS Improvement's report [Quarterly performance of the NHS provider sector: quarter 4 2017/18](#)<sup>3</sup>. The in-year financial performance of the sector can be reconciled to these accounts as follows:

	£m
<b>Reported adjusted financial position surplus / (deficit) at draft accounts (page 19 of quarterly performance report) *</b>	<b>(985)</b>
Quarterly performance report: technical adjustment for potential movement between draft and final accounts	13
Adjustment for 'on-statement of financial position' pension schemes (treated on a cash basis in adjusted financial position but an IAS 19 basis in accounts)	(4)
Impact of consolidating locally-controlled NHS charities	8
Local audit adjustments between draft and final accounts (excluding local recognition of Sustainability and Transformation Fund per * )	(6)
Adjustment for 2017/18 impact of expert determination affecting Barking, Havering and Redbridge University Hospitals NHS Trust **	(12)
<b>Consolidated accounts basis: surplus / (deficit) before impairments and transfers, including consolidated charities – audited accounts (per Statement of Comprehensive Income)</b>	<b>(986)</b>

\* The quarterly performance report included £9.7 million of Sustainability and Transformation Fund that was not allocated to individual providers in draft accounts, but was recognised in local accounts at the final accounts stage. This is not considered to be a local audit adjustment in this table.

\*\* This independent expert determination concluded in late June 2018, after the approval of the Barking, Havering and Redbridge University Hospitals NHS Trust accounts.

<sup>3</sup> <https://improvement.nhs.uk/resources/quarterly-performance-nhs-provider-sector-quarter-4-201718/>

## Wider context

During the year the NHS provider sector has demonstrated tremendous resilience in responding to major national events including a national cyber-attack, multiple terrorist attacks in Manchester and London and the Grenfell Tower fire. The year also saw one of the most challenging winter periods the NHS has seen in its 70 years with record demand for urgent and emergency care.

Despite the intense operational pressure, NHS staff saw more patients over the winter period within the 4 hour standard than in winter 2016/17. This increased demand for emergency care adversely impacted providers' ability to perform elective work due to a shortage in available beds as they prioritised emergency activity. The additional costs of meeting the winter pressures was partially offset by £337 million of additional funding for the NHS announced in the autumn budget but for many providers this was insufficient and too late to address static bed supplies and levels of postponed elective activity continued to rise.

The decline in the financial performance of a small number of providers, principally acute trusts, accounts for most of the movement at the sector level. This shrouds the significant achievements by many providers in managing rising demand within the workforce and financial constraints, which is demonstrated by 150 providers meeting or exceeding their financial control total (71% of those that accepted).

NHS Improvement will continue to support providers to deliver improvements. We are working with providers to reduce variation and improve productivity, building on the recommendations made by Lord Carter. We continue to monitor the efficiency challenge and support providers in moving away from the reliance on non-recurrent savings and identify savings that are long term and cash releasing. The second wave of NHS Improvement's Financial Improvement Programme is helping to improve providers' 2018/19 savings plans and the most financially challenged continue to receive support through the financial special measures programme.

But the challenge is not one that can be met by providers and NHS Improvement alone. NHS Improvement and NHS England have already begun working together both regionally and nationally to support the work of sustainability and transformation partnerships and integrated care systems. In March 2018, plans were announced to formally bring the organisations closer together to work more effectively with commissioners and providers in local health systems and break down the boundaries to integration and transformation.

Ian Dalton CBE  
Chief Executive  
3 July 2018

# Statement of accounting officer's responsibilities and accountability framework

As the Chief Executive of Monitor and the NHS TDA, the legal entities which constitute NHS Improvement, I am designated as the Accounting Officer for these entities. In this capacity I am responsible for ensuring that NHS Improvement prepares consolidated NHS provider accounts to send to the Secretary of State and the Comptroller and Auditor General, in line with the directions issued to Monitor and the NHS TDA. I am not the accountable/ accounting officer for each individual NHS trust / NHS foundation trust; this is the role of each local chief executive. An NHS trust's chief executive is designated as the accountable officer when their appointment is confirmed by NHS Improvement. NHS foundation trust chief executives are designated as the accounting officer by the NHS Act 2006.

## NHS trusts

The Secretary of State is responsible for determining, with HM Treasury's approval, the form of accounts each NHS trust must adopt. This is described within the [Department of Health and Social Care's Group Accounting Manual](#)<sup>4</sup> (GAM), which is based on HM Treasury's Financial reporting manual (FReM). NHS Improvement [has set out](#)<sup>5</sup> the responsibilities of each NHS trust accountable officer to ensure:

- there are effective management systems in place to safeguard public funds and assets
- the trust achieves value for money from the resources available to it
- the trust's expenditure and income has been applied to the purposes intended by Parliament and conform to the authorities which govern them;
- effective and sound financial management systems are in place.

NHS Improvement has set out the responsibilities of NHS trust directors 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.

## NHS foundation trusts

NHS Improvement is responsible for determining, with the Secretary of State's approval, the form of accounts each NHS foundation trust must adopt. This is described within the [NHS](#)

<sup>4</sup> <https://www.gov.uk/government/publications/department-of-health-group-accounting-manual-2017-to-2018>

<sup>5</sup> [https://improvement.nhs.uk/documents/2498/NHS\\_trusts\\_-\\_AGS\\_and\\_year\\_end\\_requirements.pdf](https://improvement.nhs.uk/documents/2498/NHS_trusts_-_AGS_and_year_end_requirements.pdf)

[foundation trust annual reporting manual](#)<sup>6</sup> (FT ARM), which is based on the 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).

## Consolidated NHS provider accounts

In discharging its responsibilities in accordance with the directions to the NHS TDA and Monitor issued by the Secretary of State, NHS Improvement has prepared consolidated NHS provider accounts on a basis consistent with the individual NHS providers' accounts and consolidated in accordance with International Financial Reporting Standards (IFRS), as amended for NHS providers by the FReM, the FT ARM and the GAM.

The Secretary of State's directions require NHS Improvement to prepare these consolidated NHS provider accounts so as to:

- give a true and fair view of the state of affairs of NHS trusts and foundation trusts collectively 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.

As far as I am aware, there is no relevant audit information of which the auditors of the consolidated NHS provider accounts are unaware. As Accounting Officer I have taken all the steps I ought to have taken to make myself aware of any relevant audit information and to establish that the auditors are aware of this information.

Ian Dalton CBE  
Chief Executive  
3 July 2018

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<sup>6</sup> <https://improvement.nhs.uk/resources/nhs-foundation-trust-annual-reporting-manual-201718/>

# Annual governance statement

This annual governance statement (AGS) for the NHS provider sector has been prepared in the context of the accountability framework set out above. It has been prepared as a consolidation of the sector position based on reference to:

- (i) NHS Improvement's segmentation of providers under the Single Oversight Framework (SOF)
- (ii) disclosures in local annual governance statements and
- (iii) the audit reports issued by local external auditors.

## Scope of responsibility

NHS Improvement's Board (which is the board of both Monitor and the NHS TDA) is not accountable for the internal control and systems of NHS providers; this is the responsibility of each NHS provider's board.

### **NHS trusts**

As accountable officer, each NHS trust's chief executive is accountable to NHS Improvement and is responsible for maintaining a sound system of internal control that supports the achievement of the trust's policies, aims and objectives. In addition, the chief executive, as accountable officer, has responsibility for safeguarding public funds and the organisation's assets as set out in the NHS trust accountable officer memorandum.

### **NHS foundation trusts**

As accounting officer, each NHS foundation trust's chief executive has responsibility to Parliament for maintaining a sound system of internal control that supports the achievement of the trust's policies, aims and objectives. In addition, the chief executive, as accounting officer, has responsibility for safeguarding public funds and the organisation's assets as set out in the NHS foundation trust accounting officer memorandum.

## Purpose of the system of internal control

NHS Improvement's system of internal control is designed to support the achievement of its policies, aims and objectives and ensure compliance with legal and other obligations on its constituent bodies (Monitor and the NHS TDA) and NHS trusts and foundation trusts. As part of this system, NHS Improvement has the following processes to ensure these accounts provide a 'true and fair' view of the affairs of NHS providers:

- contributing to the development of guidance to NHS trusts and NHS foundation trusts through the Department of Health and Social Care's Group Accounting Manual (GAM); this has been approved by HM Treasury
- providing guidance to foundation trusts through the NHS foundation trust annual reporting manual (FT ARM); this has been approved by the Secretary of State
- relying on the external auditors appointed by each NHS trust / each NHS foundation trust's council of governors to ensure the truth and fairness of each set of accounts consolidated into these accounts; these auditors have each undertaken an audit in accordance with the [Code of audit practice](#)<sup>7</sup> (audit code), issued by the Comptroller and Auditor General, supported by the National Audit Office (NAO)
- appointing the Quality Assurance Directorate of the Institute of Chartered Accountants in England and Wales to review of the quality of the work of NHS foundation trust auditors and consider their findings
- attending the NAO's Local Auditors' Advisory Group and associated technical networks, to which senior representatives from each of the audit suppliers appointed as auditors of NHS providers are invited; the forum members discuss technical audit and accounting issues in the public sector, including those concerning NHS bodies
- consideration by NHS Improvement's management and by its Audit and Risk Assurance Committee of the consolidated accounts and the processes established to derive them and
- appointing the Comptroller and Audit General to audit these consolidated NHS provider accounts.

Each NHS provider's annual report and accounts includes an AGS for the year ended 31 March 2018. Each individual AGS explains how the accountable/accounting officer has reviewed the effectiveness of internal control during the period and highlights any significant control issues where the risk cannot be effectively controlled.

## Overview of internal control systems at NHS trusts and NHS foundation trusts

### Single Oversight Framework

NHS Improvement's Single Oversight Framework (SOF) provides the framework for overseeing NHS trusts and NHS foundation trusts and identifying potential support needs.

NHS providers are segmented according to the level of support needed across five themes:

- Quality of care
- Finance and use of resources

<sup>7</sup> <https://www.nao.org.uk/code-audit-practice/>



- Operational performance
- Strategic change
- Leadership and improvement capability

The segmentation for providers is shown in the table below. Each NHS provider is segmented into one of the following four categories:

- Segment 1: providers with maximum autonomy with no potential support needs identified
- Segment 2: providers that have been offered targeted support, with concerns in relation to one or more themes
- Segment 3: providers receiving mandated support for significant concerns
- Segment 4: providers in special measures, with very serious and/or complex issues.

An NHS foundation trust will be in segment 3 or 4 only where it has been found to be in breach or suspected breach of its licence conditions. For NHS trusts this means conditions equivalent to those that are applicable to NHS foundation trusts.

While NHS trusts are exempt from the requirement to apply for and hold the licence, directions from the Secretary of State require the NHS TDA to ensure that NHS trusts comply with conditions equivalent to the licence as it deems appropriate. This includes giving directions to an NHS trust where necessary to ensure compliance. We aim to treat all providers in comparable circumstances similarly unless there is sound reason not to. Using the SOF, we therefore base our oversight of all NHS trusts and NHS foundation trusts on the conditions of the NHS provider licence.

Segmentation of NHS providers is updated regularly rather than published quarterly. The table below summarises NHS providers' segmentation as at 31 March 2018 and 31 March 2017. The latest information is available at <https://improvement.nhs.uk/resources/single-oversight-framework-segmentation/>.

SOF at 31 March 2018					SOF at 31 March 2017				
	Number of NHS trusts	Number of NHS FTs	Total number of providers	% of sector	Number of NHS trusts	Number of NHS FTs	Total number of providers	% of sector	
<b>1</b>	5	33	<b>38</b>	16%	4	26	<b>30</b>	13%	
<b>2</b>	27	82	<b>109</b>	47%	27	86	<b>113</b>	48%	
<b>3</b>	35	29	<b>64</b>	28%	38	37	<b>75</b>	32%	
<b>4</b>	13	8	<b>21</b>	9%	12	5	<b>17</b>	7%	
<b>Total</b>	<b>80</b>	<b>152</b>	<b>232</b>		<b>81</b>	<b>154 *</b>	<b>235</b>		

\* This total differs from the number of NHS foundation trusts as at 31 March 2017 in the Foreword as Mid Staffordshire NHS Foundation Trust was no longer licensed to provide services and therefore not assigned a segment under the SOF.

### **NHS trusts in segments 3 or 4**

Where NHS Improvement identifies a significant concern that requires mandated support to the trust, and NHS Improvement has found a breach, or suspected breach, of the applicable licence conditions the trust will be placed in segment 3 or 4. For NHS trusts placed in segment 3 or 4 at the date the SOF was implemented, we are in the process of agreeing formal undertakings – in a manner akin to the arrangements at NHS foundation trusts.

Where an NHS trust is in breach of its applicable conditions (or where there are reasonable grounds for suspecting a breach), and NHS Improvement considers that mandated support may be appropriate, NHS Improvement considers the use of the NHS TDA's powers under the 2006 Act. Those powers include the power to accept enforcement undertakings or to give directions to the trust, to secure compliance and ensure the breach does not recur.

Where the Care Quality Commission (CQC) has recommended NHS Improvement take action following the identification of failings in the quality of patient care, NHS Improvement may also place an NHS trust in special measures for quality reasons. Under special measures, trusts are given support to improve levels of patient care, including partnering with a high performing provider and appointing an improvement director.

NHS trusts may also be put into special measures for financial reasons where specialist teams, led by an improvement director, oversee intensive, accelerated action to bring about financial improvement, including support from peer providers where appropriate.

A trust subject to special measures, whether for quality or financial reasons, is placed in segment 4.

In exceptional circumstances an NHS trust may be placed into trust special administration. Administration is a regime for ensuring the continuity of essential services in the event of provider financial distress.

### **NHS foundation trusts in segments 3 or 4**

Where NHS Improvement identifies a significant concern that requires mandated support to the trust, and NHS Improvement has found a breach, or suspected breach, of the applicable licence conditions the trust will be placed in segment 3 or 4.

Where an NHS foundation trust is in breach of its licence conditions (or where there are reasonable grounds for suspecting a breach) and NHS Improvement considers that mandated support may be appropriate, NHS Improvement considers the use of Monitor's statutory enforcement powers under the 2012 Act. NHS Improvement may apply a range of enforcement powers including accepting enforcement undertakings, imposing discretionary requirements and imposing additional licence conditions to secure compliance and ensure breach does not recur. More information on NHS Improvement's formal powers of

enforcement and general approach to deciding on regulatory action can be found in the [Enforcement guidance](#)<sup>8</sup> available on NHS Improvement's website.

Where the CQC has recommended NHS Improvement take action following the identification of failings in the quality of patient care, NHS Improvement may also place a foundation trust in special measures for quality. Under special measures, trusts are given support to improve levels of patient care, including partnering with a high performing foundation trust and appointing an improvement director.

Foundation trusts may also be put into financial special measures where specialist teams, led by an improvement director, oversee intensive, accelerated action to bring about financial improvement, including support from peer providers where appropriate.

A trust subject to special measures, whether for quality or financial reasons, is placed in segment 4.

The 2012 Act also extends the provisions for trust special administration to foundation trusts. Administration is a regime for ensuring the continuity of essential services in the event of provider financial distress.

## NHS trusts' and NHS foundation trusts' significant internal control weaknesses

### Sources of information

In the information that follows, NHS Improvement has collated a number of sources of information to disclose the position for NHS providers.

#### *SOF segment 3 or 4*

Where an NHS provider is in SOF segment 3 or 4 and is receiving mandated support, the support offered to the provider will be defined in terms of the SOF themes.

NHS Improvement placing an NHS provider into segment 3 or 4 and mandating support would normally indicate the existence of control weaknesses or failings in the trust's control environment.

#### *Other significant control issues*

NHS providers may also declare other matters as significant control issues. NHS Improvement's FT ARM for NHS foundation trusts and AGS guidance for NHS trusts does not direct providers on which internal control matters should be defined as 'significant'; this is a matter for each trust's board. The table that follows includes all cases where trusts have

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<sup>8</sup> <https://improvement.nhs.uk/resources/enforcement-guidance/>

disclosed one or more significant control weaknesses in their annual governance statement. It should be noted that some trusts consider all healthcare target breaches to be significant control issues, but not all do.

#### *External auditor's conclusion on use of resources*

In addition to the 'true and fair' audit opinion on the accounts, external auditors of NHS trusts and NHS foundation trusts are required to conclude whether the trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. Auditors will modify this conclusion where they are unable to satisfy themselves that the trust has made these proper arrangements. Such a modification does not imply that the 'true and fair' audit opinion on the provider's accounts is qualified.

These modified/qualified conclusions are listed in the table that follows. In each case we summarise if this qualification relates to the same matters as the reason for SOF segmentation as 3 or 4 by NHS Improvement.

