

# NHS trust accounts

A guide for non-executives

Revised 2010 edition



The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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The Healthcare Financial Management Association (HFMA) is the UK representative body for finance professionals working in the NHS and the wider healthcare sector. Its aim is to support the NHS finance function, to promote good practice in financial management and to improve the general understanding of NHS finance issues.

Its work is informed by a number of committees and special interest groups made up of healthcare finance practitioners. It publishes numerous guides and briefings aimed at finance professionals, non-executive directors and non-finance staff and provides training and development opportunities – including a suite of e-learning modules – across all of these groups.

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# Foreword

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**Making sense of a set of accounts can be difficult in any sector. But in the NHS, where funding flows and reporting requirements are relatively complex and can be unfamiliar to those used to working in other sectors, the challenge can be particularly demanding. *NHS Trust Accounts: A Guide for Non-executives* aims to make the task a little easier.**

Produced as a companion to the well-established Healthcare Financial Management Association (HFMA) *Introductory Guide to NHS Finance*, the guide steers the reader step by step through the annual accounts.

The guide is particularly aimed at non-executives, who, along with their executive board colleagues, are required to approve and adopt the annual accounts. Non-executives, therefore, not only need to understand the accounts, but must be able to ask pertinent questions and challenge colleagues over the various entries. The guides are intended to support non-executives in providing effective scrutiny and ensuring accountability and value for money are demonstrated. However they are likely to be of help to anyone with an interest in interpreting an NHS trust's accounts.

Earlier versions of this guide have proved popular, but this new guide has been rewritten to reflect the requirement to prepare accounts according to the rules set out in the newly adopted International Financial Reporting Standards. The changes to the primary statements and to the reporting rules – which apply to accounts from 2009/10 onwards – mean that these guides should be of interest to experienced non-executives and newcomers alike.

The guide provides the reader with plain English explanations of the primary statements and notes, with additional boxed text for key concepts. It clearly explains the role of the non-executive and the external auditor. It also suggests questions that non-executives may wish to ask to assure themselves that the financial statements represent a true and fair view of the NHS trust's finances. And a newly added glossary provides quick, simple access to key finance terms and commonly used jargon.

Both the HFMA and the Audit Commission are committed to improving accountability and good financial reporting across the NHS and commend this guide to you. We hope you will find it helpful.

Paul Assinder, HFMA President

Andy McKeon, Managing Director, Health, Audit Commission

# Introduction

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## **NHS trusts have a statutory duty to produce an annual report and accounts, which is one of the main ways they discharge their accountability to taxpayers and service users for their stewardship of public money.**

- 1** The NHS trust's board of directors must formally adopt the accounts, also known as the financial statements, once they have been audited so it is therefore essential that non-executive directors (NEDs) understand them and the information that they contain. Alongside this formal requirement, NEDs need to understand the annual accounts if they are to fully appreciate the financial health of their organisation. This is because, while the accounts reflect the immediate past performance, they also set out the financial platform on which the organisation will build its future performance.
- 2** In 2007, the HFMA, in conjunction with the Audit Commission, published *NHS Trust Accounts: A Guide for Non-executives* (the guide) to take the reader through a set of NHS trust accounts. The guide was designed to help NEDs and other users understand and, more importantly, draw conclusions and ask pertinent questions about an NHS trust's accounts.
- 3** An update was produced in April 2009 to complement the original guide, describing the main changes to the accounts since publication and including additional questions that NEDs could ask to assure themselves that the financial statements represented a true and fair view of the organisation's finances.
- 4** This new version of the guide describes a set of NHS trust accounts prepared under International Financial Reporting Standards (IFRS). HM Treasury has required NHS organisations to prepare IFRS compliant accounts from 2009/10.
- 5** The guide provides the reader with easy-to-follow explanations of the primary statements and notes. It explains the role of the NED and the external auditor. It also includes an invaluable list of questions for NEDs to help them gain assurance that the financial statements represent a true and fair view of the NHS trust's finances.

## **International Financial Reporting Standards**

- 6** The most significant changes to the accounts from the introduction of IFRS are:
  - Private Finance Initiative (PFI) assets – PFI scheme assets and the associated liabilities are generally included on the Statement of Financial Position of NHS trusts whereas previously under UK Generally Accepted Accounting Practice (UK GAAP) they were not included on the NHS trust's Balance Sheet.
  - Leases – more arrangements are being classified as leases, with a greater number of those arrangements being recognised as finance leases and therefore being included on the Statement of Financial Position.
  - Disclosures – IFRS contain a significant number of additional disclosure requirements over and above those required by UK GAAP.

## **Format of the annual report and accounts**

- 7** NHS trusts produce their annual report and accounts as a single document, in the form specified in the *Manual for Accounts*, which is produced annually by the Department of Health (DH).

The annual report includes:

- a directors' report including a management commentary on the performance of the NHS trust;
- a remuneration report, which discloses salaries of the NHS trust's directors and senior managers; and
- any other information the NHS trust regards as necessary.

The accounts comprise:

- a foreword;
- four primary statements:
  - Statement of Comprehensive Income;
  - Statement of Financial Position (previously known as the Balance Sheet);
  - Statement of Changes in Taxpayers' Equity; and
  - Statement of Cash Flows.
- notes to the accounts;
- the directors' Statement of Responsibilities;
- the Statement on Internal Control; and
- the auditor's report.

- 8** This guide focuses on the four primary statements and the notes to the accounts. There is an example set of NHS trust accounts, comprising all four primary statements and some of the more significant notes, with explanations and suggested questions that NEDs might wish to ask.

## The primary statements

**9** The **Statement of Comprehensive Income** combines into one statement the Income and Expenditure Account and Statement of Total Recognised Gains and Losses, which were previously prepared under UK GAAP. This statement records the NHS trust's income and expenditure for the year, together with any other recognised gains and losses in summary form. It includes cash-related items such as expenditure on staff and supplies, as well as non-cash items such as a change in value of the NHS trust's assets. If income exceeds expenditure, the NHS trust has a surplus for the year. If expenditure exceeds income, there is a deficit.

**10** The **Statement of Financial Position**, formerly called the Balance Sheet under UK GAAP, provides a snapshot of the NHS trust's financial position at a specific date – the end of the financial year. In simple terms it lists assets (what the NHS trust owns or is owed), liabilities (what the NHS trust owes) and taxpayers' equity (public funds invested in the NHS trust). The Statement of Financial Position presents separately:

- non-current assets (assets the NHS trust expects to hold or use for more than a year);
- current assets (assets the NHS trust expects to use to carry out its operations in the coming year);
- current liabilities (financial obligations the NHS trust expects to discharge in the coming year); and
- non-current liabilities (financial obligations the NHS trust expects not to discharge in the short term).

At any given time, the NHS trust's total assets less its total liabilities must equal taxpayers' equity.

**11** The **Statement of Changes in Taxpayers' Equity** combines the information previously presented in the Movement on Reserves note and the Movement in Public Dividend Capital note under UK GAAP. It essentially shows the movement from the previous year on reserves and public dividend capital. It represents the taxpayer's investment in the NHS trust.

**12** The **Statement of Cash Flows**, formerly called the Cash Flow Statement under UK GAAP, summarises the cash flows of the NHS trust during the accounting period. It analyses cash flows under the headings of operating, investing and financing cash flows. The Statement of Cash Flows differs from the Statement of Comprehensive Income by focusing on the cash implications of the actions taken by the NHS trust during the year. The statement is useful in assessing whether the NHS trust has enough cash to be able to pay its bills.

## Notes to the accounts

**13** The notes to the accounts provide additional details about the entries in the primary statements as well as additional disclosures, such as the accounting policies the organisation follows when preparing its accounts.

## Prior year comparators and analytical review

**14** The accounts include figures for the year just ended alongside comparative figures for the prior year. This helps to show how income, expenditure, assets and liabilities have changed in comparison with the previous year.

**15** NEDs should ensure that they understand the reasons for changes in figures and can relate them to NHS trust actions and activities. This process forms the basis of an analytical review, which involves the explanation of significant variances from what was expected, for example from budget, or from the prior year. NEDs can do this by asking the questions included in this guide or alternatively management could provide NEDs with an analytical review. Even if figures are the same for two years, it may be useful to probe deeper. For instance, steady expenditure in a particular area could indicate a failure to deliver on a savings programme.

## Non-executive directors' responsibilities

**16** A critical aspect of a NED's role is to provide constructive challenge and scrutiny of the organisation's financial information and systems of control. To fulfil their responsibilities, NEDs need to satisfy themselves that the organisation's financial management arrangements are operating effectively and that the financial reporting and the Statement on Internal Control are both accurate. The Statement on Internal Control provides assurance about the system of internal control and demonstrates that accountable officers (chief executives) are managing the principal risks to the organisation achieving its objectives.

**17** The board of directors is also responsible for approving the annual report and accounts. This is the key document in which NHS trusts demonstrate their accountability to patients, commissioners and taxpayers.

## The role of the external auditor

**18** NHS trust external auditors are appointed by the Audit Commission. External auditors have two broad objectives:

- to review and report on the NHS trust's financial statements and Statement on Internal Control; and
- to review whether the NHS trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**19** In doing their work, auditors must comply with the Audit Commission's *Code of Audit Practice 2010 for Local NHS Bodies* and International Standards on Auditing (United Kingdom and Ireland)(ISAs(UK&I)). These require auditors to issue three reports arising from their work on the accounts:

- a report to 'those charged with governance' (the audit committee) on the main matters arising from the audit of the financial statements;<sup>i</sup>
- a statutory report and opinion on the accounts, which states whether the accounts give a 'true and fair view' of the NHS trust's income and expenditure during the period and of its financial position at the period end; and
- an annual audit letter summarising the key issues arising from their audit work throughout the year (not just their work on the accounts).

**20** Auditors also have special reporting powers and can use these to issue a public interest report or a referral to the Secretary of State.

**21** In addition to the annual report and accounts, an NHS trust may choose to publish its annual report with summary financial statements. If it does, the external auditor must review these and give an opinion on whether they are consistent with the annual report and full financial statements.

