Sandwell and West Birmingham Hospitals NHS Trust

# AGENDA

## Trust Board – Public Session

**Venue** Anne Gibson Boardroom, City Hospital **Date** 7 June 2012; 1200h – 1300h

**Members**

| | | |
|---|---|---|
| Mr R Samuda | (RS) | [Chair] |
| Mr R Trotman | (RT) | |
| Dr S Sahota | (SS) | |
| Mrs G Hunjan | (GH) | |
| Prof D Alderson | (DA) | |
| Mr P Gayle | (PG) | |
| Mrs O Dutton | (OD) | |
| Mr J Adler | (JA) | |
| Dr D Situnayake | (DS) | |
| Mr R White | (RW) | |
| Miss R Overfield | (RO) | |
| Miss R Barlow | (RB) | |

**In Attendance**

| | |
|---|---|
| Mr M Sharon | (MS) |
| Miss K Dhami | (KD) |
| Mr G Seager | (GS) |
| Mrs J Kinghorn | (JK) |

**In Attendance**

Mrs C Rickards (CR)

**Secretariat**

Mr S Grainger-Payne (SGP)

| Item | Title | Reference No. |
|---|---|---|
| 1 | **Apologies for absence** | **Verbal** |
| 2 | **Declaration of interests**<br>*To declare any interests members may have in connection with the agenda and any further interests acquired since the previous meeting* | **Verbal** |
| 3 | **Questions from members of the public** | **Verbal** |
| 4 | **Annual Accounts – Year ended 31 March 2012** | **SWBTB (6/12) 109**<br>**SWBTB (6/12) 109 (a)**<br>**SWBAC (6/12) 029 (b)*** |
| 5 | **2011/12 audit memorandum** | **SWBAC (6/12) 030*** |
| 6 | **2011/12 Annual Governance Statement** | **SWBAC (6/12) 032*** |
| 7 | **Letter of representation** | **SWBAC (6/12) 031*** |
| 8 | **Any other business** | **Verbal** |
| 9 | **Details of next meeting**<br>*The next public Trust Board will be held on 28 June 2012 at 1530h in the Churchvale/Hollyoak Rooms, Sandwell Hospital* | **Verbal** |

* Papers within Audit Committee meeting pack (7 June 12; 1100h)

Sandwell and West Birmingham Hospitals NHS Trust

# TRUST BOARD

| | |
|---|---|
| **DOCUMENT TITLE:** | Statutory Accounts for the Year Ended 31st March 2012 |
| **SPONSOR (EXECUTIVE DIRECTOR):** | Robert White, Director of Finance and Performance Management |
| **AUTHOR:** | Tony Wharram, Deputy Director of Finance |
| **DATE OF MEETING:** | 7 June 2012 |

**EXECUTIVE SUMMARY:**

The report presents the Trust's statutory accounts for the year ended 31st March 2011 incorporating amendments agreed at the clearance meeting with the External Auditors.

**REPORT RECOMMENDATION:**

The Trust Board is requested to APPROVE the Audit Committee's recommendation that the accounts should be adopted.

**ACTION REQUIRED** *(Indicate with 'x' the purpose that applies)*:
The receiving body is asked to receive, consider and:

| Accept | Approve the recommendation | Discuss |
|---|---|---|
| x | | |

**KEY AREAS OF IMPACT** ***(Indicate with 'x' all those that apply):***

| | | | | | |
|---|---|---|---|---|---|
| Financial | **x** | Environmental | | Communications & Media | |
| Business and market share | | Legal & Policy | **x** | Patient Experience | |
| Clinical | | Equality and Diversity | | Workforce | **x** |

Comments:

**ALIGNMENT TO TRUST OBJECTIVES, RISK REGISTERS, BAF, STANDARDS AND PERFORMANCE METRICS:**

Good use of Resources (under 11/12 OfE, key Strategies & Programmes)

**PREVIOUS CONSIDERATION:**

Annually at Audit Committee and Trust Board.

Sandwell and West Birmingham Hospitals NHS
NHS Trust

**REPORT OF THE DIRECTOR OF FINANCE AND PERFORMANCE MANAGEMENT TO THE TRUST BOARD**

**Thursday 7th June 2012**

**STATUTORY ACCOUNTS FOR THE YEAR ENDED 31ST MARCH 2012**

## 1. Introduction

Attached to this report are the Trust's statutory accounts for the year ended 31st March 2012. They are in a standard format prescribed by the Department of Health and produced on a standard template issued by the Department.

Following the audit of the accounts, a clearance meeting has been held with the Trust's external auditors (KPMG) and a number of changes recommended by them have been incorporated into the accounts.

As previously reported, several items previously recorded as deferred income have been reassigned as provisions in the final version of the accounts, in line with outcomes from the DoH Agreement of Balances process.

## 2. Impact of Changes Resulting from the Audit and Other Events

There have been no changes resulting from the audit of the accounts which have impacted on performance measured in any of the Trust's primary financial statements: the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Taxpayers' Equity and the Cash Flow Statement.

There have been a number of other changes to notes to the accounts including some reclassification of income and expenditure. None of these changes have any impact on overall performance.

Some additional notes and expanded explanations have also been incorporated into the accounts as a result of the audit.