#### *Financial standing: audit opinion material uncertainty on going concern*

All NHS trusts and NHS foundation trusts received unqualified true and fair audit opinions but auditors at 78 providers included a 'material uncertainty' paragraph within the audit report relating to going concern or financial standing. This means that the auditor felt it necessary to draw the reader's attention to a disclosure about going concern or financial standing being made by the trust. This is not a modification or qualification of the audit opinion. Further details are in the accounting policies for the consolidated NHS provider accounts in Note 1.24. A further 4 trust auditors included an 'emphasis of matter' relating to the organisation demising with services transferring to other trusts.

#### *Financial standing: interim cash revenue support from the Department of Health and Social Care*

94 NHS trusts and NHS foundation trusts have required interim cash revenue support from DHSC in 2017/18 to support the continued provision of services to patients. These are also listed in the table that follows.

### **Defining a significant internal control issue for this document**

Our starting point for this consolidated annual governance statement is where a trust has locally assessed and disclosed a significant internal control issue in its own annual governance statement. In addition, regardless of whether these have been reported locally, we also deem the following to be evidence of significant internal control weaknesses:

- SOF segmentation of 3 or 4 by NHS Improvement during the year
- the external auditor qualifying or otherwise modifying their use of resources conclusion.

In addition in the table that follows we also disclose, for added context:

- audit reports including a material uncertainty on going concern
- trusts in receipt of interim cash revenue support from DHSC during the year.

While these two columns provide additional information on trusts' financial standing, we do not consider entries here in isolation to necessarily represent a significant internal control weakness.

## Summary of results

The table below provides a summary of the detail that follows:

	2017/18		2016/17	
	NHS trusts	NHS FTs	NHS trusts	NHS FTs
Number of providers receiving mandated support from NHS Improvement (SOF segment 3 or 4) during the year	50	47	n/a as SOF applied from halfway through year	
Total number of modified conclusions relating to arrangements for securing economy, efficiency and effectiveness in the provider's use of resources	42	50	49	49
Number of providers where audit opinion contains material uncertainty on going concern <sup>9</sup> / emphasis of matter for demising organisation	39	43	36	34
Number of providers in receipt of DHSC interim cash revenue support	51	43	57	39
Number of providers where 'true and fair' audit opinion has been modified (qualified)	0	0	0	0

## List of providers with matters to report

The table below lists NHS trusts and NHS foundation trusts where one or more of the columns is a 'yes'. It therefore does not list all NHS providers.

Column (3) lists significant internal control issues disclosed in local annual governance statements, excluding matters relating to the same issues as NHS Improvement's mandated support. Therefore the absence of a tick in this column does not necessarily mean that the provider disclosed no significant internal control issues in its local AGS.

<sup>9</sup> Auditing standards changed for the 2017/18 financial year. The 2016/17 figures here refer to emphases of matter for going concern in audit reports. The terminology is comparable.

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
Aintree University Hospitals NHS Foundation Trust					✓ CQC inspection	✓	
Ashford and St Peter's Hospitals NHS Foundation Trust			✓ Target breaches				
Avon and Wiltshire Mental Health Partnership NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Barking, Havering and Redbridge University Hospitals NHS Trust	Yes (Operational performance, quality, finance)	✓	✓	✓		✓	✓
Barnet, Enfield And Haringey Mental Health NHS Trust	Yes (Operational performance, quality, finance)						✓
Barnsley Hospital NHS Foundation Trust	Yes (Operational performance, quality, finance)					✓	✓
Barts Health NHS Trust	Yes (Operational performance, quality, finance)	✓	✓	✓ Impact of cyber attack and disaster recovery	✓	✓	✓
Basildon & Thurrock University Hospitals NHS Foundation Trust	Yes (Operational performance, finance)			✓		✓	✓
Bedford Hospital NHS Trust					✓ Finance, CQC inspection	✓	✓
Black Country Partnership NHS Foundation Trust			✓ Finance		✓ Finance	✓	

	Provider subject to mandated support from NHS Improvement			Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year		(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance	Quality					
Blackpool Teaching Hospitals NHS Foundation Trust							✓	
Bolton NHS Foundation Trust				✓ Target breaches, never events, governance with subsidiary				
Bradford District Care NHS Foundation Trust				✓ CQC findings				
Bridgewater Community Healthcare NHS Foundation Trust				✓ CQC findings		✓ Finance, CQC inspection	✓	✓
Brighton and Sussex University Hospitals NHS Trust	Yes (Operational performance, quality, finance)	✓	✓		✓		✓	✓
Buckinghamshire Healthcare NHS Trust								✓
Burton Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)						✓	✓
Calderdale & Huddersfield NHS Foundation Trust	Yes (Operational performance, quality, finance)				✓		✓	✓
Cambridge University Hospitals NHS Foundation Trust	Yes (Operational performance, finance)			✓ Capacity, capital funding	✓		✓	✓
Colchester Hospital University NHS Foundation Trust	Yes (Operational performance, quality, finance)		✓	✓ Impact of cyber attack, GDPR readiness	✓			✓



	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
Countess of Chester Hospital NHS Foundation Trust							✓
Croydon Health Services NHS Trust	Yes (Operational performance, quality, finance)		✓ Cyber security, workforce vacancies	✓		✓	✓
Cumbria Partnership NHS Foundation Trust			✓ Procurement				✓
Dartford and Gravesham NHS Trust			✓ Target breaches, finance, bed occupancy, never events, CQC findings, mixed sex breaches		✓ Finance	✓	✓
Derby Teaching Hospitals NHS Foundation Trust	Yes (Operational performance, finance)			✓		✓	✓
Derbyshire Healthcare NHS Foundation Trust	Yes (Quality, leadership and improvement capability)						
Doncaster & Bassetlaw Teaching Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Dorset County Hospital NHS Foundation Trust					✓ Finance		
East And North Hertfordshire NHS Trust	Yes (Operational performance, quality, finance)			✓			✓

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
East Cheshire NHS Trust	Yes (Operational performance, quality, finance)		✓ Organisational form	✓		✓	✓
East Kent Hospitals University NHS Foundation Trust	Yes (Operational performance, quality, finance)	✓		✓			✓
East Lancashire Hospitals NHS Trust						✓	
East Midlands Ambulance Service NHS Trust	Yes (Operational performance, quality, finance)						
East of England Ambulance Service NHS Trust	Yes (Operational performance, quality, finance)						
East Sussex Healthcare NHS Trust	Yes (Operational performance, quality, finance)	✓	✓	✓		✓	✓
Epsom and St Helier University Hospitals NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
George Eliot Hospital NHS Trust	Yes (Operational performance, finance)			✓		✓	✓
Gloucestershire Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)	✓		✓			✓

Provider name	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year Finance    Quality		(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
Great Ormond Street Hospital for Children NHS Foundation Trust			✓ Workforce planning, divisional governance, nursing recruitment				
Great Western Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Guy's & St Thomas' NHS Foundation Trust			✓ Target breaches				
Heart of England NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓			✓
Hull And East Yorkshire Hospitals NHS Trust	Yes (Operational performance, quality, finance)					✓	✓
Imperial College Healthcare NHS Trust	Yes (Operational performance, quality, finance)		✓ Workforce recruitment, estates issues	✓		✓	
Ipswich Hospital NHS Trust			✓ Finance		✓ Finance	✓	✓
Isle of Wight NHS Trust	Yes (Operational performance, quality, finance)	✓		✓		✓	✓
James Paget University Hospitals NHS Foundation Trust			✓ Internal audit findings				
Kent and Medway NHS and Social Care Partnership Trust			✓ Information governance				

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
Kent Community Health NHS Foundation Trust			✓ Workforce recruitment				
Kettering General Hospital NHS Foundation Trust	Yes (Operational performance, quality, finance)		✓	✓		✓	✓
King's College Hospital NHS Foundation Trust	Yes (Operational performance, quality, finance)	✓	✓ See detail in Trust AGS	✓ See detail in local audit report		✓	✓
Kingston Hospital NHS Foundation Trust							✓
Lancashire Teaching Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Leeds Teaching Hospitals NHS Trust							✓
Leicestershire Partnership NHS Trust			✓ CQC findings, Serious Incidents, information governance, internal audit findings				
Lewisham and Greenwich NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Liverpool Community Health NHS Trust	Yes (Operational performance, quality, finance)					✓	
Liverpool Women's NHS Foundation Trust	Yes (Operational performance, finance)			✓		✓	✓

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance	Quality				
London Ambulance Service NHS Trust	Yes (Quality)		✓				
London North West University Healthcare NHS Trust	Yes (Operational performance, quality, finance)			✓ Management of development project	✓	✓	✓
Maidstone And Tunbridge Wells NHS Trust	Yes (Operational performance, quality, finance)	✓			✓		✓
Medway NHS Foundation Trust	Yes (Operational performance, quality, finance)				✓	✓	✓
Mid Cheshire Hospitals NHS Foundation Trust							✓
Mid Essex Hospital Services NHS Trust	Yes (Operational performance, finance)				✓	✓	✓
Mid Staffordshire NHS Foundation Trust						✓	
Mid Yorkshire Hospitals NHS Trust	Yes (Operational performance, quality, finance)				✓	✓	✓
Milton Keynes University Hospital NHS Foundation Trust	Yes (Operational performance, finance)			✓ Data quality	✓	✓	✓
Norfolk and Norwich University Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)				✓	✓	✓
Norfolk and Suffolk NHS Foundation Trust	Yes (Operational performance, quality, finance)		✓		✓		

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
Norfolk Community Health and Care NHS Trust			✓ Cyber security and disaster recovery, CIP planning				
North Bristol NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
North Cumbria University Hospitals NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
North Middlesex University Hospital NHS Trust	Yes (Operational performance, quality, finance)		✓ Doctor training	✓		✓	✓
North Tees and Hartlepool NHS Foundation Trust					✓ Finance	✓	
North West Anglia NHS Foundation Trust	Yes (Operational performance, finance)			✓		✓	✓
Northampton General Hospital NHS Trust	Yes (Operational performance, finance)			✓			✓
Northern Devon Healthcare NHS Trust							✓
Northern Lincolnshire and Goole Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)	✓    ✓		✓		✓	✓
Nottingham University Hospitals NHS Trust	Yes (Operational performance, finance)			✓			✓

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
Oxford University Hospitals NHS Foundation Trust	Yes (Operational performance, finance)						
Papworth Hospital NHS Foundation Trust					✓ Finance		
Pennine Acute Hospitals NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Pennine Care NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	
Plymouth Hospitals NHS Trust	Yes (Operational performance, quality, finance)		✓ Workforce challenges			✓	✓
Poole Hospital NHS Foundation Trust					✓ Finance	✓	
Portsmouth Hospitals NHS Trust	Yes (Operational performance, quality, finance)			✓			✓
Royal Berkshire NHS Foundation Trust	Yes (Operational performance, quality, finance)						
Royal Brompton and Harefield NHS Foundation Trust			✓ Internal audit findings				
Royal Cornwall Hospitals NHS Trust	Yes (Operational performance, quality, finance)		✓ Internal audit findings	✓		✓	✓



	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
Royal Free London NHS Foundation Trust	Yes (Operational performance, finance)			✓		✓	✓
Royal Liverpool and Broadgreen University Hospitals NHS Trust	Yes (Operational performance, finance)			✓		✓	✓
Royal National Orthopaedic Hospital NHS Trust							✓
Royal Surrey County Hospital NHS Foundation Trust	Yes (Operational performance, finance)						
Royal United Hospitals Bath NHS Foundation Trust	Yes (Operational performance, quality, finance)						
Salisbury NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Sandwell And West Birmingham Hospitals NHS Trust	Yes (Operational performance, quality, finance)						
Sherwood Forest Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Shrewsbury and Telford Hospital NHS Trust	Yes (Operational performance, quality, finance)		✓ Workforce challenges	✓			✓
Shropshire Community Health NHS Trust	Yes (Quality, finance)						

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
Solent NHS Trust			✓ Workforce challenges, STP balance, capital funding, finance, CQC findings, impact of cyber attack, target breaches				✓
Somerset Partnership NHS Foundation Trust			✓ Internal audit findings				
South East Coast Ambulance Service NHS Foundation Trust	Yes (Operational performance, quality)		✓	✓			
South Tees Hospitals NHS Foundation Trust	Yes (Operational performance, finance)			✓			✓
South Tyneside NHS Foundation Trust						✓	
Southend University Hospital NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓			✓
Southern Health NHS Foundation Trust	Yes (quality)			✓			
Southport And Ormskirk Hospital NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
St George's University Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)	✓	✓	✓		✓	✓

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year Finance    Quality	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
St Helens and Knowsley Hospital Services NHS Trust							✓
Staffordshire and Stoke on Trent Partnership NHS Trust	Yes (Quality, finance)					✓	✓
Stockport NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	
Surrey And Sussex Healthcare NHS Trust							✓
Tameside and Glossop Integrated Care NHS Foundation Trust	Yes (Operational performance, finance)		✓ Information governance	✓		✓	✓
Taunton & Somerset NHS Foundation Trust					✓ Finance	✓	
The Dudley Group NHS Foundation Trust					✓ CQC inspection	✓	
The Hillingdon Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
The Princess Alexandra Hospital NHS Trust	Yes (Operational performance, quality, finance)	✓	✓ Workforce recruitment, estates issues	✓		✓	✓
The Queen Elizabeth Hospital King's Lynn NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
The Robert Jones and Agnes Hunt Orthopaedic Hospital NHS Foundation Trust	Yes (Operational performance, quality, finance)						

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
The Rotherham NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
The Royal Orthopaedic Hospital NHS Foundation Trust	Yes (Operational performance, quality, finance)		✓ Data quality, information governance	✓		✓	✓
The Royal Wolverhampton NHS Trust	Yes (Operational performance, quality, finance)						
The Whittington Health NHS Trust			✓ Finance, estates, patient flow, target breaches		✓ Finance		
United Lincolnshire Hospitals NHS Trust	Yes (Operational performance, quality, finance)	✓	✓ Workforce challenges, fire improvement notices	✓		✓	✓
University Hospital of South Manchester NHS Foundation Trust	Yes (Operational performance, quality, finance)					✓	
University Hospitals Bristol NHS Foundation Trust			✓ Never events				
University Hospitals Coventry And Warwickshire NHS Trust	Yes (Operational performance, quality, finance)			✓			✓
University Hospitals of Leicester NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓

	Provider subject to mandated support from NHS Improvement		Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year	(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance    Quality					
University Hospitals of Morecambe Bay NHS Foundation Trust	Yes (Operational performance, finance)			✓		✓	✓
University Hospitals of North Midlands NHS Trust	Yes (Operational performance, quality, finance)	✓		✓		✓	✓
Walsall Healthcare NHS Trust	Yes (Operational performance, quality, finance)		✓ Workforce engagement	✓		✓	✓
Warrington and Halton Hospitals NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
West Hertfordshire Hospitals NHS Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
West London Mental Health NHS Trust	Yes (Quality, finance)						
West Suffolk NHS Foundation Trust			✓ Pathology services, data reporting, target breaches		✓ Finance		✓
Weston Area Health NHS Trust	Yes (Operational performance, quality, finance)		✓ Staff survey results	✓		✓	✓
Wirral University Teaching Hospital NHS Foundation Trust	Yes (Operational performance, quality, finance)			✓		✓	✓
Worcestershire Acute Hospitals NHS Trust	Yes (Operational performance, quality, finance)		✓ Legal matter	✓		✓	✓

	Provider subject to mandated support from NHS Improvement			Other significant internal control issue disclosed by provider	Audit report: Use of Resources modification		Financial standing	
Provider name	(1) Provider in SOF segment 3 or 4 during the year *	(2) Provider in special measures during the year		(3) Significant internal control issue not relating to matters in (1)	(4) UoR modification linked to matters in (1)	(5) UoR modification: Other matter (or SOF segment 3/4 post year-end)	(6) Auditor material uncertainty on going concern / demise EoM	(7) Provider in receipt of DHSC interim cash revenue support during 2017/18
		Finance	Quality					
Wye Valley NHS Trust	Yes (Operational performance, quality, finance)				✓		✓	✓
Yeovil District Hospital NHS Foundation Trust						✓ Finance	✓	✓
York Teaching Hospital NHS Foundation Trust				✓ Finance		✓ Finance		✓
<b>Totals</b>	<b>97</b>	<b>12</b>	<b>18</b>	<b>42</b>	<b>77</b>	<b>15</b>	<b>82</b>	<b>94</b>

\* Notes for column (1):

- The explanation for each provider shows the support offerings for each provider that was in segment 3 or 4 at any point during the year. In some cases a trust may receive a combination of mandated and targeted support with all such support needs included here.
- In many cases our support also relates to the leadership & improvement capability and strategic change SOF domains. Where this is the case the underlying issues will relate to other SOF domains so these are not additionally listed here. There are no providers receiving mandated support solely relating to either leadership & improvement capability or strategic change.

## Auditor referrals of matters arising

Under Section 30 of the Local Audit and Accountability Act 2014 for NHS trusts, and under Schedule 10 to the NHS Act 2006 for NHS foundation trusts, where an auditor believes that the body or an officer of the body:

- is about to make, or has made, a decision which involves or would involve the incurring of expenditure which is unlawful, or
- is about to take, or has taken, a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency,

the auditor should make a referral to the Secretary of State (for NHS trusts) / NHS Improvement (for NHS foundation trusts).