### Timetable

**22** Each year the DH sets the timetable for NHS trusts to prepare and auditors to audit the accounts, and publishes it in the *Manual for Accounts*. For 2009/10, the DH set the following deadlines:

- Draft annual accounts to be with auditors and the DH by 23 April 2010.
- Audited accounts and final text of the annual report to be with the DH by 11 June 2010. For this deadline to be achieved, the following need to have happened:
  - the auditor needs to present their report to those charged with governance;
  - the board of directors must approve the annual report and accounts;
  - the chief executive, as the accounting officer, must sign and date the accounts as evidence of their adoption; and
  - the auditor has to sign their opinion on the accounts.

# The primary statements

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<sup>i</sup> It is for the auditors to determine who 'those charged with governance' are at an NHS trust. It is expected, however, that this will be the audit committee in the first instance and the NHS trust board if the auditors feel that the issue is significant.

## Statement of Comprehensive Income for the year ended 31 March

	Note	Current year £000	Prior year £000
<b>Revenue</b>			
Revenue from patient care activities	5	163,527	162,002
Other operating revenue	6	19,815	19,123
Operating expenses	8	(178,499)	(176,093)
<b>Operating surplus (deficit)</b>		<b>4,843</b>	<b>5,032</b>
<b>Finance costs</b>			
Investment revenue	14	386	211
Other gains and (losses)	15	0	0
Finance costs	16	(2,087)	(2,116)
<b>Surplus/(deficit) for the financial year</b>		<b>3,142</b>	<b>3,127</b>
Public dividend capital dividends payable		(4,008)	(4,614)
<b>Retained surplus/(deficit) for the year</b>		<b>(866)</b>	<b>(1,487)</b>
<b>Other comprehensive income</b>			
Impairments and reversals		(19,579)	(5,345)
Gains on revaluations		0	0
Receipt of donated or government granted assets		1,195	227
Net gain/(loss) on other reserves (for example, defined benefit pension scheme)		0	0
Net gains/(losses) on available for sale financial assets		0	0
Reclassification adjustments:			
- Transfers from donated and government grant reserves		(399)	(361)
- On disposal of available for sale financial assets		0	0
<b>Total comprehensive income (expense) for the year</b>		<b>(19,649)</b>	<b>(6,966)</b>

### Box A

#### Public dividend capital

When NHS trusts were first created, everything they owned (land, buildings, equipment and working capital) was transferred to them from the government. The value of these assets is in effect the public's equity stake in the new NHS trusts and is known as public dividend capital. It is similar to company share capital and as with company shares, a dividend is payable to the DH. The public dividend capital dividend is calculated at 3.5 per cent of net relevant assets – a measure of how much the NHS trust owns. The government can issue new public dividend capital. This requires a statutory instrument. In the past, new public dividend capital was the primary source of finance for NHS trusts' capital projects, but this has been replaced by a borrowing system. Issuing new public dividend capital is now unusual. In specific circumstances, NHS trusts may repay public dividend capital. Again, this is unusual.

The Statement of Comprehensive Income records the NHS trust's income and expenditure for the year together with any other recognised gains and losses. It includes both cash and non-cash items. These other recognised gains and losses are those that the NHS trust has made but not yet realised, for example, if the value of assets has increased, but the assets have not been sold so there is no cash profit. In essence the gain is only 'potential'.

The Note column references to the appropriate note to the accounts, which gives more detail.

The top part of the income statement records revenue, or income, earned during the current year.

This includes all income from patient care. The main source of income is from primary care trusts. Other sources of income are private patients and the NHS Injury Costs Recovery scheme.

Non-patient care income including education, training and research funding.

All operating costs including own staff, supplies, premises costs and services from other NHS and non-NHS bodies.

This is the sum of the previous rows. It is the income minus the direct running costs and is equivalent to the operating profit or loss in the private sector.

This includes interest received from bank accounts.

This could include a gain or loss on the sale of an asset compared with the asset's value as recorded in the Statement of Financial Position.

Finance costs include bank interest payable and interest on PFI obligations. See Box E on Page 21.

The dividend paid to the DH to reflect the public equity invested in the NHS trust. See Box A on Page 12.

This shows whether the NHS trust has achieved breakeven for the year. Note that the statutory duty to break even is measured 'taking one year with another', which is normally measured over three years, so a retained deficit for just one year does not mean a breach of the statutory duty.

The bottom part of the income statement shows other comprehensive income which is made up of all other gains and losses that are not recorded in the revenue section at the top. These items do not impact on the retained surplus or deficit and so do not impact on the breakeven duty. These figures can all be found on the Statement of Changes in Taxpayers' Equity.

These represent reductions (impairments) and gains compared to asset values previously recorded in the Statement of Financial Position. See Box C on Page 19.

This is the value of any assets donated during the year to the NHS trust or financed by non-DH government grants.

This relates to defined benefits pension schemes other than the NHS pension scheme and is relevant where an NHS trust has taken on local government employees (for example social care workers) who are still members of the local government pension scheme. Any change in the surplus or deficit of that scheme is recorded here. Movements on other reserves are unusual.

It would be unusual for an NHS trust to have an entry in this line.

NHS trusts charge depreciation on all their assets, including those that are donated. The depreciation appears in operating expenses. But as explained in Box D, Page 20, this depreciation is offset in the Statement of Comprehensive Income by a transfer of notional income from the donated asset reserve (reported as other operating revenue). The Statement of Financial Position remains in balance and there is no impact on the NHS trust's operating surplus/deficit. However, a proportion of the asset's value has been used up in the year and this is reflected here in the other comprehensive income section by including the sums transferred from the Statement of Changes in Taxpayers' Equity – effectively reversing the impact of the notional income.



## Statement of Financial Position as at 31 March

	Note	Current year £000	Prior year £000
<b>Non-current assets</b>			
Property, plant and equipment	17	147,529	166,901
Intangible assets	18	1,965	1,660
Investment property		0	0
Other financial assets	23	0	0
Trade and other receivables	22	479	322
<b>Total non-current assets</b>		<b>149,973</b>	<b>168,883</b>
<b>Current assets</b>			
Inventories	21	1,009	1,008
Trade and other receivables	22	11,355	10,835
Other financial assets	23	0	0
Other current assets	24	0	0
Cash and cash equivalents	25	4,816	6,084
		<b>17,180</b>	<b>17,927</b>
Non-current assets held for sale	26	0	0
<b>Total current assets</b>		<b>17,180</b>	<b>17,927</b>
<b>Total assets</b>		<b>167,153</b>	<b>186,810</b>
<b>Current liabilities</b>			
Trade and other payables	27	(20,401)	(19,736)
Borrowings	28	(620)	(658)
DH working capital loan		0	0
DH capital loan		0	0
Other financial liabilities	34	0	0
Provisions	35	(1,000)	(749)
Other liabilities	29	0	0
<b>Net current assets/(liabilities)</b>		<b>(4,841)</b>	<b>(3,216)</b>
<b>Total assets less current liabilities</b>		<b>145,132</b>	<b>165,667</b>
<b>Non-current liabilities</b>			
Trade and other payables	27	(215)	(157)
Borrowings	28	(34,479)	(35,580)
DH working capital loan		0	0
DH capital loan		0	0
Other financial liabilities	34	0	0
Provisions	35	(1,513)	(1,356)
Other liabilities	29	0	0
<b>Total assets employed</b>		<b>108,925</b>	<b>128,574</b>

This statement provides a snapshot of the NHS trust's financial position at a point in time. The top half shows the NHS trust's total net assets (assets minus liabilities). The bottom half shows the taxpayer's equity, or investment, in the NHS trust, and must equal the top half.

Non-current assets are those that the NHS trust expects to keep for more than a year.

Land, buildings, dwellings, assets under construction, plant and machinery, transport, IT and furniture and fittings. See Box C on Page 19.

Computer software licences, other licences, patents and development expenditure.

Property held for commercial return and not used or occupied by the NHS trust.

NHS trusts do not generally have powers to invest surplus funds. Deposits with the DH would be shown as 'other financial assets' in the current assets section.

Amounts owed to the NHS trust (receivables or debtors) are analysed between those due within 12 months and over 12 months. If the NHS trust is owed money for work it has undertaken during the year then that income is recorded in the Statement of Comprehensive Income as income even though the money has not yet been received. The income is not yet in the NHS trust's bank account but is recorded here as money owed to the NHS trust.

Current assets are those that the NHS trust expects to keep for less than one year.

Inventories are stocks (for example, sterile stores and pharmacy stocks).

Current assets that do not fit into any other category. EU Greenhouse Gas Emissions Trading Scheme or Carbon Reduction Commitment allowances could be recorded here, or in non-current intangible assets, if they relate to the longer term.

This includes all cash balances in bank accounts. Overdrafts generally appear as separate liabilities rather than being offset against other cash and bank balances.

For example, a building that is up for sale. Classifying an asset here, as part of current assets, reflects the fact that the NHS trust only expects to use the building in the short term.

Money the NHS trust owes, including invoices it has not yet paid.

Amounts the NHS trust owes that are expected to be settled within 12 months.

Bank overdrafts, loans, and the loan element of PFI contracts and some leases.

Money owed to the DH to be settled within 12 months.

This could, for example, include the NHS trust's portion of a local government pension scheme deficit, if some NHS trust staff have transferred from a local council and are members of the council's pension scheme.

An NHS trust makes a provision for a payment it expects to have to make in the future as a result of an event during the year. See Box B on Page 16.

Amounts the NHS trust owes that it expects to settle after more than 12 months.

This section shows long-term liabilities classified the same way as the short-term liabilities above.

Money owed to the DH that will not be settled within 12 months.

This could include deferred income, which is income received in advance. For example, an NHS trust may receive income in one year even though they are not due to spend the money until the next year. This liability reflects the fact that the NHS trust already has the money in its bank account, and must spend it in the coming year.