40 NHS trusts (2016/17: 33) and no NHS foundation trusts (2016/17: none) were subject to such referrals in 2017/18. In all cases they relate to a failure by the trust to meet the statutory breakeven duty target. This requires an NHS trust to achieve a cumulative breakeven over a 3 or 5 year period. The underlying issues in trust finances are disclosed as part of the detail on significant internal control issues presented above.

## NHS foundation trusts: quality report external assurance

In 2017/18 each foundation trust was required to obtain a limited assurance report from its external auditor on the content of its quality report and two mandated indicators to be included in the quality report. This assurance report states whether anything had come to the auditor's attention that led them to believe that the quality report's content was not prepared in line with the guidance documents accompanying the FT ARM or was inconsistent with the other information sources detailed in the guidance.

NHS trusts are subject to separate arrangements asking them to obtain external assurance on their quality account. This work is completed to a later deadline.

In reporting on mandated indicators at foundation trusts, the auditors are forming a view on data quality rather than the quality of services more generally at a trust. The relevant guidance for 2017/18 is available at <https://improvement.nhs.uk/resources/nhs-foundation-trust-quality-reports-201718-requirements/>. The assurance on mandated indicators followed a selection of indicators prescribed by NHS Improvement, with different indicators applicable to different types of foundation trust.

152<sup>10</sup> NHS foundation trusts received limited assurance opinions for 2017/18. Of these, 2 foundation trusts received a modification to their limited assurance opinion on the content

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<sup>10</sup> Mid Staffordshire NHS Foundation Trust did not provide services during the year so did not prepare a quality report. Central Manchester NHS Foundation Trust and University Hospitals of South Manchester NHS Foundation Trust ceased to exist as entities during the year and were not required to obtain quality report assurance for their part year annual report. Manchester University NHS Foundation Trust did obtain assurance on its quality report in line with NHS Improvement's requirements.



and consistency of their quality reports. 56 foundation trusts received a modification to their limited assurance report in respect of one or both of the mandated indicators that were tested. Details are provided below. Some foundation trusts received a modification to the limited assurance report for both indicators tested, which is why the total number of modifications below is greater than 56.

Indicator	Number of foundation trusts where tested	Number of modified limited assurance opinions
Percentage of patients with a total time in A&E of four hours or less from arrival to admission, transfer or discharge	87	20
Percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period	107	48
Maximum waiting time of 62 days from urgent GP referral to first treatment for all cancers	14	2
Emergency re-admissions within 28 days of discharge from hospital	2	0
Early intervention in psychosis (EIP): people experiencing a first episode of psychosis treated with a National Institute for Health and Care Excellence (NICE)-approved care package within two weeks of referral	39	4
Inappropriate out-of-area placements for adult mental health services	28	3
Improving access to psychological therapies (IAPT): waiting time to begin treatment (from IAPT minimum dataset): within six weeks of referral	8	0
100% enhanced Care Programme Approach (CPA) patients receiving follow-up contact within seven days of discharge from hospital	2	0
Category 1 ambulance response: 7 minutes	5	0
Category 2 ambulance response: 18 minutes	5	0
Other indicators	7	1
<b>Total</b>	<b>304</b>	<b>78</b>

Each NHS foundation trust is provided with a report addressed to the Council of Governors which provides more detail on the auditor's findings and makes recommendations for improvement.

Ian Dalton CBE  
Chief Executive  
3 July 2018

# The audit report of the Comptroller and Auditor General to the Houses of Parliament

## Opinion on financial statements

I have audited the financial statements of the Consolidated NHS Provider Accounts for the year ended 31 March 2018 pursuant to my powers under section 16 of the Budget Responsibility and National Audit Act 2011 (“the 2011 Act”). The financial statements have been prepared by the National Health Service Trust Development Authority (“NHS Trust Development Authority”) in accordance with directions issued by the Secretary of State for Health and Social Care dated 29 June 2018 (“the Directions”), under the National Health Service Act 2006. The consolidated provider accounts comprise: the Consolidated Statements of Comprehensive Net Income, Financial Position, Cash Flows, Changes in Equity; and the related notes, including the significant accounting policies. These financial statements have been prepared under the accounting policies set out within them.

In my opinion:

- the financial statements give a true and fair view of the state of affairs of NHS trusts and NHS foundation trusts, collectively, at 31 March 2018 and of its deficit for the year then ended; and
- the financial statements have been properly prepared in accordance with the directions issued under the National Health Service Act 2006.

## Opinion on regularity

In my opinion, in all material respects the income and expenditure recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

## Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and Practice Note 10 ‘Audit of Financial Statements of Public Sector Entities in the United Kingdom’. My responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of report. Those standards require me and my staff to comply with the Financial Reporting Council’s Revised Ethical Standard 2016. I am independent of the NHS Trust Development Authority, the body responsible for the production of the Consolidated NHS Provider Accounts, in accordance

with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

## Responsibilities of the Accounting Officer for the financial statements

As explained more fully in the Statement of responsibilities and accountability framework, the Accounting Officer of the NHS Trust Development Authority is responsible for preparing the consolidated NHS provider accounts and for being satisfied that they give a true and fair view, in accordance with the Directions.

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

My responsibility is to examine, certify and report on the financial statements, in response to a request made by the NHS Trust Development Authority for me to audit the Consolidated NHS Provider Accounts under section 16 of the 2011 Act.

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal controls relevant in the production of the Consolidated NHS Provider Account.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability of NHS trusts and NHS foundation trusts, collectively, to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause NHS trusts and NHS foundation trusts, collectively, to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the income and expenditure reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## Other Information

The Accounting Officer of the NHS Trust Development Authority is responsible for the other information. The other information comprises information included in the review of financial performance, the annual governance statement and the statement of accounting officer responsibilities. I read all the financial and non-financial information in the Foreword, review of financial performance, and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## Opinion on other matters

In my opinion:

- the information given in the review of financial performance, the annual governance statement, and the statement of accounting officer responsibilities is consistent with the consolidated financial statements.

## Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit; or
- the Annual Governance Statement does not reflect compliance with HM Treasury's guidance.

**Sir Amyas C E Morse**

**Comptroller and Auditor General**

**12 July 2018**

National Audit Office  
157-197 Buckingham Palace Road  
Victoria  
London  
SW1W 9SP

**Statement of comprehensive income for the year ended  
31 March 2018**

Statement of comprehensive income for the year ended				2017/18			2016/17			
31 March 2018					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	£m	£m	£m
Operating income from patient care activities	3	72,078	-	72,078	70,030	-	70,030			
Other operating income	4	8,525	-	8,525	8,497	-	8,497			
<b>Total operating income</b>		<b>80,603</b>	<b>-</b>	<b>80,603</b>	<b>78,527</b>	<b>-</b>	<b>78,527</b>			
Operating expenses	5, 6	(80,196)	(606)	(80,802)	(77,821)	(1,308)	(79,129)			
<b>Operating surplus/(deficit)</b>		<b>407</b>	<b>(606)</b>	<b>(199)</b>	<b>706</b>	<b>(1,308)</b>	<b>(602)</b>			
Finance income		28	-	28	23	-	23			
Finance expenses	10	(1,025)	-	(1,025)	(941)	-	(941)			
PDC dividends payable		(687)	-	(687)	(755)	-	(755)			
<b>Net finance costs</b>		<b>(1,684)</b>	<b>-</b>	<b>(1,684)</b>	<b>(1,673)</b>	<b>-</b>	<b>(1,673)</b>			
Other gains/(losses)	11	284	-	284	145	-	145			
Share of profit of associates/joint ventures		9	-	9	6	-	6			
Losses arising from transfers by absorption	35	-	(47)	(47)	-	(51)	(51)			
Corporation tax expense		(2)	-	(2)	-	-	-			
<b>Surplus/(deficit) for the year</b>		<b>(986)</b>	<b>(653)</b>	<b>(1,639)</b>	<b>(816)</b>	<b>(1,359)</b>	<b>(2,175)</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	-	(398)	(398)	-	(1,045)	(1,045)			
Revaluations	8	-	1,285	1,285	-	378	378			
Remeasurements of the net defined benefit pension scheme liability/asset	28	9	-	9	(8)	-	(8)			
Other reserve movements		(3)	-	(3)	7	-	7			
<b>May be reclassified to income and expenditure when certain conditions are met:</b>										
Fair value gains/(losses) on available-for-sale financial investments		(1)	-	(1)	11	-	11			
<b>Other comprehensive income/(expense)</b>		<b>5</b>	<b>887</b>	<b>892</b>	<b>10</b>	<b>(667)</b>	<b>(657)</b>			
<b>Total comprehensive income/(expense) for the period</b>		<b>(981)</b>	<b>234</b>	<b>(747)</b>	<b>(806)</b>	<b>(2,026)</b>	<b>(2,832)</b>			

Discontinued operations are not material so are not shown separately on the face of the statement of comprehensive income. Note 12 provides further details.

## Statement of financial position as at 31 March 2018

		31 March 2018 £m	31 March 2017 £m
	Note		
<b>Non-current assets</b>			
Intangible assets	13	1,049	924
Property, plant and equipment	14	44,193	42,895
Investment property	15	272	201
Investments in joint ventures and associates	15	79	74
Other investments/financial assets	15	244	254
Trade and other receivables	17	649	468
Other assets	18	5	16
<b>Total non-current assets</b>		<b>46,491</b>	<b>44,832</b>
<b>Current assets</b>			
Inventories	16	1,042	1,001
Trade and other receivables	17	6,122	5,467
Other investments/financial assets	15	20	18
Other current assets	18	1	8
Non-current assets for sale and assets in disposal groups	19	60	74
Cash and cash equivalents	20	4,875	4,167
<b>Total current assets</b>		<b>12,120</b>	<b>10,735</b>
<b>Current liabilities</b>			
Trade and other payables	21	(8,174)	(7,771)
Borrowings	23	(2,063)	(930)
Other financial liabilities		(1)	(1)
Provisions	25	(409)	(419)
Other liabilities	22	(801)	(760)
<b>Total current liabilities</b>		<b>(11,448)</b>	<b>(9,881)</b>
<b>Total assets less current liabilities</b>		<b>47,163</b>	<b>45,686</b>
<b>Non-current liabilities</b>			
Trade and other payables	21	(34)	(39)
Borrowings	23	(18,635)	(17,027)
Other financial liabilities		(2)	(4)
Provisions	25	(478)	(513)
Other liabilities	22	(204)	(202)
<b>Total non-current liabilities</b>		<b>(19,353)</b>	<b>(17,785)</b>
<b>Total assets employed</b>		<b>27,810</b>	<b>27,901</b>
<b>Financed by</b>			
Public dividend capital		26,692	26,265
Revaluation reserve		9,025	8,318
Other reserves		149	152
Income and expenditure reserve		(8,505)	(7,280)
Charitable fund reserves	32	449	446
<b>Total taxpayers' equity</b>		<b>27,810</b>	<b>27,901</b>

The notes on pages 50 to 107 form part of these accounts.

Ian Dalton  
Chief Executive  
3 July 2018



## 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 - brought forward</b>		<b>26,265</b>	<b>8,318</b>	<b>152</b>	<b>(7,280)</b>	<b>446</b>	<b>27,901</b>
Surplus/(deficit) for the year		-	-	-	(1,680)	41	(1,639)
Transfers by absorption: transfers between reserves	35	-	(20)	(1)	21	-	-
Adjustments to prior period accounted for in-year *		-	4	-	36	(5)	35
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits		-	(19)	-	19	-	-
Other transfers between reserves		-	(52)	(1)	53	-	-
Impairments	8	-	(398)	-	-	-	(398)
Revaluations	8	-	1,284	-	-	1	1,285
Transfer to retained earnings on disposal of assets		-	(87)	-	87	-	-
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	28.1	-	-	2	7	-	9
Public dividend capital received		622	-	-	-	-	622
Public dividend capital repaid		(2)	-	-	-	-	(2)
Public dividend capital written off		(193)	-	-	193	-	-
Other reserve movements		-	(3)	(3)	39	(33)	-
<b>Taxpayers' and others' equity at 31 March 2018</b>		<b>26,692</b>	<b>9,025</b>	<b>149</b>	<b>(8,505)</b>	<b>449</b>	<b>27,810</b>

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

## Statement of changes in equity for the year ended 31 March 2017

		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 2016</b>		<b>25,832</b>	<b>9,176</b>	<b>151</b>	<b>(5,136)</b>	<b>408</b>	<b>30,431</b>
Surplus/(deficit) for the year		-	-	-	(2,258)	83	(2,175)
Transfers by absorption: transfers between reserves	35	-	(22)	(4)	26	-	-
Previous prior period adjustments accounted for in 2016/17		-	(1)	3	(126)	(13)	(137)
Transfer from revaluation reserve to income and expenditure reserve for impairments arising from consumption of economic benefits		-	(16)	-	16	-	-
Other transfers between reserves		-	(114)	(1)	115	-	-
Impairments	8	-	(1,045)	-	-	-	(1,045)
Revaluations	8	-	378	-	-	-	378
Transfer to retained earnings on disposal of assets		-	(29)	-	29	-	-
Fair value gains on available-for-sale financial investments		-	-	-	-	11	11
Other recognised gains and losses		-	(1)	1	4	-	4
Remeasurements of the defined net benefit pension scheme liability/asset	28.1	-	-	2	(10)	-	(8)
Public dividend capital received		468	-	-	-	-	468
Public dividend capital repaid		(29)	-	-	-	-	(29)
Public dividend capital written off		(6)	-	-	6	-	-
Other reserve movements		-	(8)	-	54	(43)	3
<b>Taxpayers' and others' equity at 31 March 2017</b>		<b>26,265</b>	<b>8,318</b>	<b>152</b>	<b>(7,280)</b>	<b>446</b>	<b>27,901</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 an NHS trust, or predecessor NHS trust where PDC is recognised by a foundation trust. Additional PDC may also be issued to NHS providers by the Department of Health and Social Care. A charge, reflecting the cost of capital utilised by an NHS provider, is payable to the Department of Health and Social Care as the PDC dividend.

### **Revaluation reserve**

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

### **Other reserves**

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

### **Income and expenditure reserve**

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

### **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 32.

## Statement of cash flows

		2017/18	2016/17
	Note	£m	£m
<b>Cash flows from operating activities</b>			
<b>Operating surplus/ (deficit)</b>		(198)	(602)
Non-cash income and expense:			
Depreciation and amortisation	5.1	2,182	2,195
Net impairments	8	606	1,308
Donations/grants credited to income		(144)	(156)
Non-cash movements in on-SoFP pension liability		4	1
(Increase) in receivables and other assets		(744)	(1,218)
(Increase) in inventories		(40)	(40)
Increase/(decrease) in payables and other liabilities		290	(33)
(Decrease) in provisions		(47)	(20)
Corporation tax (paid)/received		(2)	-
NHS charitable funds net adjustments to operating cash flows		(1)	(1)
Other movements in operating cash flows		(9)	(9)
<b>Net cash generated from operating activities</b>		<b>1,897</b>	<b>1,425</b>
<b>Cash flows from investing activities</b>			
Interest received		19	14
Purchase of financial assets/investments		(33)	(310)
Sale of financial assets/investments		38	275
Purchase of intangible assets		(275)	(235)
Sales of intangible assets		-	3
Purchase of property, plant, equipment and investment property		(3,026)	(2,907)
Sales of property, plant, equipment and investment property		409	222
Receipt of cash donations to purchase capital assets		111	130
Cash from acquisitions and disposals of business units and subsidiaries		1	-
NHS charitable funds investing cash flows		14	(3)
<b>Net cash generated used in investing activities</b>		<b>(2,742)</b>	<b>(2,811)</b>
<b>Cash flows from financing activities</b>			
Public dividend capital received		622	468
Public dividend capital repaid		(2)	(29)
Movement in loans from the Department of Health and Social Care		2,905	2,839
Movement in other loans		19	19
Capital element of finance lease rental payments		(53)	(58)
Capital element of PFI, LIFT and other service concession payments		(271)	(252)
Interest paid on finance lease liabilities		(16)	(17)
Interest paid on PFI, LIFT and other service concession obligations		(751)	(724)
Other capital receipts		-	2
Other interest paid		(238)	(184)
PDC dividend (paid)		(672)	(762)
Cash flows used in other financing activities		-	3
<b>Net cash generated from/(used in) financing activities</b>		<b>1,543</b>	<b>1,305</b>
<b>Increase/Decrease in cash and cash equivalents</b>		<b>698</b>	<b>(81)</b>
<b>Cash and cash equivalents at 1 April</b>		<b>4,166</b>	<b>4,247</b>
Adjustments to prior period accounted for in year		1	-
<b>Cash and cash equivalents at 31 March</b>	20.1	<b>4,865</b>	<b>4,166</b>

Total cash and cash equivalents is reconciled to the Statement of Financial Position in note 20.1

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

# Notes to the financial statements

## Note 1 Accounting policies and other information

### Basis of preparation

NHS Improvement, in exercising the duties conferred on the NHS Trust Development Authority (TDA) and Monitor, has produced the consolidated accounts of NHS providers in accordance with directions issued by the Secretary of State. In line with those directions, these accounts have been prepared in accordance with the Department of Health and Social Care (DHSC) Group Accounting Manual (GAM) 2017/18 and the HM Treasury Financial Reporting Manual (FReM) in relevant respects. 'NHS providers' is used as a collective term for NHS trusts and NHS foundation trusts. 'Trusts' when not prefaced with 'NHS' is also used to mean providers in general.

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 GAM. The GAM is directly applicable to NHS trusts as a result of directions issued by the Secretary of State.

The accounting policies contained within the GAM are broadly consistent with those specified in the FReM, 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 FReM are designed to ensure an appropriate financial reporting framework and have been approved by HM Treasury's Financial Reporting Advisory Board.

Where NHS providers have discretion over their accounting policies we have confirmed that any inconsistencies are not material to these accounts nor adjustments have been made.

### Accounting convention

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

## Note 1.1 Consolidation

### Basis of consolidation

These accounts consolidate the accounts of all NHS providers that have been in existence during 2017/18 using the principles of IFRS as adopted by the FReM. It presents the consolidated results of the NHS provider sector after the elimination of inter-NHS provider balances and transactions. Monitor and the NHS Trust Development Authority (NHS TDA), as part of NHS Improvement, are not the parent undertakings for NHS providers and their 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 2017/18 and 2016/17

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

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

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

More details of transfers in 2017/18 and 2016/17 are provided in note 35.

### Other business combinations

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

### **Subsidiaries**

Under IFRS 10, an NHS provider controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Power over the investee occurs where the provider has existing rights that give it the current ability to direct the relevant activities. The income, expenses, assets, liabilities, equity and reserves of subsidiaries are consolidated, in full, into the appropriate financial statement lines. The capital and reserves attributable to non-controlling interests are included within Other Reserves in the Statement of Financial Position.

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

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

### *NHS charitable funds*

NHS providers are the corporate trustees to various NHS charitable funds. NHS providers have individually assessed their relationships to the respective charitable funds to determine whether they meet the definition of subsidiaries under IFRS 10. Fifty NHS providers consolidate their NHS linked charity as a result.

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

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

## **Associates**

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

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

## **Joint ventures**

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

Joint ventures are accounted for using the equity method.

## **Joint operations**

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

## **Statement of Comprehensive Income (SOCI) policy**

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

## **Note 1.2 Income**

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

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

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

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

Additional contributions from central bodies (such as DHSC) designated as revenue contributions are recognised as revenue when received or receivable, and are separately disclosed.

## **Note 1.3 Revenue government and other grants**

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



## **Note 1.4 Expenditure on employee benefits**

### **Short-term employee benefits**

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

### **NHS pension scheme**

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

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

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

#### *a) Accounting valuation*

A valuation of scheme liability is carried out annually by the scheme actuary (currently the Government Actuary's Department) as at the end of the reporting period. This utilises an actuarial assessment for the previous accounting period in conjunction with updated membership and financial data for the current reporting period, and is accepted as providing suitably robust figures for financial reporting purposes. The valuation of scheme liability as at 31 March 2018 is based on valuation data as 31 March 2016, updated to 31 March 2018 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations, and the discount rate prescribed by HM Treasury have also been used.

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

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

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

The last published actuarial valuation undertaken for the NHS Pension Scheme was completed for the year ending 31 March 2012. The Scheme Regulations allow for the level of contribution rates to be changed by the Secretary of State for Health, with the consent of HM Treasury, and consideration of the advice of the Scheme Actuary and appropriate employee and employer representatives as deemed appropriate.

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

## Other pension schemes

### *Local Government Pension Scheme*

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

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

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

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

The following schemes are accounted for 'on Statement of Financial Position'. For further details please refer to individual NHS provider 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
East London NHS Foundation Trust	Bedfordshire Pension Fund	Bedford Borough Council
Essex Partnership University NHS Foundation Trust	Essex Pension Fund	Essex County Council
Greater Manchester Mental Health NHS Foundation Trust	Greater Manchester Pension Fund	Tameside Metropolitan Borough Council
Hertfordshire Partnership University NHS Foundation Trust	Hertfordshire County Council Pension Fund	Hertfordshire County Council
Humber NHS Foundation Trust	East Riding of Yorkshire County Council Pension Fund	East Riding of Yorkshire County Council
North Staffordshire Combined Healthcare NHS 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
South Staffordshire and Shropshire Healthcare NHS Foundation Trust	Staffordshire County Council Pension Fund	Staffordshire County Council
Wirral Community NHS Foundation Trust	Merseyside Pension Fund	Wirral Metropolitan Borough Council

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

<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
Croydon Health Services NHS Trust	Croydon Pension Scheme	London Borough of Croydon
Gloucestershire Care Services NHS Trust	Gloucestershire Local Government Pension Fund	Gloucestershire County Council
Northumbria Healthcare NHS Foundation Trust	Northumberland County Council Pension Fund	Northumberland County Council
Pennine Acute Hospitals NHS Trust	Greater Manchester Local Government Pension Scheme	Rochdale Borough Council
South Tyneside NHS Foundation Trust	South of Tyne and Wear Pension Fund	South Tyneside Council
Worcestershire Health and Care NHS Trust	Worcestershire County Council Pension Fund	Worcestershire County Council

#### *Other pension schemes*

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

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

#### *Defined contribution pension schemes*

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

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

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

### **Note 1.6 Discontinued operations**

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

## Note 1.7 Property, plant and equipment

### Recognition

Property, plant and equipment is capitalised where:

- it is held for use in delivering services or for administrative purposes;
- it is probable that future economic benefits will flow to, or service potential be provided to, the trust;
- it is expected to be used for more than one financial year;
- the cost of the item can be measured reliably; and
- the item has cost of at least £5,000; or
- collectively, a number of items have a cost of at least £5,000 and individually have cost of more than £250, where the assets are functionally interdependent, had broadly simultaneous purchase dates, are anticipated to have similar disposal dates and are under single managerial control.

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

### Measurement

#### *Valuation*

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

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

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

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

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

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

#### *Application of Property Plant and Equipment accounting policy*

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

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

### *Subsequent expenditure*

Subsequent expenditure relating to an item of property, plant and equipment is recognised as an increase in the carrying amount of the asset when it is probable that additional future economic benefits or service potential deriving from the cost incurred to replace a component of such item will flow to the trust and the cost of the item can be determined reliably. Where a component of an asset is replaced, the cost of the replacement is capitalised if it meets the criteria for recognition above. The carrying amount of the part replaced is de-recognised. Other expenditure that does not generate additional future economic benefits or service potential, such as repairs and maintenance, is charged to the Statement of Comprehensive Income in the period in which it is incurred.

### *Depreciation*

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

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

### *Revaluation gains and losses*

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

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

### *Impairments*

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

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

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

### **De-recognition**

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

Following reclassification, the assets are measured at the lower of their existing carrying amount and their 'fair value less costs to sell'. Depreciation ceases to be charged and the assets are not revalued, except where the 'fair value less costs to sell' falls below the carrying amount. Assets are de-recognised when all material sale contract conditions have been met.

Property, plant and equipment which is to be scrapped or demolished does not qualify for recognition as 'held for sale' and instead is retained as an operational asset and the asset's economic life is adjusted. The asset is de-recognised when scrapping or demolition occurs.

## Donated, government grant and other grant funded assets

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

The donated and grant funded assets are subsequently accounted for in the same manner as other items of property, plant and equipment.

## Private finance initiative (PFI) transactions

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

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

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

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

## Useful economic lives of property, plant and equipment

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

	<b>Min life Years</b>	<b>Max life Years</b>
Buildings, excluding dwellings	1	193
Dwellings	1	136
Plant & machinery	1	65
Transport equipment	1	20
Information technology	1	21
Furniture & fittings	1	41

Land is not depreciated by NHS providers 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 provider sector for each category of asset.

## Note 1.8 Intangible assets

### Recognition

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

#### *Internally generated intangible assets*

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

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

#### *Software*

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

### Measurement

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

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

Intangible assets 'held for sale' are measured at the lower of their carrying amount or "fair value less costs to sell".

#### *Amortisation*

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

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

	Min life Years	Max life Years
<b>Intangible assets - internally generated</b>		
Information technology	1	20
Development expenditure	1	12
Websites	1	12
<b>Intangible assets - purchased</b>		
Software	1	20
Licences & trademarks	1	15
Patents	1	8
Goodwill	-	-
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 provider sector for each category of asset.

## **Note 1.9 Investment properties**

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

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

## **Note 1.10 Inventories**

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

## **Note 1.11 Financial instruments and financial liabilities**

### **Recognition**

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

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

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

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

### **De-recognition**

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

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

### **Classification and measurement**

Financial assets are categorised as 'Fair Value through Income and Expenditure', 'Loans and receivables' or 'Available-for-sale financial assets'.

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



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

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

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

### **Loans and receivables**

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

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

Loans and receivables are recognised initially at fair value, net of transactions costs, and are measured subsequently at amortised cost, using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash receipts through the expected life of the financial asset or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

### **Available-for-sale financial assets**

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

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

### **Financial liabilities**

All financial liabilities are recognised initially at fair value, net of transaction costs incurred, and measured subsequently at amortised cost using the effective interest method. The effective interest rate is the rate that discounts exactly estimated future cash payments through the expected life of the financial liability or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

They are included in current liabilities except for amounts payable more than 12 months after the Statement of Financial Position date, which are classified as long-term liabilities.

Interest on financial liabilities carried at amortised cost is calculated using the effective interest method and charged to finance costs. Interest on financial liabilities taken out to finance property, plant and equipment or intangible assets is not capitalised as part of the cost of those assets.

### **Determination of fair value**

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

## Impairment of financial assets

At the reporting date, NHS providers assess whether any financial assets, other than those held at 'fair value through income and expenditure' are impaired. Financial assets are impaired and impairment losses are recognised if, and only if, there is objective evidence of impairment as a result of one or more events which occurred after the initial recognition of the asset and which has an impact on the estimated future cash flows of the asset.

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

## Note 1.12 Cash and cash equivalents

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

## Note 1.13 Leases

### Finance leases

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

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

### Operating leases

Other leases are regarded as operating leases and the rentals are charged to operating expenses on a straight-line basis over the term of the lease. The aggregate benefit of operating lease incentives is recognised as a reduction of rental expense over the lease term.

### Leases of land and buildings

Where a lease is for land and buildings, the land component is separated from the building component and the classification for each is assessed separately.

## Note 1.14 Provisions

An NHS provider recognises a provision where it has a present legal or constructive obligation of uncertain timing or amount; for which it is probable that there will be a future outflow of cash or other resources; and a reliable estimate can be made of the amount. The amount recognised in the Statement of Financial Position is the best estimate of the resources required to settle the obligation.

Where the effect of the time value of money is significant, the estimated risk-adjusted cash flows are discounted using the HM Treasury's discount rates effective for 2017/18.

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

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

### *Clinical negligence costs*

NHS Resolution (previously known as NHS Litigation Authority) operates a risk pooling scheme under which an NHS provider pays an annual contribution to NHS Resolution, which, in return, settles all clinical negligence claims. Although NHS Resolution is administratively responsible for all clinical negligence cases, the legal liability remains with an NHS provider. The total value of clinical negligence provisions carried by NHS Resolution on behalf of NHS providers is disclosed at note 25.3.

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

Contingent liabilities are not recognised, but are disclosed in note 26, 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 NHS trust or predecessor NHS trust (in the case for NHS foundation trusts). Additional PDC may also be issued to NHS providers by the Department of Health and Social Care. HM Treasury has determined that PDC is not a financial instrument within the meaning of IAS 32.

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

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

## **Note 1.17 Value added tax**

Most of the activities of NHS providers are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT. Where an NHS provider consolidates the activities of a subsidiary, these activities may be within the scope of VAT rules.

## **Note 1.18 Corporation tax**

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

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

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

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

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

## **Note 1.19 Foreign exchange**

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

Where an NHS provider has assets or liabilities denominated in a foreign currency at the reporting date:

- monetary items (other than financial instruments measured at 'fair value through income and expenditure') are translated at the spot exchange rate on 31 March;
- non-monetary assets and liabilities measured at historical cost are translated using the spot exchange rate at the date of the transaction; and
- non-monetary assets and liabilities measured at fair value are translated using the spot exchange rate at the date the fair value was determined.

Exchange gains or losses on monetary items (arising on settlement of the transaction or on re-translation at the reporting date) are recognised as income or expense in the period in which they arise. Exchange gains or losses on non-monetary assets and liabilities are recognised in the same manner as other gains and losses on these items.

## **Note 1.20 Carbon Reduction Commitment (CRC) Energy Efficiency Scheme**

The CRC scheme is a mandatory cap and trade scheme for non-transport 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.

However, they are disclosed in a separate note to the accounts in accordance with the requirements of the FReM (see note 20.2 to the accounts).

### **Note 1.22 Losses and special payments**

Losses and special payments are items that Parliament would not have contemplated when it agreed funds for the health service or passed legislation. By their nature they are items that ideally would not arise. They are therefore subject to special control procedures compared with the generality of payments. They are divided into different categories, which govern the way that individual cases are handled. Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis.

Losses and special payments notes within individual NHS 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 (FReM) 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 providers' 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 ARM direct NHS trusts and NHS foundation trusts to disclose in their annual reports and financial statements where the going concern basis is adopted based on the interpretation in the FReM to focus on the continued provision of services by amending their statement on going concern.

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

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

The auditors of 78 NHS providers have included a 'material uncertainty' paragraph within the audit report to draw attention to the going concern disclosure in those financial statements, plus 4 provider audit reports included an 'emphasis of matter' relating to the demise of the organisation and the transfer of its services to another entity. (2016/17: 70 emphases of matters for going concern<sup>1</sup>.) These are entered by auditors where

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

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 82 NHS providers comprise 39% of total operating income. A listing of these providers is provided in the annual governance statement. 94 trusts received support funding from the Department of Health and Social Care during 2017/18 totalling £2.8 billion. Details of the overall sector position are set out in the management commentary.

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

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

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

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

and the following estimations:

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

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

#### **Note 1.26 Early adoption of standards, amendments and interpretations**

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

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

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

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

Standard	Description of amendment	Effective date
IAS 39 Financial Instruments: Recognition and Measurement (amendment)	Amendments to permit an entity to elect to continue to apply the hedge accounting requirements in IAS 39 for a fair value hedge of the interest rate exposure of a portion of a portfolio of financial assets or financial liabilities when IFRS 9 is applied, and to extend the fair value option to certain contracts that meet the 'own use' scope exception	Applicable in line with IFRS 9
IAS 40 Investment Property (amendment)	Amendments to clarify transfers or property to, or from, investment property	Annual periods beginning on or after 1 January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	Clarifies the accounting for receipts or payments in advance denominated in foreign currencies	Annual periods beginning on or after 1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments	Interprets how to determine taxable profits when there are uncertainties under IAS 12.	Annual periods beginning on or after 1 January 2019. Not yet EU endorsed.

#### *Estimated impact of future standards:*

#### IFRS 9 Financial Instruments

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

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

#### IFRS 15 Revenue from contracts

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

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

#### IFRS 16 Leases

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

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



## Note 2 Operating segments

The NHS provider sector is formed of five types of NHS provider, supplying different services: acute, ambulance, community, mental health and specialist. This classification is based on the majority of the provider's income. Alternatively NHS providers can be allocated into four regions: North, Midlands & East, South and London.

These are two alternative segmental analyses. NHS Improvement does not allocate resources between these segments; however this is the basis on which the performance of the NHS provider sector is reported to NHS Improvement's Board. NHS Improvement is not the parent of NHS providers and as such does not have a function that meets the definition of the chief operating decision maker in IFRS 8.

Net assets are not split between segments in our internal reporting and so are not split by segment here.

The figures reported below include inter-NHS provider trust income and expenditure and these are removed in reconciling to the Statement of Comprehensive Income overleaf. The figures below exclude amounts relating to NHS charitable funds which are excluded for our regulatory analysis. The impact of consolidating charitable funds is added in to the reconciliation to the Statement of Comprehensive Income overleaf.