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	Note	Current year £000	Prior year £000
<b>Financed by taxpayers' equity</b>			
Public dividend capital		57,131	57,131
Retained earnings		(2,267)	(2,710)
Revaluation reserve		47,883	67,933
Donated asset reserve		5,764	5,775
Government grant reserve		414	445
Other reserves		0	0
<b>Total taxpayers' equity</b>		<b>108,925</b>	<b>128,574</b>

Public dividend capital is the public's equity stake in the NHS trust. See Box A on Page 12.

Retained earnings is the aggregate surplus or deficit the NHS trust has made in former years.

Reserves record how the total assets employed (top half of the Statement of Financial Position) are financed. See Box D on Page 20.

The revaluation reserve shows the increases in the value of assets owned by the NHS trust. See Box C on Page 19.

Other reserves are unusual. They are only allowed in specific circumstances.

### Questions

Have any items changed significantly since last year or are they not what you expect from your knowledge of the NHS trust's activities?

If the property, plant and equipment figure has decreased, is this because the NHS trust has disposed of something, or have valuations resulted in impairments?

Are receivables significantly different to the amount shown for last year? Does the NHS trust have more money tied up in debtors?

Have trade payables (creditors) increased? How much money does the NHS trust owe its suppliers? If this is a significantly greater amount than this time last year, the NHS trust may be experiencing cash flow problems.

If provisions have increased, why is this? If there are large borrowings, do you know what they are? Does the NHS trust have any loans that it is in the process of repaying? Has it made the repayments it should have done during the year?

### Box B

#### Provisions

NHS trusts make provisions when there is an uncertain future liability. For example, it expects to have to make a payment in future as a result of an event that has already happened but there is uncertainty over exactly when and how much it will have to pay. An example could be where a member of staff has made a personal injury claim against the NHS trust. The NHS trust would analyse the particular

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circumstances (often with help from a legal advisor) to decide how likely it is that the NHS trust will have to pay out some money. If the NHS trust is more likely than not to have to make a payment, then this is recognised in the Statement of Comprehensive Income by including an estimate of the payment within operating expenses. This recognises that the expenditure relates to the current year. However, at this point there has been no cash pay out, which would be reflected in reduced cash held by the NHS trust. Instead the expected future payment is recorded in the provisions line on the Statement of Financial Position (current, non-current or split between the two, according to when it is likely to be paid).

Some legal claims can take a long time to resolve. If it is likely that a claim will not be resolved within a year, the NHS trust needs to take into account the time value of money: a payment in five years' time is worth less than the same payment made now, because of the impact of inflation. To take account of this, provisions in the accounts are discounted. This reduces the value of the provision in the accounts. As time passes and the expected settlement date gets closer, this discount is gradually reversed, so that the value of the provision in the Statement of Financial Position is increased. This continues until eventually there is no reduction to allow for the time value of money, and the full amount of the provision is reflected in the accounts. Each year as the provision is increased, the value of the increase is charged to the Statement of Comprehensive Income. This is known as unwinding the discount and appears within the finance costs line of the Statement of Comprehensive Income.

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An example is shown below. An organisation expects to pay £100,000 in five years time to a member of staff for an anticipated personal injury claim. For ease, assume the time value of money would mean that the value of £100,000 in year 1 was £91,500, £93,550 in year 2, £95,650 in year 3, £97,800 in year 4 and £100,000 in year 5. The impact on the Statement of Comprehensive Income and Statement of Financial Position in the five years would be as in Figure 1.

No provision is recorded in year 5, however the actual payout would reduce the cash held by £100,000 and will be recorded in the Statement of Cash Flows as an outflow due to utilisations of provisions.

NHS trusts do not have to make provisions for clinical negligence claims as these are managed centrally by the NHS Litigation Authority and are therefore not included in the accounts of individual NHS trusts. NHS trusts pay an annual premium to the NHS Litigation Authority, which is recorded as an operating expense in the Statement of Comprehensive Income and in Note 8 operating expenses.

Figure 1

	Year 1 The member of staff makes a claim against the NHS trust	Year 2	Year 3	Year 4	Year 5 The NHS trust pays out £100,000
Expenditure recorded in Statement of Comprehensive Income	£91,500	£2,050	£2,100	£2,150	£2,200
Statement of Financial Position – Non-current liability	£91,500	£93,550	£95,650		
Statement of Financial Position – Current liability				£97,800	£0

**Box C**

**Valuation, revaluation and impairment**

As of 31 March 2010, NHS assets are held at fair value. Assets are revalued regularly by professional valuers, who have to apply prescribed rules and methodologies.

NHS bodies are required to use a modern equivalent asset approach when valuing property, plant and equipment. This means that the fair value of some assets such as hospitals is deemed to be the replacement cost of a modern equivalent asset with the same service potential. Instead of considering the cost of rebuilding an existing hospital, as happened with the previous methodology, the valuer considers the cost of building a new hospital, using modern materials and design techniques, possibly even on a different site. This new methodology is likely to result in specialised buildings (hospitals) being valued at less than they had been under the old rules.

The value of assets shown in the Statement of Financial Position is always the new, up-to-date value. If an asset has increased in value, there is a revaluation gain, which is shown as ‘other comprehensive income’ in the Statement of Comprehensive Income, and there is a corresponding increase in the revaluation reserve. If an asset has decreased in value, this is called an impairment. The impairment is shown in the same way as a revaluation gain (as negative ‘other comprehensive income’ in the Statement of Comprehensive Income and a reduction in the revaluation reserve), except where the value of the impairment is greater than the revaluation reserve held for that asset, generated by previous increases in value. If this is the case, then the excess impairment above the amount held in the revaluation reserve is recorded as expenditure in the Statement of Comprehensive Income. This impacts on the surplus or deficit for the year, rather than on reserves. However, the impact of impairments is not taken into account in measuring the NHS trust’s performance against its breakeven duty (see Note 39).

## Box D

### Reserves

The Statement of Financial Position is made up of two parts: the top part shows the NHS trust's assets and liabilities and the net total; the bottom part shows how the net assets are financed. The totals of the two parts of the statement must always be equal. The bottom part of the Statement of Financial Position is made up of public dividend capital, which is the government's original equity stake in the NHS trust (see Box A on Page 12) and reserves, which represent the additional value the NHS trust has added since then. The reserves are split up to show the different ways value has been added.

Retained earnings is the total net surplus or deficit from all the years of the NHS trust's operation. In this example, retained earnings are negative, which means that the NHS trust has a cumulative net deficit.

The revaluation reserve shows the increase in the value of the assets the NHS trust owns (see Box C on Page 19).

The donated asset reserve and government grant reserve show the value of assets donated or granted to the NHS trust. Value is added when the asset is donated and when it is revalued. Donated and government grant funded assets are depreciated in the same way as other assets, and the depreciation is charged to operating expenses in the Statement of Comprehensive Income. To prevent the NHS trust's financial position from suffering through having to provide depreciation on a donated asset, there is an equal and opposite transfer of income from the donated or government grant funded asset reserve or government grant reserve to other operating revenue in the Statement of Comprehensive Income. The amount transferred can be seen in Note 8 Other operating revenue. This means that the value of the asset in the Statement of Financial Position remains balanced by the value in the donated asset reserve or government grant reserve and the NHS trust faces no revenue consequences from donated asset or government grant funded asset depreciation.

Other reserves are unusual. This line allows any specific circumstances to be accounted for separately if this is necessary, so that the total reserves can balance with the total net assets. This line can only be used with the permission of the DH.

The Statement of Changes in Taxpayers' Equity analyses the movements in reserves and public dividend capital since the previous year.

## Box E

### Private Finance Initiative

PFI is a way of funding major capital investments without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects.

Contracts typically last for 30 years, during which time the NHS trust leases the building for a single annual unitary payment.

In most, if not all, cases, the new asset (usually the PFI hospital building) will be shown on the Statement of Financial Position, as an asset of the NHS trust. This reflects that, although the NHS trust has not fully financed the new project, it does have control over it. The NHS trust includes the value of the asset in its property, plant and equipment. This figure is provided by the NHS trust's valuer.

The Statement of Financial Position will also record a PFI liability. This represents the amount that the NHS trust owes to the private sector operator in respect of the PFI project. The NHS liability is recorded within financial liabilities. The calculation of the liability is complex. The liability will be similar in size to the value of the asset.

As the project progresses, the NHS trust makes its unitary payment to the PFI operator for each year of the contract. The accounting entries are complex and do not just amount to the annual unitary payment. Instead, the Statement of Comprehensive Income shows separate amounts for the service charge, the finance cost (interest) of the project and depreciation of the asset.

Note 33 to the accounts (PFI projects) gives some additional information about PFI schemes, including the figures in the accounts relating to PFI, and some qualitative information.

## Statement of Changes in Taxpayers' Equity

	Public dividend capital	Retained earnings	Revaluation reserve
	£000	£000	£000
<b>Balance at 31 March (prior year)</b>			
As previously stated	57,131	(2,710)	67,933
Prior period adjustment	0	0	0
<b>Restated balance at 1 April</b>	<b>57,131</b>	<b>(2,710)</b>	<b>67,933</b>
<b>Changes in taxpayers' equity for the year</b>			
Total comprehensive income for the year:			
- Retained surplus/(deficit) for the year	0	(866)	0
- Transfers between reserves	0	1,309	(1,309)
Impairments and reversals	0	0	(18,741)
Net gain on revaluation of property, plant and equipment	0	0	0
Net gain on revaluation of intangible assets	0	0	0
Net gain on revaluation of financial assets	0	0	0
Net gain on revaluation of non-current assets held for sale	0	0	0
Receipt of donated/government granted assets	0	0	0
Net gain/(loss) on other reserves (for example, defined benefit pension scheme)	0	0	0
Movements in other reserves	0	0	0
Reclassification adjustments:			
- transfer from donated asset/government grant reserve	0	0	0
- on disposal of available for sale financial assets	0	0	0
Reserves eliminated on dissolution	0	0	0
Originating capital for trust establishment in year	0	0	0
New public dividend capital received	0	0	0
Public dividend capital repaid in year	0	0	0
Public dividend capital written off	0	0	0
Other movements in public dividend capital in year	0	0	0
<b>Taxpayers' equity at 31 March</b>	<b>57,131</b>	<b>(2,267)</b>	<b>47,883</b>

NHS trusts will also have to include a comparative note showing Changes in Taxpayers' Equity in the previous year.