### Analysis by type of trust

2017/18 excluding charities	Community £m	Ambulance £m	Specialist £m	Mental Health £m	Acute £m	Total £m
Income	2,765	2,468	3,863	11,945	61,751	82,792
Expenditure before depreciation and impairments	(2,635)	(2,328)	(3,462)	(11,190)	(60,587)	(80,202)
Depreciation and amortisation	(57)	(88)	(128)	(260)	(1,649)	(2,182)
Net finance costs	(24)	(16)	(66)	(250)	(1,336)	(1,692)
Other	1	4	67	55	163	290
<b>Surplus / (deficit) before I&amp;T</b>	<b>50</b>	<b>40</b>	<b>274</b>	<b>300</b>	<b>(1,658)</b>	<b>(994)</b>
Impairments (net of reversals)	(29)	1	(88)	(181)	(309)	(606)
Transfers by absorption	(15)	-	-	4	(36)	(47)
<b>Surplus / (deficit) for the year <sup>1</sup></b>	<b>6</b>	<b>41</b>	<b>186</b>	<b>123</b>	<b>(2,003)</b>	<b>(1,647)</b>

2016/17 excluding charities	Community £m	Ambulance £m	Specialist £m	Mental Health £m	Acute £m	Total £m
Income	2,945	2,334	3,523	11,673	60,102	80,577
Expenditure before depreciation and impairments	(2,857)	(2,232)	(3,262)	(11,013)	(58,323)	(77,687)
Depreciation and amortisation	(52)	(85)	(123)	(258)	(1,677)	(2,195)
Net finance costs	(25)	(18)	(61)	(251)	(1,327)	(1,682)
Other	-	2	31	17	82	132
<b>Surplus / (deficit) before I&amp;T</b>	<b>11</b>	<b>1</b>	<b>108</b>	<b>168</b>	<b>(1,143)</b>	<b>(855)</b>
Impairments (net of reversals)	(14)	(32)	(61)	(254)	(947)	(1,308)
Transfers by absorption	-	-	(1)	-	(50)	(51)
<b>Surplus / (deficit) for the year <sup>1</sup></b>	<b>(3)</b>	<b>(31)</b>	<b>46</b>	<b>(86)</b>	<b>(2,140)</b>	<b>(2,214)</b>

Further information on the acute sector is presented overleaf.

<sup>1</sup> These totals are after impairments and transfers but exclude consolidated charitable funds.

## Analysis by region

2017/18 excluding charities	Midlands &				Total £m
	North £m	East £m	South £m	London £m	
Income	24,475	21,959	18,446	17,912	82,792
Expenditure before depreciation and impairments	(23,641)	(21,624)	(17,689)	(17,248)	(80,202)
Depreciation and amortisation	(552)	(567)	(532)	(531)	(2,182)
Net finance costs	(440)	(434)	(384)	(434)	(1,692)
Other	31	29	33	197	290
<b>Surplus / (deficit) before I&amp;T</b>	<b>(127)</b>	<b>(637)</b>	<b>(126)</b>	<b>(104)</b>	<b>(994)</b>
Impairments (net of reversals)	(347)	(92)	(93)	(74)	(606)
Gains/(losses) from transfers by absorption	(8)	(1)	(38)	-	(47)
<b>Surplus / (deficit) for the year <sup>1</sup></b>	<b>(482)</b>	<b>(730)</b>	<b>(257)</b>	<b>(178)</b>	<b>(1,647)</b>

2016/17 excluding charities	Midlands &				Total £m
	North £m	East £m	South £m	London £m	
Income	23,959	21,499	17,824	17,295	80,577
Expenditure before depreciation and impairments	(22,871)	(21,080)	(17,104)	(16,632)	(77,687)
Depreciation and amortisation	(574)	(565)	(537)	(519)	(2,195)
Net finance costs	(428)	(437)	(386)	(431)	(1,682)
Other	17	(4)	12	107	132
<b>Surplus / (deficit) before I&amp;T</b>	<b>103</b>	<b>(587)</b>	<b>(191)</b>	<b>(180)</b>	<b>(855)</b>
Impairments (net of reversals)	(450)	(361)	(247)	(250)	(1,308)
Gains/(losses) from transfers by absorption	-	-	(51)	-	(51)
<b>(Deficit) for the year <sup>1</sup></b>	<b>(347)</b>	<b>(948)</b>	<b>(489)</b>	<b>(430)</b>	<b>(2,214)</b>

## Reconciliation to Statement of Comprehensive Income

	Figure per above £m	Less: Inter- provider adjustment £m	Add: Total before charitable funds consolidation <sup>2</sup> £m	Impairments and transfers £m	Impairments and transfers £m	Total per SOCI £m
<b>2017/18</b>						
Operating income	82,792	(2,228)	39	80,603	-	80,603
Operating expenditure excluding depreciation	(80,202)	2,228	(40)	(78,014)	(606)	(78,620)
Depreciation and amortisation	(2,182)	-	-	(2,182)	-	(2,182)
Operating expenditure total	(82,384)	2,228	(40)	(80,196)	(606)	(80,802)
<b>Operating surplus / (deficit)</b>	<b>408</b>	<b>-</b>	<b>(1)</b>	<b>407</b>	<b>(606)</b>	<b>(199)</b>
Net finance costs	(1,692)	-	8	(1,684)	-	(1,684)
Other items	290	-	1	291	(47)	244
<b>Surplus / (deficit) for the year</b>	<b>(994)</b>	<b>-</b>	<b>8</b>	<b>(986)</b>	<b>(653)</b>	<b>(1,639)</b>

<b>2016/17</b>						
Operating income	80,577	(2,103)	53	78,527	-	78,527
Operating expenditure excluding depreciation	(77,687)	2,103	(42)	(75,626)	(1,308)	(76,934)
Depreciation and amortisation	(2,195)	-	-	(2,195)	-	(2,195)
Operating expenditure total	(79,882)	2,103	(42)	(77,821)	(1,308)	(79,129)
<b>Operating surplus / (deficit)</b>	<b>695</b>	<b>-</b>	<b>11</b>	<b>706</b>	<b>(1,308)</b>	<b>(602)</b>
Net finance costs	(1,682)	-	9	(1,673)	-	(1,673)
Other items	132	-	19	151	(51)	100
<b>Surplus / (deficit) for the year</b>	<b>(855)</b>	<b>-</b>	<b>39</b>	<b>(816)</b>	<b>(1,359)</b>	<b>(2,175)</b>

<sup>1</sup> These totals are after impairments and transfers but exclude consolidated charitable funds.

<sup>2</sup> These numbers reflect the impact of consolidating NHS charitable funds including local intra-group eliminations. These numbers do not represent total income and expenditure in NHS charitable funds.

### Note 3 Operating income from patient care activities

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

	2017/18	2016/17
	£m	£m
<b>Acute services</b>		
Elective income	9,026	9,077
Non elective income	14,347	12,861
Outpatient income	7,934	8,301
A & E income	2,288	2,032
Other NHS clinical income (including high cost drugs income)	19,192	18,591
<b>Mental health services</b>		
Cost and volume contract income	624	621
Block contract income	7,153	7,001
Clinical partnerships providing mandatory services	213	224
Clinical income for the secondary commissioning of mandatory services	54	40
Other clinical income from mandatory services	259	215
<b>Ambulance services</b>		
A & E income	2,027	1,928
Patient transport service income	206	166
Other income	134	136
<b>Community services</b>		
Community services income from CCGs and NHS England	5,826	6,027
Community services income from other sources	1,478	1,588
<b>All services</b>		
Private patient income	625	601
Other clinical income	692	621
<b>Total income from activities</b>	<b>72,078</b>	<b>70,030</b>

#### Note 3.2 Income from patient care activities (by source)

Income from patient care activities received from:	2017/18	2016/17
	£m	£m
CCGs and NHS England	68,306	66,095
Local authorities	2,114	2,340
Department of Health and Social Care	8	34
NHS other	191	191
Non-NHS: private patients	614	584
Non-NHS: overseas patients (chargeable to patient)	87	81
Injury cost recovery scheme	202	206
Non NHS: other	556	499
<b>Total income from activities</b>	<b>72,078</b>	<b>70,030</b>

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

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

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

	2017/18	2016/17
	£m	£m
Income recognised this year	87	81
Cash payments received in-year	30	31
Amounts added to provision for impairment of receivables	45	40
Amounts written off in-year	27	17

**Note 4 Other operating income**

	2017/18	2016/17
	£m	£m
Research and development	914	946
Education and training	2,746	2,674
Receipt of capital grants and donations	144	159
Charitable and other contributions to expenditure	90	82
Non-patient care services to other bodies	743	654
Support from the Department of Health and Social Care for mergers	76	141
Sustainability and Transformation Fund income *	1,793	1,812
Rental revenue from operating leases	88	75
Rental revenue from finance leases	2	2
Income in respect of staff costs where accounted on gross basis	204	191
Incoming resources excluding investment income, relating to NHS charitable funds	73	97
PFI support income	96	100
Car parking	237	223
Pharmacy sales	85	86
Clinical excellence awards	91	93
Catering	107	104
Other income	1,036	1,058
<b>Total other operating income</b>	<b>8,525</b>	<b>8,497</b>

\* 212 NHS providers received income from the Sustainability and Transformation Fund in 2017/18 (2016/17: 217). This is part of the £1.8 billion fund available to NHS providers in 2017/18. £7 million of the fund in 2017/18 was allocated to NHS Improvement's 'Get It Right First Time' project.

## Note 5.1 Operating expenses

	2017/18	2016/17
	£m	£m
Purchase of healthcare from NHS and DHSC bodies	93	74
Purchase of healthcare from non-NHS and non-DHSC bodies	1,106	1,078
Purchase of social care	182	283
Employee expenses - staff (including executive directors)	51,600	50,045
Non-executive directors	28	28
Supplies and services - clinical	6,428	6,343
Supplies and services - general	1,388	1,319
Drug costs	7,087	6,867
Inventories written down	12	10
Consultancy costs	247	259
Establishment	881	871
Premises	2,995	2,874
Transport (including patient travel)	664	648
Depreciation on property, plant and equipment	1,983	2,015
Amortisation on intangible assets	199	180
Net Impairments	606	1,308
Increase in provision for impairment of receivables	134	130
Increase in other provisions	10	9
Change in provisions discount rate(s)	6	43
Fees payable to the external auditor *		
audit services- statutory audit	16	18
other auditor remuneration (external auditor only)	3	8
Internal audit costs, including local counter fraud services	20	22
Clinical negligence	1,946	1,649
Legal fees	83	78
Insurance	56	59
Research and development	491	438
Education and training	390	331
Rentals under operating leases	672	666
Early retirements	5	3
Redundancy	53	60
Charges to operating expenditure for on-SoFP FRIC 12 schemes (e.g. PFI / LIFT) on IFRS basis**	914	902
Charges to operating expenditure for off-SoFP IFRIC 12 schemes	6	5
Car parking & security	39	37
Hospitality	8	7
Losses, ex gratia & special payments	17	15
Grossing up consortium arrangements	7	8
Other services, eg external payroll	78	82
Other	313	319
NHS charitable funds: Other resources expended	36	38
<b>Total</b>	<b>80,802</b>	<b>79,129</b>

\* These are the audit fees disclosed by NHS providers and do not include the audit fee payable to the National Audit Office in respect of these consolidated accounts. This fee is accounted for within the NHS TDA's own accounts which are prepared separately. This fee is £120k.

\*\* 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 29.3.

## Note 5.2 Other auditor's remuneration

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

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

## Note 5.3 Limitation on auditor's liability

Liability caps are standard under most public sector frameworks. 161 (2016/17: 138) NHS providers disclosed a clause in their engagement letter with their auditors which states that the liability of the auditor (whether in contract, negligence or otherwise) shall in no circumstances exceed a fixed amount. The amount of that limit in 2017/18 ranges between £0.2 million to £5 million (2016/17: £0.2 million to £5 million).

## Note 6.1 Employee benefits

	Permanent £m	Other £m	2017/18 Total £m	2016/17 Total £m
Salaries and wages	39,018	1,211	40,229	38,637
Social security costs	3,861	62	3,923	3,730
Apprenticeship levy	191	1	192	-
Employer's contributions to NHS pensions	4,689	56	4,745	4,565
Pension cost - other	13	1	14	9
Other employment benefits	-	3	3	1
Termination benefits	38	-	38	38
Temporary staff (including agency)	-	3,160	3,160	3,626
NHS charitable funds staff	5	-	5	5
<b>Total gross staff costs</b>	<b>47,815</b>	<b>4,494</b>	<b>52,309</b>	<b>50,611</b>
Recoveries in respect of seconded staff	(77)	(2)	(79)	(64)
<b>Total staff costs</b>	<b>47,738</b>	<b>4,492</b>	<b>52,230</b>	<b>50,547</b>
<b>Included within:</b>				
Costs capitalised as part of assets	135	28	163	142

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 providers' 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	2017/18 Total Number	2016/17 Total Number
Medical and dental	104,684	17,178	121,862	118,678
Ambulance staff	28,587	310	28,897	28,826
Administration and estates	230,831	14,705	245,536	241,693
Healthcare assistants and other support staff	182,360	22,155	204,515	197,753
Nursing, midwifery and health visiting staff	341,933	35,771	377,704	377,408
Nursing, midwifery and health visiting learners	7,227	745	7,972	9,520
Scientific, therapeutic and technical staff	134,983	6,921	141,904	142,040
Healthcare science staff	21,394	561	21,955	20,359
Social care staff	1,677	489	2,166	2,235
Other	3,676	1,360	5,036	5,718
<b>Total average numbers</b>	<b>1,057,352</b>	<b>100,195</b>	<b>1,157,547</b>	<b>1,144,230</b>

Of which:

Number of employees (WTE) engaged on capital projects	3,105	465	3,570	3,231
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## Note 6.3 Retirements due to ill-health

During 2017/18 there were 907 retirements on the grounds of ill-health (2016/17:1,059). The estimated additional pension liability (calculated on an average basis and borne by the NHS Pensions Scheme) is £55 million (2016/17: £63 million).

## Note 6.4 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 providers.

Note 6.5 provides further analysis of the 'other departures' disclosed below.

2017/18	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
<b>Exit package cost band (including any special payment element)</b>			
<£10,000	367	1,756	2,123
£10,000 - £25,000	453	356	809
£25,001 - 50,000	341	227	568
£50,001 - £100,000	184	101	285
£100,001 - £150,000	59	13	72
£150,001 - £200,000	26	5	31
>£200,000	2	1	3
<b>Total number of exit packages by type</b>	<b>1,432</b>	<b>2,459</b>	<b>3,891</b>
Total resource cost (£m)	47	28	75

	Number of compulsory redundancies Number	Number of other departures agreed Number	Total number of exit packages Number
<b>2016/17</b>			
<£10,000	361	1,820	<b>2,181</b>
£10,000 - £25,000	412	469	<b>881</b>
£25,001 - 50,000	325	278	<b>603</b>
£50,001 - £100,000	183	96	<b>279</b>
£100,001 - £150,000	61	16	<b>77</b>
£150,001 - £200,000	29	1	<b>30</b>
>£200,000	1	-	<b>1</b>
<b>Total number of exit packages by type</b>	<b>1,372</b>	<b>2,680</b>	<b>4,052</b>
Total resource cost (£m)	45	32	<b>77</b>

#### Note 6.5 Exit packages: other (non-compulsory) departure payments

	2017/18		2016/17	
	Payments agreed Number	Total value of agreements £m	Payments agreed Number	Total value of agreements £m
Voluntary redundancies including early retirement contractual costs	156	6	204	7
Mutually agreed resignations (MARS) contractual costs	520	12	726	16
Early retirements in the efficiency of the service contractual costs	11	-	19	-
Contractual payments in lieu of notice	1,701	8	1,670	8
Exit payments following employment tribunals or court orders	64	1	55	1
Non-contractual payments requiring HM Treasury approval*	18	1	20	-
<b>Total</b>	<b>2,470</b>	<b>28</b>	<b>2,694</b>	<b>32</b>

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

In 2017/18 there were 2 non-contractual payments requiring HM Treasury approval made that were in excess of the individuals' salaries (2016/17: 4 payments totalling £243,000).

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 6.5 does not match the total numbers in note 6.4 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 6.6 Staff sickness absence

The HM Treasury FReM requires public sector bodies to disclose published staff sickness absence data. This disclosure is based on statistics published by NHS Digital (previously known as Health and Social Care Information Centre) for the calendar year from 1 January to 31 December drawn from the Electronic Staff Record (ESR) national data warehouse. Where providers consolidated within these accounts were authorised during the current or comparative year, full calendar year data has been used. Where NHS providers do not use ESR, the NHS Digital statistics have been supplemented with information from the annual reports of those trusts.

	2018 Number	2017 Number
Total days lost	10,035,241	9,946,488
Total staff years	1,063,251	1,048,222
<b>Average working days lost (per WTE)</b>	<b>9.4</b>	<b>9.5</b>

## 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 2017/18, the contribution rate was 14.3% (2016/17: 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 cost 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 whom are members of other pension schemes. Membership of these individual schemes is not material to the consolidated NHS provider accounts.

## Note 8 Impairment of 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.

	Impairments £m	Reversals £m	2017/18 Net impairments £m	2016/17 Net impairments £m
<b>Net impairments charged to operating surplus / deficit resulting from:</b>				
Loss or damage from normal operations	-	-	-	23
Over specification of assets	2	(1)	1	26
Abandonment of assets in course of construction	6	-	6	7
Unforeseen obsolescence	20	-	20	25
Loss as a result of catastrophe	10	-	10	-
Changes in market price	866	(548)	318	831
Other	267	(16)	251	396
<b>Total net impairments charged to operating surplus / deficit</b>	<b>1,171</b>	<b>(565)</b>	<b>606</b>	<b>1,308</b>
Impairments charged to the revaluation reserve	572	(174)	398	1,045
<b>Total net impairments</b>	<b>1,743</b>	<b>(739)</b>	<b>1,004</b>	<b>2,353</b>

In addition there is a revaluation surplus taken to the revaluation reserve of £1,285 million (2016/17: £378 million), as can be seen in the Statement of Changes in Equity.

## Note 9 Operating leases

### Note 9.1 Operating lease income

This note discloses income generated in operating lease agreements where NHS providers are the lessor.

	2017/18 £m	2016/17 £m
<b>Operating lease revenue</b>		
Minimum lease receipts	79	63
Contingent rent	4	6
Other	5	6
<b>Total</b>	<b>88</b>	<b>75</b>
	<b>31 March 2018 £m</b>	<b>31 March 2017 £m</b>
<b>Future minimum lease receipts due:</b>		
- not later than one year;	67	72
- later than one year and not later than five years;	140	142
- later than five years.	526	432
<b>Total</b>	<b>733</b>	<b>646</b>

### Note 9.2 Operating lease expense

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

	2017/18 £m	2016/17 £m
<b>Operating lease expense</b>		
Minimum lease payments	673	665
Contingent rents	2	2
Less sublease payments received	(3)	(3)
<b>Total</b>	<b>672</b>	<b>664</b>
	<b>31 March 2018 £m</b>	<b>31 March 2017 £m</b>
<b>Future minimum lease payments due:</b>		
On leases of land expiring		
- not later than one year;	13	6
- later than one year and not later than five years;	8	9
- later than five years.	21	16
On leases of buildings expiring		
- not later than one year;	362	352
- later than one year and not later than five years;	673	640
- later than five years.	773	727
On other leases expiring		
- not later than one year;	190	189
- later than one year and not later than five years;	322	306
- later than five years.	75	43
<b>Total</b>	<b>2,437</b>	<b>2,288</b>
Future minimum sublease payments to be received	(4)	(5)

## Note 10.1 Finance expenditure

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

	2017/18 £m	2016/17 £m
Interest incurred on:		
Loans from the Department of Health and Social Care	222	167
Other loans	7	8
Overdrafts	-	-
Finance leases	16	14
Interest on late payment of commercial debt	1	1
Main finance costs on PFI and LIFT schemes obligations	504	513
Contingent finance costs on PFI and LIFT scheme obligations	272	234
Other finance costs	1	2
<b>Total finance expenditure - financial liabilities</b>	<b>1,023</b>	<b>939</b>
Finance expense - unwinding of discount on provisions	2	2
<b>Total finance expenditure</b>	<b>1,025</b>	<b>941</b>

## Note 10.2 The late payment of commercial debts (interest) Act 1998

In 2017/18 65 NHS providers incurred expenditure arising from claims made under this legislation. The total amount included within other interest payable arising from claims made under this legislation in 2017/18 was £969k (2016/17: £557k). Total compensation paid to cover debt recovery costs under this legislation in 2017/18 was £19k (2016/17: £64k).

## Note 11 Other gains and losses

	2017/18 £m	2016/17 £m
<b>Gains/losses on disposal/derecognition of non-current assets</b>		
Profit on disposal of non-current assets	217	102
Loss on disposal of non-current assets	(11)	(22)
Profits/losses on disposal of non-current assets by NHS charitable funds	(5)	1
<b>Other gains/losses</b>		
Fair value gains/(losses) on investment property and other investments	77	45
Fair value gains/(losses) on charitable fund investment property and other investments	6	19
<b>Total other gains/(losses)</b>	<b>284</b>	<b>145</b>

## Note 12 Discontinued operations

	2017/18 £m	2016/17 £m
Operating income of discontinued operations	6	25
Operating expenses of discontinued operations	(5)	(23)
<b>Total</b>	<b>1</b>	<b>2</b>

4 NHS providers have reported discontinued operations in 2017/18 (2016/17: 6). These discontinued operations are not material to the consolidated NHS Provider accounts. These amounts have therefore not been shown separately on the face of the Statement of Comprehensive Income. Similarly, cash flows from discontinued operations have not been shown separately on the face of the Statement of Cash Flows.

## Note 13.1 Intangible assets - 2017/18

	Software licences £m	Licences & trademarks £m	Information technology £m	Development expenditure £m	Intangible assets under construction £m	Other £m	Total £m
<b>Valuation/gross cost at 1 April 2017 - brought forward</b>	<b>1,129</b>	<b>21</b>	<b>358</b>	<b>148</b>	<b>141</b>	<b>-</b>	<b>1,797</b>
Transfers by absorption	-	-	-	-	-	-	-
Adjustments to prior period accounted for in-year	(9)	-	7	-	-	-	(2)
Additions	129	2	27	16	122	2	298
Impairments	(12)	-	(20)	-	(15)	-	(47)
Reversals of impairments	1	1	-	-	-	-	2
Reclassifications	80	6	61	28	(101)	-	74
Revaluations	-	-	-	-	-	-	-
Disposals / derecognition	(25)	(1)	(7)	(8)	-	-	(41)
<b>Valuation/gross cost at 31 March 2018</b>	<b>1,293</b>	<b>29</b>	<b>426</b>	<b>184</b>	<b>147</b>	<b>2</b>	<b>2,081</b>
<b>Amortisation at 1 April 2017 - brought forward</b>	<b>619</b>	<b>11</b>	<b>184</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>873</b>
Transfers by absorption	0	0	0	0	0	0	-
Adjustments to prior period accounted for in-year	(4)	-	4	(1)	-	-	(1)
Provided during the year	130	3	45	21	-	-	199
Impairments	-	-	(1)	-	-	-	(1)
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	(4)	-	(1)	6	-	-	1
Revaluations	-	-	-	-	-	-	-
Disposals / derecognition	(23)	(1)	(7)	(8)	-	-	(39)
<b>Amortisation at 31 March 2018</b>	<b>718</b>	<b>13</b>	<b>224</b>	<b>77</b>	<b>-</b>	<b>-</b>	<b>1,032</b>
<b>Net book value at 31 March 2018</b>	<b>575</b>	<b>16</b>	<b>202</b>	<b>107</b>	<b>147</b>	<b>2</b>	<b>1,049</b>
<b>Net book value at 1 April 2017</b>	<b>510</b>	<b>10</b>	<b>174</b>	<b>89</b>	<b>141</b>	<b>-</b>	<b>924</b>

## Note 13.2 Intangible assets - 2016/17

	Software licences £m	Licences & trademarks £m	Information technology £m	Development expenditure £m	Intangible assets under construction £m	Other £m	Total £m
<b>Valuation/gross cost at 1 April 2016</b>	<b>974</b>	<b>18</b>	<b>320</b>	<b>120</b>	<b>108</b>	<b>1</b>	<b>1,541</b>
Transfers by absorption	-	-	-	-	-	-	-
Previous prior period adjustments accounted for in 2016/17	(2)	-	-	(6)	2	-	(6)
Additions	98	3	24	14	101	-	240
Impairments	(6)	-	-	-	(11)	(1)	(18)
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	78	2	32	22	(59)	-	75
Revaluations	-	-	(3)	-	-	-	(3)
Transfers to/ from assets held for sale	-	-	(1)	-	-	-	(1)
Disposals / derecognition	(13)	(2)	(14)	(2)	-	-	(31)
<b>Valuation/gross cost at 31 March 2017</b>	<b>1,129</b>	<b>21</b>	<b>358</b>	<b>148</b>	<b>141</b>	<b>-</b>	<b>1,797</b>
<b>Amortisation at 1 April 2016</b>	<b>509</b>	<b>10</b>	<b>159</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>727</b>
Transfers by absorption	-	-	-	-	-	-	-
Previous prior period adjustments accounted for in 2016/17	(2)	-	-	(5)	-	-	(7)
Provided during the year	119	2	42	17	-	-	180
Impairments	(1)	-	2	-	-	-	1
Reversals of impairments	-	-	-	-	-	-	-
Reclassifications	7	-	(1)	-	-	-	6
Revaluations	-	-	(3)	-	-	-	(3)
Transfers to/ from assets held for sale	-	-	(1)	-	-	-	(1)
Disposals / derecognition	(13)	(1)	(14)	(2)	-	-	(30)
<b>Amortisation at 31 March 2017</b>	<b>619</b>	<b>11</b>	<b>184</b>	<b>59</b>	<b>-</b>	<b>-</b>	<b>873</b>
<b>Net book value at 31 March 2017</b>	<b>510</b>	<b>10</b>	<b>174</b>	<b>89</b>	<b>141</b>	<b>-</b>	<b>924</b>
<b>Net book value at 1 April 2016</b>	<b>465</b>	<b>8</b>	<b>161</b>	<b>71</b>	<b>108</b>	<b>1</b>	<b>814</b>

# **Note 14.1 Property, plant and equipment - 2017/18**

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
<b>Valuation/gross cost at 1 April 2017 - brought forward</b>	<b>4,858</b>	<b>33,931</b>	<b>386</b>	<b>1,858</b>	<b>8,796</b>	<b>457</b>	<b>3,252</b>	<b>608</b>	<b>11</b>	<b>54,157</b>
Transfers by absorption	(15)	(33)	-	-	-	-	-	-	-	(48)
Adjustments to prior period recorded in-year	(52)	(303)	(3)	(1)	(4)	-	-	(5)	-	(368)
Additions	7	709	3	1,679	514	26	280	17	-	3,235
Impairments	(217)	(1,310)	(32)	(80)	(16)	-	(9)	-	-	(1,664)
Reversals of impairments	37	431	2	-	-	-	-	-	-	470
Reclassifications	(2)	779	(2)	(1,156)	134	27	67	4	3	(146)
Revaluations	82	368	3	-	(7)	-	(11)	(3)	1	433
Transfers to/ from assets held for sale	(44)	(17)	-	-	(6)	(7)	-	-	-	(74)
Disposals / derecognition	(50)	(50)	(3)	(2)	(453)	(41)	(171)	(40)	-	(810)
<b>Valuation/gross cost at 31 March 2018</b>	<b>4,604</b>	<b>34,505</b>	<b>354</b>	<b>2,298</b>	<b>8,958</b>	<b>462</b>	<b>3,408</b>	<b>581</b>	<b>15</b>	<b>55,185</b>
<b>Accumulated depreciation at 1 April 2017 - brought forward</b>	<b>93</b>	<b>2,224</b>	<b>39</b>	<b>10</b>	<b>5,987</b>	<b>293</b>	<b>2,194</b>	<b>419</b>	<b>3</b>	<b>11,262</b>
Transfers by absorption	-	(2)	-	-	-	-	-	-	-	(2)
Adjustments to prior period recorded in-year	(50)	(312)	(3)	-	(7)	-	-	(3)	-	(375)
Provided during the year	-	960	11	-	601	44	327	40	-	1,983
Impairments	9	6	3	9	(1)	-	-	-	-	26
Reversals of impairments	(6)	(250)	(1)	(9)	-	-	-	-	-	(266)
Reclassifications	-	(32)	(1)	-	(15)	-	(19)	(5)	-	(72)
Revaluations	(8)	(810)	(11)	(1)	(9)	-	(11)	(3)	-	(853)
Transfers to/ from assets held for sale	-	-	-	-	(4)	(8)	-	-	-	(12)
Disposals / derecognition	-	(20)	-	-	(432)	(40)	(168)	(39)	-	(699)
<b>Accumulated depreciation at 31 March 2018</b>	<b>38</b>	<b>1,764</b>	<b>37</b>	<b>9</b>	<b>6,120</b>	<b>289</b>	<b>2,323</b>	<b>409</b>	<b>3</b>	<b>10,992</b>
<b>Net book value at 31 March 2018</b>	<b>4,566</b>	<b>32,741</b>	<b>317</b>	<b>2,289</b>	<b>2,838</b>	<b>173</b>	<b>1,085</b>	<b>172</b>	<b>12</b>	<b>44,193</b>
<b>Net book value at 1 April 2017</b>	<b>4,765</b>	<b>31,707</b>	<b>347</b>	<b>1,848</b>	<b>2,809</b>	<b>164</b>	<b>1,058</b>	<b>189</b>	<b>8</b>	<b>42,895</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 providers.

# **Note 14.2 Property, plant and equipment - 2016/17**

	Land	Buildings excluding dwellings	Dwellings	Assets under construction	Plant & machinery	Transport equipment	Information technology	Furniture & fittings	NHS charitable fund assets	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Valuation/gross cost at 1 April 2016</b>	<b>5,234</b>	<b>34,981</b>	<b>390</b>	<b>1,743</b>	<b>8,587</b>	<b>452</b>	<b>3,118</b>	<b>574</b>	<b>10</b>	<b>55,089</b>
Transfers by absorption	(12)	(39)	-	-	-	-	-	-	-	(51)
Previous prior period adjustments accounted for in 2016/17	(3)	(118)	(1)	(1)	(19)	-	(9)	1	-	(150)
Additions	2	777	2	1,490	487	14	225	22	1	3,020
Impairments	(398)	(2,072)	(10)	(19)	(9)	(3)	(21)	(3)	-	(2,535)
Reversals of impairments	20	188	5	2	-	-	-	-	-	215
Reclassifications	39	905	1	(1,354)	119	26	126	39	-	(99)
Revaluations	16	(624)	4	-	(25)	-	(7)	(7)	-	(643)
Transfers to/ from assets held for sale	(20)	(17)	(2)	(1)	(25)	(8)	(22)	-	-	(95)
Disposals / derecognition	(20)	(50)	(3)	(2)	(319)	(24)	(158)	(18)	-	(594)
<b>Valuation/gross cost at 31 March 2017</b>	<b>4,858</b>	<b>33,931</b>	<b>386</b>	<b>1,858</b>	<b>8,796</b>	<b>457</b>	<b>3,252</b>	<b>608</b>	<b>11</b>	<b>54,157</b>
<b>Accumulated depreciation at 1 April 2016</b>	<b>81</b>	<b>2,337</b>	<b>38</b>	<b>1</b>	<b>5,777</b>	<b>280</b>	<b>2,074</b>	<b>386</b>	<b>3</b>	<b>10,977</b>
Transfers by absorption	-	-	-	-	-	-	-	-	-	-
Previous prior period adjustments accounted for in 2016/17	(4)	(62)	(1)	1	(16)	-	(8)	(1)	-	(91)
Provided during the year	-	993	11	-	613	45	313	40	-	2,015
Impairments	22	155	2	12	(4)	(2)	(4)	(1)	-	180
Reversals of impairments	(4)	(190)	-	-	-	-	-	-	-	(194)
Reclassifications	36	(54)	1	(4)	(23)	-	(6)	19	-	(31)
Revaluations	(32)	(935)	(11)	-	(28)	(1)	(7)	(7)	-	(1,021)
Transfers to/ from assets held for sale	-	(1)	-	-	(26)	(6)	(22)	-	-	(55)
Disposals / derecognition	(6)	(19)	(1)	-	(306)	(23)	(146)	(17)	-	(518)
<b>Accumulated depreciation at 31 March 2017</b>	<b>93</b>	<b>2,224</b>	<b>39</b>	<b>10</b>	<b>5,987</b>	<b>293</b>	<b>2,194</b>	<b>419</b>	<b>3</b>	<b>11,262</b>
<b>Net book value at 31 March 2017</b>	<b>4,765</b>	<b>31,707</b>	<b>347</b>	<b>1,848</b>	<b>2,809</b>	<b>164</b>	<b>1,058</b>	<b>189</b>	<b>8</b>	<b>42,895</b>
<b>Net book value at 1 April 2016</b>	<b>5,153</b>	<b>32,644</b>	<b>352</b>	<b>1,742</b>	<b>2,810</b>	<b>172</b>	<b>1,044</b>	<b>188</b>	<b>7</b>	<b>44,112</b>

### Note 14.3 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	4,404	22,982	230	2,082	2,272	170	1,045	156	12	<b>33,353</b>
Finance leased	37	169	17	7	143	2	23	1	-	<b>399</b>
On-SoFP PFI contracts and other service concession arrangements	23	8,336	54	132	143	-	5	-	-	<b>8,693</b>
PFI residual interests	-	-	2	-	-	-	-	-	-	<b>2</b>
Owned - government granted	-	53	-	4	4	-	1	-	-	<b>62</b>
Owned - donated	102	1,201	14	64	276	1	11	15	-	<b>1,684</b>
<b>NBV total at 31 March 2018</b>	<b>4,566</b>	<b>32,741</b>	<b>317</b>	<b>2,289</b>	<b>2,838</b>	<b>173</b>	<b>1,085</b>	<b>172</b>	<b>12</b>	<b>44,193</b>