### Questions

Do the figures that come from the Statement of Comprehensive Income and Statement of Financial Position agree with those statements?

Has there been a prior period adjustment (see Box G on Page 47) as a result of last year's figures having to be changed? Is this due to a change in accounting policy which is reflected in the notes to the accounts?

>>>

Donated asset reserve	Government grant reserve	Other reserves	Total
£000	£000	£000	£000
5,775	445	0	128,574
0	0	0	0
<b>5,775</b>	<b>445</b>	<b>0</b>	<b>128,574</b>
0	0	0	(866)
0	0	0	0
(838)	0	0	(19,579)
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
1,195	0	0	1,195
0	0	0	0
0	0	0	0
0	0	0	0
(368)	(31)	0	(399)
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
0	0	0	0
<b>5,764</b>	<b>414</b>	<b>0</b>	<b>108,925</b>

This statement shows the movement in reserves in the period. It shows in greater detail how taxpayers' equity, used to finance the total assets employed, changed between the current and previous year.

For details on reserves see Box D on Page 20. Other reserves are unusual. They are only permitted in particular circumstances specified by the DH.

This row mirrors the figures for the previous year already reported in the bottom half of the Statement of Financial Position.

These figures are taken from the Statement of Comprehensive Income.

The donated asset and government granted asset reserves represent the value of assets the trust has had donated or granted. Transfers are made from these reserves when the value of the assets change due to depreciation, revaluation, impairment, or there is a gain or loss on disposal.

Movements on public dividend capital are unusual.

This row agrees to the bottom of the Statement of Financial Position (current year figures).

### Questions

Are there any large changes to the revaluation reserve? If so, have these been explained?

If there has been a transfer between reserves has this been explained?

Do the lines that should net to zero do so?

## Statement of Cash Flows

	Note	Current year £000	Prior year £000
<b>Cash flows from operating activities</b>			
Operating surplus/(deficit)		4,843	5,032
Depreciation and amortisation		5,717	5,889
Impairments and reversals		1,136	1,477
Net foreign exchange gains/(losses)		0	0
Transfer from donated asset reserve		(368)	(392)
Transfer from government grant reserve		(31)	(33)
Interest paid		(2,087)	(2,116)
Dividends paid		(4,008)	(4,614)
(Increase)/decrease in inventories		(1)	4
(Increase)/decrease in trade and other receivables		(677)	(220)
(Increase)/decrease in other current assets		0	0
Increase/(decrease) in other payables		723	(414)
Increase/(decrease) in other current liabilities		0	0
Increase/(decrease) in provisions	35	408	127
<b>Net cash inflow/(outflow) from operating activities</b>		<b>5,655</b>	<b>4,740</b>
<b>Cash flows from investing activities</b>			
Interest received		386	211
(Payments) for property, plant and equipment	17	(6,376)	(2,919)
Proceeds from disposal of property, plant and equipment		0	463
(Payments) for intangible assets	18	(26)	0
Proceeds from disposal of intangible assets		0	0
(Payments) for investments with DH		0	0
(Payments) for other investments		0	0
Proceeds from disposal of investments with DH		0	0
Proceeds from disposal of other financial assets		0	0
Revenue from rental income		232	229
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(5,784)</b>	<b>(2,016)</b>
<b>Net cash inflow/(outflow) before financing</b>		<b>(129)</b>	<b>2,724</b>

>>>

This section looks at the cash flows resulting from the NHS trust's operating activities.

This is the operating surplus/deficit figure from the Statement of Comprehensive Income. But an operating surplus/deficit cannot be translated into an increase/decrease in actual cash held by the NHS trust as it includes cash and non-cash transactions. The rest of this statement strips out the non-cash transactions – adding back expenditure that did not involve a real cash outlay and subtracting non-cash income – to leave just the change in cash during the year.

These are the non-cash items included within the operating surplus/deficit, that need to be removed to give the movement on cash for the year. For example, depreciation is an accounting charge to reflect the use of a capital asset. It does not involve cash and is therefore added back to the surplus/deficit here.

Notional income transferred from reserves to balance out depreciation of donated and government grant funded assets. See Box D on Page 20.

These items are not included in the operating surplus, but do involve an outlay of cash and so need to be subtracted from the operating surplus/deficit to arrive at the real cash position.

Changes in the levels of any of these impact on the amount of cash the NHS trust has, so they need to be accounted for here. For instance stock is only charged to the Statement of Comprehensive Income as it is used, so an increase in stock compared with the previous year means that more cash has been tied up in stock. The value of this increase needs to be subtracted from the operating surplus/deficit to give the cash impact of this increase in stock. It is similar for receivables, in other words, money owed to the NHS trust. The money owed to the NHS trust will already have been recorded as income in the Statement of Comprehensive Income, despite the cash not having been received yet. To understand the cash impact, the operating surplus/deficit has to be reduced by the amount of cash the NHS trust is still waiting to receive. However, the receivables due at the end of the previous year are likely to have been received during the year, and these will not be reflected in the Statement of Comprehensive Income or in the operating surplus/deficit. So it is the difference between the receivables owing at the end of the current and previous years that will impact on the cash held. An increase in receivables (more cash owing) means the operating surplus/deficit has to be reduced to understand the cash impact.

This section takes account of cash transactions that are not directly related to operating activities, for example, purchasing large items of equipment.

NHS trusts may deposit surplus funds with the DH. Other financial assets are likely to be rare.

Rent from investment property.

	Note	Current year £000	Prior year £000
<b>Cash flows from financing activities</b>			
Public dividend capital received		0	0
Public dividend capital repaid		0	0
Loans received from the DH		0	0
Other loans received		0	0
Loans repaid to the DH		0	0
Other loans repaid		0	0
Other capital receipts		0	0
Capital element of finance leases and PFI		(1,139)	(362)
<b>Net cash inflow/(outflow) from financing</b>		<b>(1,139)</b>	<b>(362)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
		<b>(1,268)</b>	<b>2,362</b>
Cash (and) cash equivalents (and bank overdrafts) at the beginning of the financial year		6,084	3,722
Effect of exchange rate changes on the balance of cash held in foreign currencies		0	0
<b>Cash (and) cash equivalents (and bank overdrafts) at the end of the financial year</b>	<b>25</b>	<b>4,816</b>	<b>6,084</b>

Public dividend capital transactions are unusual. They require a statutory instrument and are not instigated by the NHS trust. See Box A on Page 12.

NHS trusts can borrow from the DH to finance capital projects under a prudential borrowing system based on affordability. In some circumstances, NHS trusts with cash flow difficulties can take out working capital loans with the DH. Other loans are unusual.

For example, a capital grant.

Where an asset is financed through PFI or a finance lease, a liability (like a loan) is shown on the Statement of Financial Position. See Box E on Page 21. This is the annual repayment of the capital part of that loan. It is part of the unitary payment but this part of the unitary payment is not recorded as an expense in the Statement of Comprehensive Income.

Adding the net increase in cash to the previous year's cash held figure gives the new figure for cash held at the end of the year. A cash equivalent is a short-term investment that can be turned into cash within 24 hours without penalty.

The result of the above adjustments gives the net change in cash held by the NHS trust during the year.

### Questions

Do the figures seem reasonable and complete, including those entries that are zero?

Does the increase in cash and cash equivalents match the movement in cash and cash equivalents between the opening and closing Statement of Financial Position?

Has the NHS trust made any loan repayments during the year? As all loans should be approved by the board, are you aware of why the NHS trust has a loan and what its repayment profile is?

Has the NHS trust bought any assets during the year? Can you see them in the payments for property, plant and equipment?

Do you understand the reasons for any other large movements?

# Notes to the accounts

## Notes to the accounts

### 1 Accounting policies

This note sets out the accounting rules the NHS trust follows when preparing its accounts. This forms the basis on which all entries in the accounts are made.

The accounting policies are largely dictated by the IFRS and the DH *Manual for Accounts*, which includes model accounting policies. NHS trusts have only very limited scope to substantively amend these policies, although they can expand on or delete the descriptions of the policies where that is appropriate.

One of the key policies is that income and expenditure is recognised on an accruals basis, meaning it is recorded in the period in which services are provided rather than when cash is received or paid out.

The accounting policies also dictate when purchases should be recorded as capital expenditure and how assets should be valued and depreciated.

#### Questions

Are the accounting policies consistent with what you know the NHS trust does in practice?

Have any changes been approved by the audit committee?

Are there any significant changes this year and are you clear about their impact?

### 2 Pooled budgets (optional)

A pooled budget is a joint arrangement with other bodies, such as local authorities and primary care trusts, to pool funds for a specific purpose. Each body has to account for its own share of the pool's transactions within their own accounts. This note shows the income and expenditure for the whole pool, including the other involved bodies.

#### Questions

Is the NHS trust a member of a pooled budget? If so, has the NHS trust opted to include a note disclosing pooled budget arrangements? If not, why not?

### 3 Operating segments

NHS trusts need to disclose financial information not just for the NHS trust as a whole but also on significant segments of their operations. A significant segment is one whose revenue, or if this is not routinely used then its expenditure, is at least 10 per cent of that of the NHS trust as a



whole. These disclosures are to reflect the way that management runs the NHS trust. The disclosure needs to include the same information about each significant segment as the NHS trust reports internally.

The information disclosed in the accounts must reflect that reported internally, for example if internal reports include internal recharges then the NHS trust must include these figures in the segmental analysis. As the NHS trust may not prepare its internal financial reports on an IFRS basis, the NHS trust must also include a reconciliation of the segmental analysis to the total amounts it is reporting in the financial statements.

An NHS trust may, however, aggregate the financial information for operating segments that have similar economic characteristics in respect of the following (this is not an exhaustive list):

- nature of services;
- type or class of customer, for example NHS or private; and
- methods used to provide the services.

#### Questions

Are the segments shown in this note consistent with the categories reported to the board?

If there is only one segment, healthcare, are you aware of any other segments that should be reported?

If another segment is reported, does it correspond to what you know of the NHS trust?