### Note 14.4 Property, plant and equipment financing - 2016/17

	Land £m	Buildings excluding dwellings £m	Dwellings £m	Assets under construction £m	Plant & machinery £m	Transport equipment £m	Information technology £m	Furniture & fittings £m	NHS charitable fund assets £m	Total £m
<b>Net book value at 31 March 2017</b>										
Owned - purchased	4,593	22,298	250	1,732	2,266	161	1,030	174	8	<b>32,512</b>
Finance leased	49	148	22	-	146	2	13	1	-	<b>381</b>
On-SoFP PFI contracts and other service concession arrangements	24	8,104	61	5	119	-	6	1	-	<b>8,320</b>
PFI residual interests	-	-	2	-	-	-	-	-	-	<b>2</b>
Owned - government granted	-	55	-	2	3	-	-	-	-	<b>60</b>
Owned - donated	99	1,102	12	109	275	1	9	13	-	<b>1,620</b>
<b>NBV total at 31 March 2017</b>	<b>4,765</b>	<b>31,707</b>	<b>347</b>	<b>1,848</b>	<b>2,809</b>	<b>164</b>	<b>1,058</b>	<b>189</b>	<b>8</b>	<b>42,895</b>



**Note 15.1 Investment property**

	2017/18	2016/17
	£m	£m
<b>Carrying value at 1 April</b>	<b>201</b>	<b>173</b>
Acquisitions in year	-	8
Movement in fair value	76	45
Reclassifications to/from PPE	-	(1)
Transfers to/from assets held for sale	(4)	-
Disposals	(1)	(24)
<b>Carrying value at 31 March</b>	<b>272</b>	<b>201</b>
Held by:		
NHS providers excluding charitable funds	208	133
NHS charitable funds	64	68

**Note 15.2 Investment property income and expenses**

	2017/18	2016/17
	£m	£m
Direct operating expense arising from investment property which generated rental income in the period	2	2
Direct operating expense arising from investment property which did not generate rental income in the period	-	1
<b>Total investment property expenses</b>	<b>2</b>	<b>3</b>
Investment property income	9	6

**Note 15.3 Investments in associates and joint ventures**

	2017/18	2016/17
	£m	£m
<b>Carrying value at 1 April</b>	<b>74</b>	<b>52</b>
Adjustments to prior period accounted for in-year	-	(1)
Acquisitions in year	-	14
Share of profit/(loss)	9	12
Impairments	-	(2)
Disbursements / dividends received	(1)	(1)
Disposals	(3)	-
<b>Carrying value at 31 March</b>	<b>79</b>	<b>74</b>

Interests in subsidiaries, joint arrangements and associates are not material to these consolidated accounts. Where material to individual NHS providers relevant disclosures around the nature of investments and exposures to risk as required by IFRS 12 will be made in individual local accounts, including unconsolidated structured entities.

**Note 15.4 Other investments/financial assets (non-current)**

	2017/18	2016/17
	£m	£m
<b>Carrying value at 1 April</b>	<b>254</b>	<b>227</b>
Transfers by absorption	-	-
Adjustments to prior period accounted for in-year	(7)	(12)
Acquisitions in year	35	62
Movement in fair value	8	30
Impairments	-	(19)
Current portion of loans receivable transferred to current financial assets	(2)	-
Disposals	(44)	(34)
<b>Carrying value at 31 March</b>	<b>244</b>	<b>254</b>
Held by:		
NHS providers excluding charitable funds	10	8
NHS charitable funds	234	246

**Note 15.5 Other investments/financial assets (current)**

	2017/18	2016/17
	£m	£m
Loans receivable within 12 months transferred from non-current financial assets	2	-
NLF deposits (where not considered to be cash equivalents)	15	15
Other current financial assets	3	3
<b>Total current investments / financial assets at 31 March</b>	<b>20</b>	<b>18</b>

**Note 16 Inventories**

	31 March 2018	31 March 2017
	£m	£m
Drugs	339	323
Work in progress	1	1
Consumables	645	627
Energy	13	13
Other	44	37
<b>Total inventories</b>	<b>1,042</b>	<b>1,001</b>

Inventories recognised in expenses for the year were £9,284m (2016/17: £9,276m). Write-down of inventories recognised as expenses for the year were £12m (2016/17: £11m), with reversals of write-downs totalling £0m (2016/17: £0m)

## Note 17.1 Trade receivables and other receivables

	31 March 2018 £m	31 March 2017 £m
<b>Current</b>		
Trade receivables	3,075	2,499
Capital receivables	34	57
Accrued income	1,915	1,561
Provision for impaired receivables	(516)	(480)
Deposits and advances	4	6
Prepayments	754	822
Interest receivable	1	-
Finance lease receivables	-	1
PDC dividend receivable	46	55
VAT receivable	244	221
Corporation tax receivable	1	-
Other receivables	556	716
NHS charitable funds trade and other receivables	8	9
<b>Total current trade and other receivables</b>	<b>6,122</b>	<b>5,467</b>
<b>Non-current</b>		
Trade receivables	31	33
Capital receivables	21	25
Accrued income	32	35
Provision for impaired receivables	(28)	(24)
Deposits and advances	4	-
Prepayments	357	205
Interest receivable	-	-
Finance lease receivables	5	5
VAT receivable	2	-
Other receivables	224	188
NHS charitable funds trade and other receivables	1	1
<b>Total non-current trade and other receivables</b>	<b>649</b>	<b>468</b>

## Note 17.2 Provision for impairment of receivables

	2017/18	2016/17
	£m	£m
<b>At 1 April as previously stated</b>	<b>501</b>	<b>494</b>
Adjustments to prior period accounted for in-year	3	4
Increase in provision	205	163
Amounts utilised	(94)	(125)
Unused amounts reversed	(71)	(35)
<b>At 31 March</b>	<b>544</b>	<b>501</b>

## Note 17.3 Analysis of financial assets past due or impaired

	31 March 2018		31 March 2017	
	Trade and other receivables	Investments & Other financial assets	Trade and other receivables	Investments & Other financial assets
	£m	£m	£m	£m
<b>Analysis of impaired financial assets</b>				
0 - 30 days	64	-	63	-
30-60 Days	16	-	18	-
60-90 days	24	-	18	-
90- 180 days	68	-	58	-
Over 180 days	402	-	356	1
<b>Total</b>	<b>574</b>	<b>-</b>	<b>513</b>	<b>1</b>
<b>Ageing of non-impaired financial assets past their due date</b>				
0 - 30 days	1,112	17	1,032	11
30-60 Days	317	-	252	-
60-90 days	224	-	189	-
90- 180 days	324	-	239	-
Over 180 days	498	66	419	73
<b>Total</b>	<b>2,475</b>	<b>83</b>	<b>2,131</b>	<b>84</b>

## Note 18 Other assets

	31 March 2018	31 March 2017
	£m	£m
<b>Current</b>		
EU emissions trading scheme allowance	1	-
Short term PFI finance lease asset	-	8
<b>Total</b>	<b>1</b>	<b>8</b>
<b>Non-current</b>		
Net defined benefit pension scheme asset	2	2
Other assets	3	14
<b>Total</b>	<b>5</b>	<b>16</b>

## Note 19 Non-current assets for sale and assets in disposal groups

	2017/18	2016/17
	Total £m	Total £m
<b>NBV of non-current assets for sale and assets in disposal groups at 1 April</b>	<b>74</b>	<b>131</b>
Transfers by absorption	-	(1)
Plus assets classified as available for sale in the year	72	55
Less assets sold in year	(77)	(91)
Less impairment of assets held for sale	(4)	(5)
Less assets no longer classified as held for sale, for reasons other than disposal by sale	(5)	(15)
<b>NBV of non-current assets for sale and assets in disposal groups at 31 March</b>	<b>60</b>	<b>74</b>

£56m of the £60m non-current assets for sale at 31 March 2018 relates to property, plant and equipment.

There were no liabilities associated with non-current assets held for sale as at 31 March 2018 (31 March 2017: nil).

## Note 20.1 Cash and cash equivalents movements

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

	2017/18	2016/17
	£m	£m
<b>At 1 April</b>	<b>4,167</b>	<b>4,256</b>
Adjustments to prior period accounted for in-year	1	-
Net change in year	707	(89)
<b>At 31 March</b>	<b>4,875</b>	<b>4,167</b>
<b>Broken down into:</b>		
Cash at commercial banks and in hand (excluding charitable funds)	160	144
Cash with the Government Banking Service (excluding charitable funds)	4,480	3,464
Deposits with the National Loans Fund (excluding charitable funds)	80	417
Other current investments (excluding charitable funds)	4	2
NHS charitable funds cash and cash equivalents	151	140
<b>Total cash and cash equivalents as in SoFP</b>	<b>4,875</b>	<b>4,167</b>
Bank overdrafts (GBS and commercial banks)	(10)	(1)
<b>Total cash and cash equivalents as in SoCF</b>	<b>4,865</b>	<b>4,166</b>

## Note 20.2 Third party assets

The balance of third party assets, including patients' money held within the NHS providers' bank accounts at 31 March 2018 was £38 million (31 March 2017: £35 million). This has been excluded from the Statement of Financial Position as it is not an asset of the NHS providers but is held in trust on behalf of patients.

## Note 21.1 Trade and other payables

	31 March 2018 £m	31 March 2017 £m
<b>Current</b>		
Trade payables	2,279	2,426
Capital payables	746	599
Accruals	3,234	2,928
Receipts in advance	71	70
Social security costs	568	525
VAT payable	17	7
Other taxes payable	441	440
PDC dividend payable	14	7
Other payables	797	760
NHS charitable funds trade and other payables	7	9
<b>Total current trade and other payables</b>	<b>8,174</b>	<b>7,771</b>
<b>Non-current</b>		
Trade payables	4	12
Capital payables	3	3
Accruals	11	4
Receipts in advance	2	4
VAT payable	-	1
Other payables	14	15
<b>Total non-current trade and other payables</b>	<b>34</b>	<b>39</b>

## Note 22 Other liabilities

	31 March 2018 £m	31 March 2017 £m
<b>Current</b>		
Deferred income	765	720
Deferred grants	31	34
Deferred PFI income/credits	3	4
Lease incentives	1	1
NHS charitable funds other liabilities	1	1
<b>Total other current liabilities</b>	<b>801</b>	<b>760</b>
<b>Non-current</b>		
Deferred income	106	104
Deferred grants	2	2
Deferred PFI income/credits	55	59
Lease incentives	9	9
Net pension scheme liability	32	28
NHS charitable funds other liabilities	-	-
<b>Total other non-current liabilities</b>	<b>204</b>	<b>202</b>

## Note 23 Borrowings

	31 March 2018 £m	31 March 2017 £m
<b>Current</b>		
Bank overdrafts	9	1
Loans from the Department of Health and Social Care	1,699	596
Other loans	28	21
Obligations under finance leases	48	46
PFI lifecycle replacement received in advance	1	-
Obligations under PFI, LIFT or other service concession contracts (finance lease element)	278	266
<b>Total current borrowings</b>	<b>2,063</b>	<b>930</b>
<b>Non-current</b>		
Loans from the Department of Health and Social Care	9,316	7,515
Other loans	190	177
Obligations under finance leases	204	199
Obligations under PFI, LIFT or other service concession contracts (finance lease element)	8,925	9,136
<b>Total non-current borrowings</b>	<b>18,635</b>	<b>17,027</b>



## Note 24 Finance lease obligations

	31 March 2018 £m	31 March 2017 £m
Obligations under finance leases where NHS providers are the lessees:		
<b>Gross lease liabilities</b>	<b>378</b>	<b>346</b>
Of which liabilities are due:		
- not later than one year;	60	57
- later than one year and not later than five years;	159	158
- later than five years.	159	131
Finance charges allocated to future periods	(126)	(101)
<b>Net lease liabilities</b>	<b>252</b>	<b>245</b>
Of which payable:		
- not later than one year;	48	46
- later than one year and not later than five years;	123	121
- later than five years.	80	78
<b>Total of future minimum sublease payments to be received at the reporting date</b>	<b>-</b>	<b>-</b>

## Note 25.1 Provisions for liabilities and charges

	31 March 2018		31 March 2017	
	Current	Non-current	Current	Non-current
	£m	£m	£m	£m
Pensions	26	289	28	307
Other legal claims	52	31	55	31
Restructurings	14	3	15	4
Continuing care	4	-	1	5
Equal Pay (including Agenda for Change)	6	-	7	2
Redundancy	49	1	52	1
Other	258	154	261	163
<b>Total</b>	<b>409</b>	<b>478</b>	<b>419</b>	<b>513</b>

## Note 25.2 Provisions for liabilities and charges analysis

	Pensions	Other legal claims	Re-structuring	Continuing care	Equal Pay (including Agenda for Change)	Redundancy	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m
<b>At 1 April 2017</b>	<b>335</b>	<b>86</b>	<b>19</b>	<b>6</b>	<b>9</b>	<b>53</b>	<b>424</b>	<b>932</b>
Transfers by absorption	-	-	-	-	-	-	-	-
Adjustments to prior period accounted for in-year	4	1	-	-	-	-	(5)	-
Change in the discount rate	4	-	-	-	-	-	2	6
Arising during the year	22	30	11	-	1	42	167	273
Utilised during the year	(42)	(14)	(6)	(1)	-	(22)	(85)	(170)
Reclassified to liabilities held in disposal groups	-	-	-	-	-	1	(1)	-
Reversed unused	(9)	(20)	(7)	(1)	(4)	(24)	(90)	(155)
Unwinding of discount	1	-	-	-	-	-	-	1
<b>At 31 March 2018</b>	<b>315</b>	<b>83</b>	<b>17</b>	<b>4</b>	<b>6</b>	<b>50</b>	<b>412</b>	<b>887</b>
<b>Expected timing of cash flows:</b>								
- not later than one year;	26	52	14	4	6	49	258	409
- later than one year and not later than five years;	108	11	1	-	-	1	65	186
- later than five years.	181	20	2	-	-	-	89	292
<b>Total</b>	<b>315</b>	<b>83</b>	<b>17</b>	<b>4</b>	<b>6</b>	<b>50</b>	<b>412</b>	<b>887</b>

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

### **Note 25.3 Clinical negligence liabilities**

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

The consolidated total of this amount for NHS providers at 31 March 2018 is £27,899m (31 March 2017: £22,512m).

## Note 26 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.

	31 March 2018 £m	31 March 2017 £m
<b>Value of contingent liabilities</b>		
NHS Resolution legal claims	(11)	(11)
Employment tribunal and other employee related litigation	(2)	(4)
Other	(35)	(44)
<b>Gross value of contingent liabilities</b>	<b>(48)</b>	<b>(59)</b>
Amounts recoverable against liabilities	3	2
<b>Net value of contingent liabilities</b>	<b>(45)</b>	<b>(57)</b>
<b>Net value of contingent assets</b>	<b>29</b>	<b>18</b>

## Note 27.1 Contractual capital commitments

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

	31 March 2018 £m	31 March 2017 £m
Property, plant and equipment	1,223	1,481
Intangible assets	84	70
<b>Total</b>	<b>1,307</b>	<b>1,551</b>

## Note 27.2 Other financial commitments

NHS providers are committed to making payments under non-cancellable contracts (which are not leases, PFI contracts or other service concession arrangements), analysed by the period during which the payment is made:

	31 March 2018 £m	31 March 2017 £m
not later than 1 year	242	274
after 1 year and not later than 5 years	260	348
paid thereafter	86	45
<b>Total</b>	<b>588</b>	<b>667</b>

## Note 28.1 Changes in the defined benefit obligation and fair value of plan assets during the year

The NHS pension scheme is a defined benefit scheme, but assets and liabilities are not split between the individual NHS bodies. As such each NHS provider accounts for the scheme in the same manner as a defined contribution scheme and does not recognise the assets and liabilities in their accounts and the amounts are not recognised in these consolidated accounts.

As set out in accounting policy 1.4, some providers are also members of local defined benefit schemes. A consolidation of these amounts is disclosed in the note below.