#### 4 Income generation activities

NHS trusts must report any material income generation activities. Activities are material if the full cost exceeds £1 million and the NHS trust may decide that they are material for other reasons. Income generation activities include non-patient care activities such as car parking, catering, staff nurseries and accommodation charges.

#### 5 Revenue from patient care activities

This note gives a breakdown of the NHS trust's income for patient care services in the form of a table.

Income from activities	Current year £000	Prior year £000
Strategic health authorities	140	133
NHS trusts	952	885
Primary care trusts	158,057	156,823
Foundation trusts	191	160
Local authorities	100	89
Department of Health	65	67
NHS other	0	0
Non-NHS:		
- Private patients	3,324	3,161
- Overseas patients (non-reciprocal)	0	24
- Injury costs recovery	224	207
- Other	474	453
	<b>163,527</b>	<b>162,002</b>

This is the amount received from strategic health authorities for patient care services. It does not include Workforce Development Confederation income.

This would include income from any clinical service level agreements between local NHS trusts, where the NHS trust specialises in a particular area, such as pathology. Any pathology tests performed on behalf of other NHS trusts would be recharged to them via the service level agreement.

Work commissioned by primary care trusts is the main source of income.

Income received for joint care arrangements with local authorities or for delayed transfer of care.

This is the amount received from the DH for patient care services.

There are reciprocal healthcare agreements between the UK and most other European countries which mean that patients from those countries are treated free of charge. NHS trusts can charge any patients from other countries.

The NHS can reclaim the cost of treating injured patients in cases where personal injury compensation is paid. There is a set tariff and ceiling for the amounts that may be recovered.

#### Questions

Are the figures consistent with your knowledge of the NHS trust?

Where there are large movements, do you understand why?

## 6 Other operating revenue

This provides a breakdown of income not directly related to patient care.

Other operating revenue	Current year £000	Prior year £000	
Patient transport services	0	0	For an ambulance trust only, this item would appear as revenue from patient care activities (Note 5).
Education, training and research	9,100	9,275	Funds to cover the costs of providing education and training are managed and allocated by the strategic health authority.
Charitable and other contributions to expenditure	152	211	These transfers are made to offset the depreciation charge relating to donated assets or assets funded via government grants. See Box D on Page 20.
Transfers from donated asset reserve	368	(392)	Examples include laundry, pathology, payroll services, internal audit and training services.
Transfers from government grant reserve	31	(33)	This is income from non-patient care activities such as car parking, catering, staff nurseries, and accommodation charges. Further details can be found in Note 4.
Non-patient care services to other bodies	6,689	6,642	Other revenue covers income not reported in the categories above and may include staff payments relating to use of cars provided by the NHS trust or income received from the DH for non-patient care services.
Income generation	1,386	1,376	
Rental revenue	240	228	
Other revenue	1,849	1,816	
	<b>19,815</b>	<b>19,123</b>	

### Questions

Are the figures consistent with your knowledge of the NHS trust?

Where there are large movements, do you understand why?

## 7 Revenue

This note shows the split between revenue from services and revenue from the sale of goods. Many NHS trusts will just state here: 'Revenue is almost totally from the supply of services. Revenue from the sale of goods is immaterial'.

### Questions

If your NHS trust has reported any revenue from the sale of goods, do you understand why?

## 8 Operating expenses

This note gives a more detailed breakdown of the NHS trust's operating expenses.

Operating expenses comprise	Current year £000	Prior year £000	
Services from other NHS trusts	263	244	These four lines show the NHS trust's expenditure under contracts with other NHS trusts, foundation trusts, primary care trusts and other NHS bodies. It might typically include services such as pathology, speech therapy, occupational health services or back office functions such as payroll.
Services from primary care trusts	490	467	The NHS trust purchases some healthcare services from the private sector. An example could be diagnostic services.
Services from other NHS bodies	0	0	This figure includes the total paid to executive and non-executive directors including employer's national insurance, employer's pension costs and early retirement costs. It excludes redundancy costs.
Services from foundation trusts	0	0	This is the total employment costs of all staff other than directors. It includes employer's national insurance and pension contributions, early retirement costs and payments to outside organisations for agency staff. It excludes redundancy costs, which are reported in 'other costs'.
Purchase of healthcare from non-NHS bodies	929	888	Establishment includes items such as printing, postage, telephone, advertising and travel expenses. Transport includes vehicle insurance, fuel and oil, maintenance equipment and hire of transport. Premises includes all the NHS trust's utility costs, furniture and other property-related revenue expenditure such as rates, rent and insurance.
Directors' costs	648	630	This is the cost of the provision for bad debts. It is made up of debts written off during the year because they are not expected to be paid and the increase or decrease in the provision for debts which are unlikely to be paid in the future. Only non-NHS debts can be bad debts.
Staff costs	117,644	117,090	Depreciation is an accounting charge, rather than a cash transaction, which reflects the fact that capital assets are consumed over their useful lives. For instance, IT equipment might be depreciated over five years on a straight line basis. This would mean that one-fifth of the cost of the equipment would be charged as depreciation every year for the five-year life of the asset. Amortisation is the equivalent to depreciation for intangible assets, such as software.
Supplies and services – clinical	24,299	24,154	Impairments included within expenses are those where the revised asset value is less than the value included within the Statement of Financial Position and there is no previous upwards revaluation in the revaluation reserve that it can be offset against. See Box C on Page 19.
Supplies and services – general	11,037	10,655	Audit fees are the fees for the statutory opinion audit of the accounts. Other auditor's remuneration could be for advice and assistance work provided by the auditor.
Establishment	1,764	1,551	The NHS trust pays an annual premium to the NHS Litigation Authority as part of the Clinical Negligence Scheme for Trusts. Premium levels are influenced by a range of factors, including the type of NHS trust, the specialties it provides and the number of clinical staff it employs. Discounts are available to those NHS trusts that achieve the relevant NHS Litigation Authority risk management standards and to those with a good claims history.
Transport	1,229	1,222	All other expenditure including redundancy costs and injury benefit costs. If this number is particularly large, the NHS trust should analyse it further.
Premises	7,282	7,070	
Provision for impairment of receivables	184	140	
Depreciation	5,466	5,641	
Amortisation	251	248	
Impairments and reversals of property, plant and equipment	1,136	1,477	
Impairments and reversals of intangible assets	0	0	
Impairments and reversals of financial assets	0	0	
Audit fees	160	150	
Other auditor's remuneration	95	91	
Clinical negligence	2,229	2,019	
Research and development	0	0	
Other	3,393	2,356	
	<b>178,499</b>	<b>176,093</b>	

### Questions

Are the figures consistent with your knowledge of the NHS trust?

Has expenditure on staff increased significantly during the year? Consider the average number of staff in post that has been calculated for Note 10 and whether or not this could explain any change.

Has the NHS trust purchased healthcare from a private hospital? If it has, it should be included under 'Purchase of healthcare from non-NHS bodies'.

Can you see the impact of any savings schemes?

Where there are large movements, do you understand why?

If the 'other' category is large, do you know what has been included?

### 9 Operating leases

This note gives details of operating leases, including the value of operating lease payments shown in the Statement of Comprehensive Income, and the minimum future payments on operating leases, giving an indication of the NHS trust's future commitments. The note is split into two parts: the first part relates to the NHS trust as lessee (the NHS trust leases an asset from an external company); the second part relates to the NHS trust as lessor (the NHS trust leases an asset to a third party).

### Box F

#### Leases

Leases are split into two different categories: finance leases and operating leases.

An operating lease generally covers only part of an asset's useful life, and often includes service aspects such as repairs and maintenance. In essence, the asset belongs to the external company, and the NHS trust pays to use it.

A finance lease is an arrangement whereby the NHS trust has most or all of the use of an asset, probably including responsibility for repairs and maintenance. In essence, the asset belongs to the NHS trust and the lease payments to the external company are akin to repayments on a loan.

It is sometimes straightforward and sometimes difficult to determine whether a lease is a finance lease or an operating lease. There are complex rules that set out the difference between the two. >>>

Operating leases are accounted for as part of revenue expenditure, whereas finance leases are treated as capital expenditure. In this latter case, both the asset and the related loan are recognised in the accounts.

### Questions

Are the leases shown here consistent with what you know of the NHS trust's activities?

### 10 Employee costs and numbers

This note gives details about the number and cost of the NHS trust's employees including executive senior managers. It identifies salary costs and pension contributions as well as giving details of management costs and staff sickness absence.

### Questions

Are the figures consistent with your knowledge of the NHS trust?

Can you see the impact of any savings programmes during the year which may have included a reduction in headcount?

Where there are large movements, do you understand why?

### 11 Pension costs

This note gives details of the NHS pension scheme. If the NHS trust employs any staff who are members of other pension schemes, details of those schemes are included too. For example, some NHS trusts employ social care staff who have transferred from local councils, and these employees may have retained their membership of a local government pension scheme. If this is the case, the NHS trust must make disclosures about the local government pension scheme.

### Questions

Does the NHS trust have any staff who are members of a local government pension scheme? If so, has the NHS trust disclosed the details of that scheme? Also, has the NHS trust disclosed the financial liability (or financial asset, if the scheme is in surplus) of any local government pension scheme? You should be able to see this within 'other financial liabilities' (or possibly 'other financial assets') on the Statement of Financial Position.

### 12 Retirements due to ill health

This note details the number and cost of retirements due to ill health.

### 13 Better Payment Practice Code

The *Better Payment Practice Code* requires NHS trusts to pay all undisputed NHS and non-NHS trade invoices by the due date or within 30 days of receipt of goods or a valid invoice, whichever is the later. NHS trusts can comply with the code by paying 95 per cent of invoices within 30 days. This note reports on how the NHS trust performed against this target by value and number of invoices. It also gives details of any interest paid under late payment legislation.

### Questions

Has the NHS trust met the target?

Is the NHS trust's reported performance consistent with what you expected?

Has the NHS trust's performance deteriorated during the year? If so, it may have delayed paying creditors if it experienced cash flow problems.