	2017/18 £m	2016/17 £m
<b>Present value of the defined benefit obligation at 1 April</b>	<b>(181)</b>	<b>(109)</b>
Transfers by absorption	(50)	(42)
Adjustments to prior period accounted for in-year	13	-
Current service cost	(8)	(4)
Interest cost	(6)	(4)
Contribution by plan participants	(1)	(1)
Remeasurement of the net defined benefit (liability) / asset:		
- Actuarial (gains)/losses	9	(25)
Benefits paid	3	2
Past service costs	-	-
Curtailments and settlements	-	2
<b>Present value of the defined benefit obligation at 31 March</b>	<b>(221)</b>	<b>(181)</b>
<b>Plan assets at fair value at 1 April</b>	<b>154</b>	<b>98</b>
Transfers by absorption	46	35
Adjustments to prior period accounted for in-year	(13)	-
Interest income	5	4
Remeasurement of the net defined benefit (liability) / asset		
- Return on plan assets	1	10
- Actuarial gains/(losses)	-	7
- Changes in the effect of limiting a net defined benefit asset to the asset ceiling	(1)	-
Contributions by the employer	5	3
Contributions by the plan participants	1	1
Benefits paid	(3)	(2)
Settlements	-	(2)
<b>Plan assets at fair value at 31 March</b>	<b>195</b>	<b>154</b>
<b>Plan deficit at 31 March</b>	<b>(26)</b>	<b>(27)</b>

## Note 28.2 Reconciliation of the present value of the defined benefit obligation and the present value of the plan assets to the assets and liabilities recognised on the SoFP

	2017/18 £m	2016/17 £m
Present value of the defined benefit obligation at 31 March	(221)	(181)
Plan assets at fair value at 31 March	195	154
Fair value of any reimbursement right	-	1
The effect of the asset ceiling	(3)	-
<b>Net (liability)/asset recognised in the SoFP at 31 March</b>	<b>(29)</b>	<b>(26)</b>

## Note 28.3 Amounts recognised in the SoCI operating surplus

	2017/18	2016/17
	£m	£m
Current service cost	(8)	(4)
Interest expense	(1)	(1)
Past service cost	-	-
Losses on curtailment and settlement	-	-
<b>Total net charge recognised in SOCI</b>	<b>(9)</b>	<b>(5)</b>

## Note 29 On-SoFP PFI, LIFT or other service concession lease arrangements

### Note 29.1 Imputed finance lease obligations

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

	31 March 2018	31 March 2017
	£m	£m
<b>Gross PFI, LIFT or other service concession liabilities</b>	<b>17,971</b>	<b>18,483</b>
<b>Of which liabilities are due</b>		
- not later than one year;	848	838
- later than one year and not later than five years;	3,340	3,279
- later than five years.	13,783	14,366
Finance charges allocated to future periods	(8,768)	(9,088)
<b>Net PFI, LIFT or other service concession arrangement lease obligation</b>	<b>9,203</b>	<b>9,395</b>
- not later than one year;	278	259
- later than one year and not later than five years;	1,222	1,130
- later than five years.	7,703	8,006

### Note 29.2 Total service concession arrangement commitments

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

	31 March 2018	31 March 2017
	£m	£m
Total future payments due in:		
- not later than one year;	2,067	1,993
- later than one year and not later than five years;	8,579	8,227
- later than five years.	44,936	45,981
<b>Total</b>	<b>55,582</b>	<b>56,201</b>

## Note 29.3 Analysis of amounts payable to service concession operators

	2017/18 £m	2016/17 £m
<b>Unitary payment payable to service concession operator</b>	<b>2,048</b>	<b>1,995</b>
<b>Consisting of:</b>		
- Interest charge	504	513
- Repayment of finance lease liability	264	251
- Service element	866	872
- Capital lifecycle maintenance	66	78
- Revenue lifecycle maintenance	16	11
- Contingent rent	272	234
- Addition to lifecycle prepayment	60	36

## Note 30 Off-SoFP PFI, LIFT and other service concession arrangements

NHS providers incurred the following charges in respect of off-Statement of Financial Position PFI

	31 March 2018 £m	31 March 2017 £m
Charge in respect of the off SoFP PFI, LIFT or other service concession arrangement for the period	6	5
Commitments in respect of off-SoFP PFI, LIFT or other service concession arrangements payable in:		
- not later than one year;	6	5
- later than one year and not later than five years;	25	21
- later than five years.	37	34
<b>Total</b>	<b>68</b>	<b>60</b>

## Note 31 Financial instruments

### Note 31.1 Financial assets

	Loans and receivables £m	Assets held at fair value through the I&E £m	Held to maturity £m	Available- for-sale £m	Total £m
<b>Assets as per SoFP as at 31 March 2018</b>					
Trade and other receivables excluding non financial assets	5,073	-	-	-	5,073
Other investments/financial assets	48	5	3	1	57
Cash and cash equivalents at bank and in hand	4,724	-	-	-	4,724
NHS charitable funds financial assets	234	113	2	44	393
<b>Total at 31 March 2018</b>	<b>10,079</b>	<b>118</b>	<b>5</b>	<b>45</b>	<b>10,247</b>

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

	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>Assets as per SoFP as at 31 March 2017</b>					
Trade and other receivables excluding non financial assets	4,130	-	-	-	<b>4,130</b>
Other investments / financial assets	62	1	5	2	<b>70</b>
Cash and cash equivalents at bank and in hand	4,027	-	-	-	<b>4,027</b>
NHS charitable funds financial assets	223	120	1	27	<b>371</b>
<b>Total at 31 March 2017</b>	<b>8,442</b>	<b>121</b>	<b>6</b>	<b>29</b>	<b>8,598</b>

### Note 31.2 Financial liabilities

	31 March 2018 £m	31 March 2017 £m
<b>Financial liabilities</b>		
Borrowings excluding finance lease and PFI liabilities	11,244	7,941
Obligations under finance leases	251	245
Obligations under PFI, LIFT and other service concession contracts	9,203	9,403
Trade and other payables excluding non financial liabilities	7,003	6,413
Other financial liabilities	3	189
Provisions under contract	276	262
NHS charitable funds financial liabilities	5	7
<b>Total financial liabilities</b>	<b>27,985</b>	<b>24,460</b>

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

### Note 31.3 Maturity of financial liabilities

	31 March 2018 £m	31 March 2017 £m
<b>Financial liabilities fall due in:</b>		
In one year or less	9,325	8,035
In more than one year but not more than two years	2,960	1,679
In more than two years but not more than five years	5,277	4,726
In more than five years	10,423	10,021
<b>Total financial liabilities</b>	<b>27,985</b>	<b>24,461</b>

### Note 31.4 Fair values of financial instruments

In consolidating the information provided by providers, the fair values of financial instruments do not differ materially from the book values disclosed above.



## Note 31.5 Financial risk management

The risks arising from financial instruments and the NHS provider sector's policies and processes in response to these risks are described below. Individual NHS providers 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 providers 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 provider.

Under section 63 of the National Health Service Act 2006, NHS providers 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 providers 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 providers 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 82 NHS providers have included a material uncertainty or emphasis of matter paragraph within their audit opinions to draw attention to the going concern disclosure included within those accounts (2016/17: 70). This includes the auditors of Mid Staffordshire NHS Foundation Trust, whose accounts were not prepared on a going concern basis. In the NHS sector, the focus is on the continuity of services and NHS Improvement's oversight regime is established to ensure that provision of commissioner requested services is maintained. As such, it is deemed that there is not a risk that the wider sector would fail to meet its liabilities as they fall due.

### Credit risk

The vast majority of the NHS provider 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 providers are permitted to generate income derived from private patients and overseas patients without reciprocal arrangements, however this income contributes only 0.97% of total income from activities generated in the year to 31 March 2018 (2016/17: 0.95%). 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, £4.6 billion is held with the Government Banking Service and National Loans Fund. Individual providers have confirmed that they do not consider these deposits to be exposed to significant credit risk. The maximum exposures as at 31 March 2018 are in receivables, as disclosed in the trade and other receivables note.

### Currency risk

The NHS provider 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 provider sector has low exposure to currency risk.

### Interest rate risk

NHS providers have the power to enter into loans and working capital facilities with commercial lenders. NHS providers are also able to borrow from the Department of Health and Social Care. The term of DHSC loans can range up to 25 years but individual DHSC loan products may be shorter, with the potential for replacement DHSC loans to be at a different interest rate. However given the total interest paid to DHSC by NHS providers (see note 10) this is not a material risk to the consolidated NHS provider accounts.

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

**Note 32 Analysis of NHS charitable funds reserves**

	<b>31 March 2018 £m</b>	<b>31 March 2017 £m</b>
<b>Restricted funds:</b>		
Endowment funds	144	148
Other restricted income funds	118	101
<b>Unrestricted funds:</b>		
Unrestricted income funds	183	191
Revaluation reserve	3	4
Other reserves	1	2
<b>Total</b>	<b>449</b>	<b>446</b>

NHS charitable funds are consolidated by 50 NHS providers where the trust determines they have control (2016/17: 54) as outlined in accounting policy 1.1.

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

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

## Note 33.1 Losses and special payments

	2017/18		2016/17	
	Total number of cases Number	Total value of cases £m	Total number of cases Number	Total value of cases £m
<b>Losses</b>				
Cash losses	3,166	3	3,989	3
Fruitless payments	456	1	337	-
Bad debts and claims abandoned	37,218	58	35,786	31
Stores losses and damage to property	11,825	14	17,255	13
<b>Total losses</b>	<b>52,665</b>	<b>76</b>	<b>57,367</b>	<b>47</b>
<b>Special payments</b>				
Extra-contractual payments	4	-	5	-
Extra-statutory and extra-regulatory payments	5	-	8	-
Compensation payments under court order or legally binding arbitration award	481	7	785	5
Special severance payments	18	-	10	-
Ex-gratia payments	7,791	15	8,798	13
<b>Total special payments</b>	<b>8,299</b>	<b>22</b>	<b>9,606</b>	<b>18</b>
<b>Total losses and special payments</b>	<b>60,964</b>	<b>98</b>	<b>66,973</b>	<b>65</b>
Compensation payments received		-		1

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 providers may include some losses in other lines within that note.

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

In 2017/18 ten providers reported losses in excess of £0.3 million:

- The following two trusts have recorded losses for bad debt write offs totalling £14.913m:-
  - Imperial College Healthcare NHS Trust; and
  - Mid Essex Hospital Services NHS Trust.
- The following four trusts have reported losses for HSE fines totalling £4.054 million:-
  - Southern Health NHS Foundation Trust;
  - Shrewsbury and Telford Hospital NHS Trust;
  - Surrey and Borders Partnership NHS Foundation Trust; and
  - United Lincolnshire Hospitals NHS Trust.
- The following two trusts have recorded losses for contractual disputes totalling £1.896 million:-
  - East and North Hertfordshire NHS Trust; and
  - Imperial College Healthcare NHS Trust.
- Basildon and Thurrock NHS Foundation trust reported losses of £0.348 million with regard to a legionella infection claim.
- East and North Hertfordshire NHS Trust also recorded losses of £0.832 million in pathology partnership venture which it has deemed a fruitless venture.
- Guy's and St Thomas' NHS Foundation Trust incurred losses totalling £0.598 million as a result of fraud committed by a former employee.
- Royal Surrey County Hospital NHS Foundation Trust recorded losses of £0.457 million for pharmacy stock write offs.

In 2016/17, five individual losses were reported in excess of £0.3 million totalled £2.745 million:

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

## Note 33.2 Gifts

NHS providers granted 133 gifts with total value of £67,000. HM Treasury requires additional disclosure of gifts individually in excess of £0.3 million. No individual gift was in excess of £0.3 million.

## Note 34 Related parties

The Department of Health and Social Care is regarded as a related party of NHS trusts and 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 trusts and 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 provider accounts.

Details of NHS providers' material related party transactions are shown in the accounts of the individual NHS providers.

	Receivables		Payables	
	31 March 2018 £m	31 March 2017 £m	31 March 2018 £m	31 March 2017 £m
Value of balances (not salary) with board members and key staff	-	-	-	-
Value of provisions for doubtful debts held against related parties (excludes salaries)	3	2	-	-
Value of balances (other than salary) with related parties in respect of doubtful debts written off in year	-	-	-	-
Value of balances with other related parties:				
NHS charitable funds	15	17	4	1
Subsidiaries / Associates / Joint ventures	19	43	10	36
Other	182	141	165	227
<b>Total</b>	<b>219</b>	<b>203</b>	<b>179</b>	<b>264</b>

	Income		Expenditure	
	2017/18 £m	2016/17 £m	2017/18 £m	2016/17 £m
Value of transactions with board members and key staff	1	1	-	1
Value of transactions with other related parties				
NHS charitable funds	71	98	6	5
Subsidiaries / Associates / Joint Ventures	27	78	150	218
Other	370	484	710	975
<b>Total</b>	<b>469</b>	<b>661</b>	<b>866</b>	<b>1,199</b>

## Note 35 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: 2017/18

The following absorption transfers occurred within the NHS provider sector during 2017/18 and so the accounting entries have been eliminated within these consolidated 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
Essex Partnership University NHS Foundation Trust	North Essex Partnership University NHS Foundation Trust	1 April 2017	82	18	(16)	(29)	55	30
Essex Partnership University NHS Foundation Trust	South Essex Partnership University NHS Foundation Trust	1 April 2017	150	59	(27)	(34)	148	98
North West Anglia NHS Foundation Trust	Hinchingbrooke Health Care NHS Trust	1 April 2017	100	11	(14)	(66)	31	31
Manchester University NHS Foundation Trust	Central Manchester University Hospitals NHS Foundation Trust	1 October 2017	415	196	(131)	(373)	107	107
Manchester University NHS Foundation Trust	University Hospital of South Manchester NHS Foundation Trust	1 October 2017	200	49	(86)	(77)	86	86

Absorption transfers involving seven other providers also occurred but the net assets transferring totalled less than £10m. These transfers have not been detailed here. Opposite entries have been recorded in the accounts of the divesting NHS providers and so the impact of these transactions on the consolidated NHS provider accounts is nil.

The following absorption transactions occurred between NHS providers and other government bodies during 2017/18 and so reflect absorption movements in or out of the consolidated NHS provider accounts:

Details	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
	£m	£m	£m	£m	£m	£m
Transfers to NHS Property Services Ltd	(46)	-	-	7	(39)	-
Transfers from local authorities	-	-	-	(8)	(8)	-
<b>Totals</b>	<b>(46)</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>(47)</b>	<b>-</b>

## Transactions accounted for under absorption accounting: 2016/17

The following absorption transfers occurred within the NHS provider sector during 2016/17 and so the accounting entries have been eliminated within these consolidated accounts:

Receiving NHS provider	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	Calderstones Partnership NHS Foundation Trust	1 July 2016	54	6	(5)	(1)	54	19
Greater Manchester Mental Health NHS Foundation Trust	Manchester Mental Health and Social Care NHS Trust	1 January 2017	30	6	(13)	(14)	9	9
Birmingham Women's and Children's NHS Foundation Trust	Birmingham Women's NHS Foundation Trust	1 February 2017	45	13	(15)	-	43	43

A further transaction occurred between Royal Devon and Exeter NHS Foundation Trust and Northern Devon Healthcare NHS Trust but this was £1 million. Birmingham Women's NHS Foundation Trust previously consolidated its NHS charity within its accounts. The charitable funds were transferred to the Birmingham Children's Hospital Charity which is not consolidated by Birmingham Women's and Children's NHS Foundation Trust so funds of £0.7 million are no longer included in these consolidated accounts.

In relation to these intra-group transfers, opposite entries have been recorded in the accounts of the divesting NHS provider and so the impact of these transactions on the consolidated NHS provider accounts is nil apart from the change in charity consolidation outlined above.

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

Details	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Total net assets	PDC transfer
	£m	£m	£m	£m	£m	£m
Transfers to NHS Property Services Ltd	(51)	-	-	-	(51)	-
Transfers from local authorities	7	-	-	(7)	-	-
<b>Totals</b>	<b>(44)</b>	<b>-</b>	<b>-</b>	<b>(7)</b>	<b>(51)</b>	<b>-</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.

## **Note 36 Prior period adjustments**

### Sector-wide changes in accounting policy

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

### Approach to comparative disclosures

Consolidated provider accounts have been presented for the first time in 2017/18. While 2016/17 consolidated provider numbers have not been presented previously, the numbers involved comprise the numbers for foundation trusts, previously presented in the consolidated foundation trust accounts, and numbers for NHS trusts which formed part of the Department of Health and Social Care's group accounts.

Our policy in future years will be that where local prior period adjustments are not material to the consolidated provider accounts they will be shown as adjustments to the current year, without changing the presented prior year numbers. We have adopted this policy for the first year of presenting these accounts. The 2016/17 figures presented in these accounts are a consolidation of the accounts submitted by NHS trusts and NHS foundation trusts in 2016/17. Some reclassifications have subsequently occurred as part of NHS Improvement's work to align NHS trust and NHS foundation trust financial reporting. However if a provider has locally made a prior period adjustment, the impact of these are shown in notes to the statement of financial position in the current year. 2016/17 notes themselves also contain such lines, reflecting the same policy being applied to that period.

## **Note 37 Events after the reporting date**

On 1 April 2018, all services previously provided by Heart of England NHS Foundation Trust transferred to University Hospitals Birmingham NHS Foundation Trust and the divesting trust was dissolved.

During 2017/18, a number of services previously provided by Liverpool Community Healthcare NHS Trust transferred to other providers. On 1 April 2018, the remaining services and assets transferred to Mersey Care NHS Foundation Trust and the trust was dissolved.

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

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

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

These transactions will eliminate and therefore have no impact on the 2018/19 consolidated NHS provider accounts.

In accordance with the requirements of IAS 10, events after the reporting period are considered up to the date on which the accounts are authorised for issue. This is interpreted as the date of the Certificate and Report of the Comptroller and Auditor General.

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