### 14 Investment revenue

This note shows all income from investments and rentals. The numbers are likely to be small, as NHS trusts have only limited powers to invest.

### Questions

If there is any significant entry here, what does it relate to? Is it within the NHS trust's powers to hold this investment? Are the NHS trust's funds at risk in this investment?

### 15 Other gains and losses

This note analyses the 'other gains and losses' line of the Statement of Comprehensive Income. These might include gains or losses made on the sale of an asset, with the gain or loss being calculated relative to the value carried in the Statement of Financial Position. In the case of a loss, any former increase in value (recorded in the revaluation reserve) is first deducted and then the remainder is charged to the Statement of Comprehensive Income. In the case of a gain, the increase in value is effectively recorded in the revaluation reserve and upon sale, this whole increase in value is transferred to the Statement of Comprehensive Income and the revaluation reserve for that asset is deleted. Box C on Page 19 provides further detail.

### Questions

Are the figures consistent with your knowledge of the NHS trust?

Is there a profit or loss from the sale of an asset?

Where there are large movements, do you understand why?

### 16 Finance costs

This note analyses the 'finance costs' line of the Statement of Comprehensive Income. Any interest paid by the NHS trust is shown here.

### Questions

If there is any significant entry here, what does it relate to? Is the arrangement within the NHS trust's powers?

### 17 Property, plant and equipment

A table shows the changes in the NHS trust's property, plant and equipment during the year, with different types of assets in different columns. The following table is an example showing columns for buildings, assets under construction and plant and machinery.

The rows show the cost and net book value of each category. The bottom of the table (not shown) analyses the assets by financing arrangement – owned, finance leased or Private Finance Initiative. There is also a table which discloses the economic lives of different types of asset. This is relevant for calculating the depreciation charge.

Property, plant and equipment	Buildings excluding dwellings £000	Assets under construction £000	Plant and machinery £000
<b>Cost or valuation at 1 April</b>	<b>95,875</b>	<b>4,862</b>	<b>20,732</b>
Additions purchased	3,406	(428)	904
Additions donated	405	0	700
Additions government granted	0	0	0
Reclassifications	3,970	(3,970)	0
Reclassified as held for sale	0	0	0
Disposals other than by sale	0	0	(692)
Revaluation gains	0	0	0
Impairments	(4,279)	0	0
Reversal of impairments	0	0	0
<b>At 31 March</b>	<b>103,377</b>	<b>464</b>	<b>21,644</b>
<b>Depreciation at 1 April</b>	<b>0</b>	<b>0</b>	<b>11,212</b>
Reclassifications	0	0	0
Reclassified as held for sale	0	0	0
Disposal other than by sale	0	0	(692)
Revaluation	0	0	0
Impairments	1,136	0	0
Reversal of impairments	0	0	0
Charged during the year	3,179	0	1,345
<b>Depreciation at 31 March</b>	<b>4,121</b>	<b>0</b>	<b>11,865</b>
<b>Net book value</b>			
- Purchased	90,965	464	8,331
- Donated	3,976	0	1,448
- Government granted	0	0	0
<b>- Total at 31 March</b>	<b>94,941</b>	<b>464</b>	<b>9,779</b>

The cost or valuation figure for land, buildings and assets under construction is the closing net book value for the previous year, which takes account of previous revaluations and depreciation. For all other classes of assets, the cost or valuation figure is purely the cost or revaluation for the previous year, without any depreciation being deducted.

New assets brought into the NHS trust's portfolio.

When an NHS trust finishes constructing a new asset, it moves from 'assets under construction' into the appropriate class.

This line removes assets from property, plant and equipment when they are to be sold.

For example, an asset may be scrapped or demolished.

See Box C on Page 19.

This is the value of assets at the end of the year. This is the gross value before accounting for the current year's depreciation (in case of buildings) and lifetime depreciation (in case of plant and machinery).

Depreciation is the charge made to reflect the consumption of an asset's value over its lifetime. For plant and machinery, opening depreciation is the depreciation charged since the asset was bought. The table then tracks the movements in depreciation during the year. For land, buildings, dwellings and assets under construction the 'cost or valuation' of these non-current assets at the start of the year are the closing net book values of the previous year. The cumulative depreciation brought forward will be zero.

An asset's net book value is the current value or cost of replacement minus the depreciation charged. It is the total of all the net book value figures that makes up the property, plant and equipment figure in the Statement of Financial Position.

### 18 Intangible assets

Intangible assets are assets that cannot be seen, touched or physically measured. Examples include software licences, trademarks, patents and some research and development expenditure. Intangible assets are set out in a table similar to the property, plant and equipment table. This tracks through the value of intangible assets from their value at the beginning of the year, taking account of additional purchases, donations, disposals, revaluations and amortisation to arrive at the new total value for the year end.

#### Questions

Are there any significant entries? Are they consistent with what you know of the NHS trust?

### 19 Impairments

The note specifies any impairments included in the accounts. See Box C on Page 19.

#### Questions

If there are any impairments, are they consistent with what you would expect from your knowledge of the NHS trust, the local area and the economic environment?

Has the impairment and its impact on the Statement of Comprehensive Income been adequately explained to stakeholders and the public?

#### Questions

Are the figures consistent with your knowledge of the NHS trust?

Where there are large movements, do you understand why?

Where there are revaluation gains and impairments, are they consistent with what you would expect from your knowledge of the NHS trust, the local area and the economic environment?

This example shows a reclassification out of assets under construction into property, plant and equipment – does the NHS trust have a new building that has just become operational?

## 20 Capital commitments

This note provides details of future capital expenditure that the NHS trust is committed to make. For instance, the NHS trust may have entered into a contract for future building works.

### Questions

- Is this consistent with what you know of the NHS trust's activities?
- Are there any commitments you know of that are missing?

## 21 Inventories

This section analyses the stock into different categories. The most common categories are likely to be drugs and consumables, particularly if the NHS trust has a number of operating theatres. Patients mid way through their treatment do not count as work in progress, so entries under work in progress are rare. The note also discloses inventories recognised in expenses during the financial year.

### Questions

- If the figures are large, what do they relate to? Is this consistent with what you know of the NHS trust?
- If the stock figure is different to last year, why is this?

## 22 Trade and other receivables

This note sets out the NHS trust's receivables (also known as debtors), which is money earned and owed to the NHS trust at the Statement of Financial Position date. It divides the analysis between current amounts, which are the amounts due within one year, and non-current amounts, which are those due after more than one year.

The analysis is broken down into categories. It also identifies any provision for the impairment of receivables, in other words, bad debts. These are debts with non-NHS bodies that the NHS trust does not expect to be paid. Transactions with other NHS bodies are never treated as bad debts.

A prepayment is an amount already paid for benefits that will be delivered in future. So for instance an NHS trust might pay in advance for next year's rates and this would be recorded here. Accrued income is money owed to the NHS trust for which the NHS trust has not yet raised an invoice. This is in contrast to trade debtors, where the NHS trust has raised invoices.

### Questions

- How do the figures compare to last year?
- What is the reason for any difference?
- Does the provision for impairment of receivables look reasonable?
- If there are any large amounts, what do they relate to and why does the NHS trust not expect to be paid?
- How has the provision been calculated?

## 23 Other financial assets

NHS trusts have limited powers to make investments; therefore entries in this note will be limited.

### Questions

- If there is any significant entry here, what does it relate to? Is it within the NHS trust's powers to hold this asset? Are the NHS trust's funds at risk?

## 24 Other current assets

These are assets that do not fit into any other category in the Statement of Financial Position. This note classifies them as 'EU Emissions Trading Scheme allowances' and 'other'. In future years allowances purchased under the new CRC Energy Efficiency Scheme will also be recorded here.

### Questions

- If there are any significant entries, what do they relate to?

## 25 Cash and cash equivalents

This analyses the NHS trust's cash between amounts held in commercial and Government Banking Service accounts and other current investments.

The figure must exclude any cash held on behalf of patients. See Note 41.

### Questions

- Is the figure consistent with what you would expect?

## 26 Non-current assets held for sale

This analyses non-current assets held for sale between different classes of assets.

### Questions

Is this consistent with what you know of the NHS trust?

Are you aware of any assets that are to be sold that are missing from this note?

## 27 Trade and other payables

Trade and other payables represent money the NHS trust owes but has not yet paid. Deferred income is also included here; this is income the NHS trust has received that relates to a future period, or goods and services the NHS trust has received payment for in advance of delivering the service. The income would not be recorded in the Statement of Comprehensive Income, as it relates to goods or services yet to be delivered.

The items are analysed in two groups; current – those due within one year; and non-current – those due after more than one year.

### Questions

What are the reasons for any significant difference between this year and last year?

## 28 Borrowings

The NHS trust provides a disclosure of its borrowings analysed by type, such as overdrafts, loans and amounts due under finance leases. Finance leases are explained in Box F on Page 34.

### Questions

If there is any significant entry here, what does it relate to? Is the arrangement within the NHS trust's powers?

Does it reflect what has been agreed by the board of directors?

## 29 Other liabilities

Here the NHS trust provides details of any other liabilities, which are not included in the other categories.

### Questions

If there is any significant entry here, what does it relate to? Is the arrangement within the NHS trust's powers?

## 30 Finance lease liabilities

This note gives some narrative detail about the NHS trust's finance leases and analyses the amounts payable by when they will fall due. See Box F on Page 34.

### Questions

Are the leases shown here consistent with what you know of the NHS trust's activities?

## 31 Finance lease receivables

This is similar to the previous note, but relates to leases where the NHS trust is the lessor. These are unusual. See Box D on Page 20.

### Questions

Are the leases shown here consistent with what you know of the NHS trust's activities?

## 32 Finance lease commitments

The NHS trust discloses here any finance leases it has entered into, where the asset is not yet operational. Leases would not be recognised in the Statement of Financial Position until the asset is operational, so this note captures leases that are not captured elsewhere.

### Questions

Is this consistent with what you know of the NHS trust's activities?

## 33 Private Finance Initiative

Under IFRS, most, if not all, PFI schemes are recognised on the Statement of Financial Position. Previously PFI schemes had largely been off-Balance Sheet with NHS trusts effectively paying a rental, for instance for a fully maintained hospital, rather than actually owning the buildings and equipment. The treatment for these schemes is similar to that of a finance lease although further disclosure is required in relation to the risks associated with the schemes.

Exceptionally, some PFI schemes may not result in the NHS trust recording an asset on its Statement of Financial Position. The NHS trust must disclose details of any such schemes and the payments it is committed to under them.

### Questions

If the NHS trust has a PFI scheme, is it disclosed here? Are the details of the scheme consistent with what you know?

### Questions

Does the PFI asset appear in property, plant and equipment in the non-current assets note?

Does the associated PFI liability appear as a financial liability on the Statement of Financial Position? Is the liability similar in size to the asset?

If (exceptionally) the NHS trust has classified a PFI scheme as off-Statement, what are its reasons for this? Are the auditors aware of it?

### 34 Other financial liabilities

This note provides details of any financial liabilities the NHS trust holds that are carried at fair value. These are unusual.

### Questions

If there is any significant entry here, what does it relate to?

### 35 Provisions

NHS trusts make a provision where they expect to have to make a payment in future but there is uncertainty over exactly how much they will have to pay. Box B on Page 16 provides further information. This note provides details on the NHS trust's provisions. They are shown across a number of different classes, with the movement in each class during the year.

### Questions

Are the provisions and movements shown consistent with what you know of the NHS trust?

Are there any other potential liabilities that you know of that might be missing from this note?

### 36 Contingencies

Contingent liabilities are similar to provisions in that they arise where there is an uncertain future liability. A provision is made where it is more likely than not that a future payment will be made. If it is less likely, then no provision is made, but the uncertain future liability is still disclosed as a contingent liability. This is purely a disclosure note; there is no impact on the Statement of Financial Position.

Contingent assets are the opposite of contingent liabilities: there is an uncertain future asset. Contingent assets are not recognised in the Statement of Financial Position unless the receipt is virtually certain. But if it is probable, then the NHS trust should disclose this here.

### Questions

Are contingent liabilities shown consistent with what you know of the NHS trust?

Are there any other potential liabilities that you know of that might be missing from this note?

### 37 Financial instruments

A financial instrument is a contract that gives rise to a financial asset in one entity and a financial liability in another. In the private sector, this might include complex instruments like interest rate swaps and foreign exchange hedges, and these complex dealings must be disclosed for the shareholder to understand the risks that the entity is taking. However, in the context of an NHS trust, financial instruments are likely to be much more mundane. For instance, financial instruments include bank deposits, receivables and payables.

The note discloses the amounts of financial instruments the NHS trust has entered into, and also discloses the risks arising from those instruments.

### Questions

Is the information in this note consistent with other parts of the accounts?

Is the information consistent with what you know the NHS trust does in practice?

### 38 Events after the reporting period

The NHS trust must consider whether any significant events have occurred between preparing the accounts and the date the accounts are formally adopted by the NHS trust board. Any events that have a bearing on the accounts are called post Balance Sheet events.

If a post Balance Sheet event provides information about something that had already happened at the Balance Sheet date, then the accounts are adjusted to incorporate this information. If, for example, a building has been damaged prior to the year end, and a valuer's visit after the year end confirms the extent of the damage, the new information from the valuer is used to quantify the impairment in the accounts.

If a post Balance Sheet event provides information about something that occurred after the year end, the accounts are not adjusted, but the information is disclosed in this note. For example, the NHS trust merges with another NHS trust after the year end. The accounts are unaffected but the notes to the accounts disclose the merger.



## Questions

Is the information in the note consistent with what you know of the NHS trust?

Do you know of any other relevant events that have occurred since the end of the reporting period?

### 39 Financial performance targets

This note shows how the NHS trust performed against its key financial performance targets:

- breakeven performance;
- capital cost absorption rate;
- external financing; and
- capital resource limit.

Breakeven performance	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000
Turnover	161,677	163,728	171,740	181,125	183,342
Retained surplus/(deficit) for the year	14	1,673	2,713	(1,487)	(866)

#### Adjustment for:

Timing/non-cash impacting distortions					
- Use of pre 1 April 1997 surpluses [FDL(97)24 Agreements]	0	0	0	0	0
- 2007/08 prior period adjustments (relating to 1997/98 to 2006/07)	0	0	0	0	0
- 2008/09 prior period adjustments (relating to 1997/98 to 2007/08)	0	0	0	0	0
- 2009/10 prior period adjustments (relating to 1997/98 to 2008/09)	0	0	0	0	0
Other agreed adjustments	0	0	0	0	0
Adjustments for impairments	0	0	0	0	1,136
Consolidated budgetary guidance – Adjustment for dual accounting under IFRIC 12	0	0	0	0	0
Breakeven in-year position	14	1,673	2,713	(1,487)	270
Breakeven cumulative position	495	2,168	4,881	3,394	3,664

If the NHS trust has not broken even and has agreed a recovery plan with the strategic health authority, it should note the anticipated financial year of recovery here.

#### Materiality test (in other words, is it equal to or less than 0.5%)

	%	%	%	%	%
Breakeven in-year position as a percentage of turnover	0.01	1.02	1.58	-0.82	0.15
Breakeven cumulative position as a percentage of turnover	0.31	1.32	2.84	1.87	2.00

### 39.1 Breakeven duty

NHS trusts have a statutory duty – that is a legal requirement – to achieve breakeven ‘taking one year with another’. An NHS trust has met its statutory breakeven duty if it has a retained surplus for a three-year period taking the current and previous two years together. This provides some flexibility on the time-scale for matching income with those costs whose incidence is uneven and when managing the recovery of an NHS trust with serious financial difficulties. Exceptionally, with the express agreement of the strategic health authority, an NHS trust is assumed to have met its breakeven duty if the cumulative deficit being recovered is covered by subsequent surpluses over a four or five-year period.

The DH has additionally set a separate target for NHS trusts to achieve breakeven in each and every year, although this is not a legal requirement.

NHS trusts now prepare their accounts using IFRS (see Page 7 for an explanation). This is different to the previous UK GAAP basis. The figures shown here for the years up to 2008/09 have not been translated to the new IFRS basis. This means that it is possible to look at this note and see whether the NHS trust achieved its breakeven target in previous years using the rules in force at the time. It also means that, in this note only, figures for the years up to 2008/09 are not directly comparable with those from 2009/10 onwards.

This relates to how the DH allowed surpluses built up before the breakeven duty was introduced to be taken into account. See Box G on Page 47.

From 2008/09, impairments charged in arriving at retained surplus/deficit for the year are added back before measuring breakeven performance.

Bringing PFI assets onto the Statement of Financial Position can have an incremental revenue impact for NHS trusts. This is stripped out when measuring NHS trusts’ financial performance.

The cumulative position is measured starting from 1997/98.

An NHS trust is deemed to have met its Departmental breakeven target if a deficit is less than 0.5 per cent of turnover.

#### Box G

##### Prior period adjustments

The current year figures in one set of accounts become the prior year comparators in the next year accounts. Under normal circumstances, they are not adjusted at all, even if they are found to contain errors.

Prior period adjustments, whereby the comparative figures are adjusted, are only allowed in two circumstances:

- The NHS trust has made a material error in a prior year’s accounts.
- There has been a material change in accounting policy.

The DH sets NHS trusts’ accounting policies and notifies them if there is a change in accounting policy that requires a prior period adjustment.

### 39.2 Capital cost absorption rate

NHS trusts are required to absorb the cost of capital at a rate of 3.5 per cent of average net relevant assets (a measure of how much the NHS trust owns). This is paid over to the DH as the public dividend capital dividend (see Box A on Page 12). In the past the average net relevant assets were estimated before the start of the year, requiring NHS trusts to make estimates of what their asset values would be at the start and end of the following year. Their public dividend capital dividend would then be set using these estimates and the capital cost absorption measurement acted as a check on these estimates – checking that when using the actual outturn figures for asset values, the actual public dividend capital dividend equates to 3.5 per cent of the value of assets (the target was deemed to have been met if the NHS trust achieved a rate of return of between 3 per cent and 4 per cent).

From 2009/10, public dividend capital dividends are no longer based on asset value estimates but use actual outturn asset values. This means that the capital cost absorption duty will always be met.

### 39.3 External financing limit

The external financing limit target specifies how much more, or less, cash an NHS trust can spend over that which it generated from its activities.

The DH imposes this limit in order to keep cash expenditure of the NHS as a whole within the level agreed by parliament. NHS trusts must not exceed their given limit.

	£000	Current year £000	
External financing limit		721	The NHS trust's cash limit on external financing. This means that this NHS trust has to spend £721,000 less cash than it generates from activities.
Cash flow financing	721		This is the cash flow before financing figure shown in the Statement of Cash Flows.
Finance leases taken out in the year	0		Capital expenditure counts against the external financing limit. Finance leases are akin to capital expenditure so they are included.
Other capital receipts	0		
<b>External financing requirement</b>	<b>(721)</b>		An overshoot occurs when an NHS trust's external financing requirement exceeds its external financing limit.
<b>Undershoot (overshoot)</b>		<b>0</b>	

### 39.4 Capital resource limit

NHS trusts have to keep capital expenditure within a limit set by the DH. This ensures that overall capital expenditure is kept within control totals.

	Current year £000	
Gross capital expenditure	7,625	This is the capital expenditure figure in the Statement of Cash Flows, adjusted for any capital invoices received but not paid at the start or end of the year.
Less: book value of assets disposed of	0	Gross capital expenditure is adjusted for the book value of fixed asset disposals, any losses on disposal of donated fixed assets and for any grants or donations used to buy new fixed assets.
Plus: loss on disposal of donated assets	0	
Less: capital grants	0	
Less: donations towards the acquisition of non-current assets	(1,195)	
<b>Charge against the capital resource limit</b>	<b>6,430</b>	
Capital resource limit	6,440	
<b>Underspend against the capital resource limit</b>	<b>10</b>	

#### Questions

Has the NHS trust met its targets?

Did you expect the NHS trust to meet its targets, based on interim reports during the year?

If the NHS trust has not met one or more of the targets, was this expected and do you know why this is the case?

Are the figures in this note consistent with the rest of the accounts?

### 40 Related party transactions

This note provides details of any significant transactions that board members or managers (or their relations and any companies they may control) have undertaken with the NHS trust. Whether a transaction is significant must be considered from the point of view of both parties to the transaction, so if for example a director's daughter is employed in the post room for the summer, and the wages for that summer job are significant to the daughter, then this must be disclosed here.

The DH is regarded as a related party and is seen as the parent body for all NHS bodies and so this note also lists the NHS organisations that the NHS trust has transacted with during the year.

#### Questions

Are you aware of any other relationships that should be disclosed?

#### 41 Third party assets

Assets belonging to third parties, such as money held on behalf of patients, are not recognised in the accounts since the NHS trust has no beneficial interest in them. However they are disclosed in a separate note to the accounts.

#### 42 Intra-government and other balances

This note lists balances with other government departments or agencies, including amounts owed for national insurance and VAT.

##### Questions

Do the amounts look broadly reasonable?

#### 43 Losses and special payments

Any losses or special payments are disclosed here. These are payments that parliament would not have envisaged healthcare funds being spent on when it originally provided the funds. Examples may include fraudulent payments, personal injury payments and legal compensation.

##### Questions

Is the information in the note consistent with what you know?

Do you know of any losses or special payments that might be missing from this note?

Is the information consistent with that provided to the audit committee during the year?

#### 44 Transition to IFRS (for 2009/10 only)

2009/10 is the first year that NHS accounts have been prepared under IFRS. This note shows the adjustments made to translate the NHS trust's accounts from the previous UK GAAP basis to IFRS.

The most significant movement is likely to relate to PFI schemes, if there are any. The expected adjustments are:

- The NHS trust adds the value of the asset to its property, plant and equipment. This figure will be provided by the NHS trust's valuer.
- The NHS trust adds the associated liability to its financial liabilities. The calculation of the liability is very complex. The liability will be similar in size to the asset.
- The NHS trust may incur an impairment.
- There are several other adjustments, for example depreciation.

##### Questions

If the NHS trust has a PFI scheme, does this note show the new PFI asset and PFI liability being created?

Do any other significant adjustments look broadly reasonable?

# Glossary

## **Accruals basis**

Under the accruals concept, expenses are recognised when incurred, not when the cash is actually paid out, and income is recognised when it is earned, not when the cash is actually received.

## **Amortisation**

The term used for depreciation of intangible assets – an example is the annual charge in respect of some computer software the NHS trust has purchased.

## **Annual accounts**

Documents prepared by the NHS trust to show its financial position. Detailed requirements for the annual accounts are set out in the Manual for Accounts, published by the Department of Health.

## **Annual report**

A document produced by the NHS trust which summarises the NHS trust's performance during the year, which includes the annual accounts.

## **Asset**

Something the NHS trust owns – for example a building, some cash, or an amount of money owed to it.

## **Associate**

An entity over which the NHS trust has a significant influence, for example because they appoint some of its directors. If there is so much influence that the NHS trust is able to control the other entity, then it is a subsidiary rather than an associate.

## **Audit opinion**

The auditor's opinion on whether the NHS trust's accounts show a true and fair view of its financial affairs. If the auditors are satisfied with the accounts, they will issue an unqualified audit opinion.

## **Available for sale**

Assets are classed as available for sale if they are held neither for trading nor to maturity. An example of this would be an investment without a maturity date such as an ordinary share.

## **Balance Sheet**

A year-end statement prepared by all public and private sector organisations, which shows the net assets controlled by the organisation and how these have been funded. The Balance Sheet is known as the Statement of Financial Position under IFRS.

## **Breakeven**

An NHS trust has achieved breakeven if its income is greater than or equal to its expenditure.

## **Capital resource limit**

An expenditure limit set by the Department of Health for each NHS organisation limiting the amount that may be spent on capital items.

## **Cash and cash equivalents**

Cash includes cash in hand (petty cash) and cash at the bank. Cash equivalents are any other deposits that can be converted to cash straight away.

## **Code of Audit Practice**

A document issued by the Audit Commission and approved by parliament, which sets out how audits for primary care trusts, NHS trusts and strategic health authorities must be conducted.

## **Contingent asset or liability**

An asset or liability which is too uncertain to be included in the accounts.

## **Current asset or current liability**

An asset or liability the NHS trust expects to hold for less than one year.

## **Depreciation**

An accounting charge to represent the use (or wearing out) of assets, as a result the cost of an asset is spread over its useful life.

## **External auditor**

The independent professional auditor appointed by the Audit Commission who reviews the accounts and issues an opinion on whether the accounts present a true and fair view.

**External financing limit**

A measure of the movement in cash an NHS trust is allowed in the year, set by the government.

**Finance lease**

An arrangement whereby the party leasing the asset has most or all of the use of an asset, and the lease payments are akin to repayments on a loan.

**Financial asset**

The definition of a financial asset is very complex. Examples are investments.

**Financial statements**

Another term for the annual accounts.

**Going concern**

The accounts are prepared on a going concern basis, in other words with the expectation that the NHS trust will continue to operate for at least the next 12 months.

**Impairment**

A decrease in the value of an asset.

**Intangible asset**

An asset that is without substance, for example computer software.

**International Financial Reporting Standards**

The new accounting standards that the NHS has adopted from April 2009.

**International Standards on Auditing (United Kingdom and Ireland)**

The professional standards external auditors must comply with when carrying out audits.

**Inventories**

Stock, such as clinical supplies.

**Joint venture**

A contractual arrangement where there is an agreed sharing of control – for example a pooled budget arrangement.

**Liability**

Something the NHS trust owes – for example an overdraft, a loan, or a bill it has not yet paid.

**Manual for Accounts**

An annual publication from the Department of Health which sets out the detailed requirements for NHS trust accounts.

**Non-current asset or liability**

An asset or liability the NHS trust expects to hold for more than one year.

**Non-executive director**

Non-executive directors are members of the NHS trust's board of directors but do not have any involvement in day-to-day management of the NHS trust. They provide the board with independent challenge and scrutiny.

**Operating lease**

An arrangement whereby the party leasing the asset is paying for the provision of a service (the use of the asset) rather than exclusive use of the asset.

**Payables**

Amounts the NHS trust owes.

**Primary care trust**

The body responsible for commissioning all types of healthcare services across a specific locality.

**Primary statements**

The four main statements that make up the accounts: the Statement of Comprehensive Income, Statement of Financial Position, Statement of Change in Taxpayers' Equity and Statement of Cash Flows.

**Private Finance Initiative**

A way of funding major capital investments, without immediate recourse to the public purse. Private consortia, usually involving large construction firms, are contracted to design, build, and in some cases manage new projects. Contracts typically last for 30 years, during which time the building is leased by the NHS trust.

**Provision**

A liability of uncertain timing or amount.

**Public dividend capital**

Taxpayer's equity, or the taxpayer's stake in the NHS trust, arising from the government's original investments in NHS trusts when they were first created.

**Receivables**

Amounts owed to the NHS trust.

**Remuneration report**

The part of the annual report that discloses senior officers' salary and pension information.

**Reserves**

Reserves represent the increase in overall value of the NHS trust since it was first created.

**Statement of Cash Flows**

The new name for the cash flow statement under IFRS. It shows cash flows in and out of the NHS trust during the period.

**Statement of Change in Taxpayers' Equity**

One of the primary statements – it shows the changes in reserves and public dividend capital in the period.

**Statement of Comprehensive Income**

The new name for the income and expenditure account, and the public sector equivalent of the profit and loss account. It shows what income has been earned in the year, what expenditure has been incurred and hence the surplus or deficit for the year.

**Statement of Financial Position**

Year-end statement prepared by all public and private sector organisations, which shows the net assets controlled by the organisation and how these have been funded. It is also known as the Balance Sheet.

**Statement on Internal Control**

A statement about the controls the NHS trust has in place to manage risk.

**Subsidiary**

An entity over which the NHS trust has control, for example because they appoint more than half of the directors.

**Those charged with governance**

Auditors' terminology for those people who are responsible for the governance of the NHS trust, usually the Audit Committee.

**True and fair**

It is the aim of the accounts to show a true and fair view of the NHS trust's financial position. In other words they should faithfully represent what has happened in practice.

**UK Generally Accepted Accounting Practice**

The standard basis of accounting in the UK before international standards were adopted.

**Unrealised gains and losses**

Gains and losses may be realised or unrealised. Unrealised gains and losses are gains or losses that the NHS trust has recognised in its accounts but which are potential as they have not been realised. An example of a gain that is recognised but unrealised is where the value of assets has increased. This gain is realised when the assets are sold or otherwise used.

# Sources of further information

## Sources of further information

### Department of Health

- *NHS Trust Manual for Accounts 2009/10*, 2009  
[www.dh.gov.uk](http://www.dh.gov.uk)

### HFMA

- *Annual Accounts Planning Guide 2009/10*, 2010
- *Effective Governance in Healthcare: An Introductory Guide*, 2006
- *Introductory Guide to NHS Finance*, 2008
- *NHS Finance in a Nutshell: 3rd Edition*, 2008  
[www.hfma.org.uk](http://www.hfma.org.uk)

### Audit Commission

- *A Guide to Finance for Hospital Doctors*, 2009 (produced jointly with the Academy of Medical Royal Colleges)
- *Auditors' Local Evaluation and Use of Resources 2008/09*, 2009
- *Code of Audit Practice for Local NHS Bodies*, 2010
- *Financial Management in the NHS*, 2008 (produced jointly with the NAO)
- *World Class Financial Management*, 2005  
[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)



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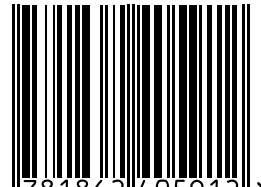
We welcome your feedback. If you have any comments on this report, are intending to implement any of the recommendations, or are planning to follow up any of the case studies, please email: [nationalstudies@audit-commission.gov.uk](mailto:nationalstudies@audit-commission.gov.uk)



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