In line with guidance from the Department of Health, nationally measured sickness information has now been incorporated into the accounts at Note 9.3. This information was excluded from the draft accounts as it had not at that time been produced by the DoH.

A number of items previously treated as deferred income have been reclassified as provisions following the DoH national reconciliation exercise on Agreement of Balances between NHS bodies. This does not change the performance of the Trust against any of its key financial targets nor does it fundamentally change the structure of the Statement of Financial Position (SoFP) but it does affect the values of individual items within the SoFP.

Other issues regarding the content and presentation of the accounts will be separately raised by the external auditors in their ISA260 report.

## 3. Other Additional Information

Following the last meeting of the Audit Committee, a number of suggestions were made regarding the incorporation of additional information in the accounts or separate reporting to the Committee. In particular, additional information was requested in respect of non tariff PCT income and the cost of consultancy services.

A breakdown of the main elements of non tariff income is shown in the following table. A significant number of the individual lines included within non tariff income relate to community services transferred from Sandwell PCT on 1st April 2011.

| Service Area | Value £000 |
|---|---|
| Critical Care | 9,449 |
| NICE High Cost Drugs | 9,300 |
| Elderly OBDs | 7,348 |
| Direct Access - Pathology | 5,530 |
| CQUIN | 4,869 |
| Community Midwifery | 5,829 |
| Oncology High Cost Drugs | 4,570 |
| Ophthalmology: Visual Function | 4,428 |
| Community Nursing | 4,205 |
| Lucentis | 3,070 |
| Children Services (Age 0-5) | 2,879 |
| Medical Oncology | 2,804 |
| Neonatal Special Care | 2,639 |
| Chemotherapy Procedure 1 | 2,488 |
| Ophthalmology : Laser | 2,327 |
| Direct Access - Imaging | 1,915 |
| Community Rehabilitation | 1,907 |
| Breast Screening | 1,759 |
| Neurology | 1,603 |
| Community Nursing (Age 5-18) | 1,584 |
| Neonatal High Dependency Unit | 1,488 |
| Clinical Haematology | 1,442 |

| Service Area | Value £000 ! |
|---|---|
| Foot Health | 1,339 |
| HIV Drugs | 1,283 |
| Musculoskeletal Service | 1,279 |
| Neonatal Intensive Care Unit | 1,200 |
| Intermediate Care - Leasowes | 1,044 |
| Admission Avoidance | 1,036 |
| Imaging - MPI | 1,030 |
| Connecting for Health | 1,011 |

A breakdown of consultancy costs for 2011/12 and 2010/11 is shown in the table below. A summary note of the key 2011/12 elements has been included in the accounts.

| Service Area | 2011/12 Value £000 | 2010/11 Value £000 |
|---|---|---|
| Legal Fees (Litigation & Risk Management) | 311 | 132 |
| Transformation Support Office | 782 | 0 |
| Right Care, Right Here | 115 | 307 |
| Foundation Trust | 186 | 23 |
| HPC/HTE (including trading deficit in 10/11) | 250 | 454 |
| Land Acquisition - Specialist Advice | 10 | 288 |
| Support to Quality Review Service | 138 | |
| Finance - Financial Systems, KPMG Development Support etc | | 129 |
| TCS Due Diligence and Support | | 65 |
| Service Configuration Reviews | | 76 |
| Communications Strategy, WEB Development etc | | 34 |
| Other | 94 | 130 |
| | | |
| **Total** | **1,866** | **1,638** |

## 4. <u>Content of Accounts</u>

The Trust's accounts incorporating amendments agreed with the External Auditors are attached. Explanations of the key elements of the accounts were provided at the meeting of the Audit Committee on 17th May, at which the draft accounts were considered. Changes made as a result of the audit have not materially impacted upon these explanations.

## 5. Conclusion

The attached accounts for the year ended 31st March 2012 demonstrate that the Trust has met all its primary financial duties and has posted an overall SOCI surplus of £4,540,000. Against its DoH performance target of a surplus of £1,807,000, the Trust delivered a surplus of £1,863,000. The Trust met its other primary financial duties.

## 6. Recommendation

The Trust Board is requested to APPROVE the Audit Committee's recommendation that the accounts should be adopted.

Robert White
Director of Finance and Performance Management

Data entered below will be used throughout the workbook:

| | |
|---|---|
| Entity name: | Sandwell And West Birmingham Hospitals NHS Trust Q34_RXK |
| This year | 2011-12 |
| Last year | 2010-11 |
| This year ended | 31 March 2012 |
| Last year ended | 31 March 2011 |
| This year commencing: | 1 April 2011 |

## Manual for Accounts 2011-12

## Statement of Comprehensive Income for year ended 31 March 2012

| | NOTE | 2011-12 £000 | 2010-11 £000 (restated) |
|---|---|---|---|
| Employee benefits | 9.1 | **(292,716)** | (261,341) |
| Other costs | 7 | **(119,076)** | (127,142) |
| Revenue from patient care activities | 4 | **386,045** | 348,366 |
| Other Operating revenue | 5 | **38,099** | 41,588 |
| **Operating surplus/(deficit)** | | **12,352** | 1,471 |
| Investment revenue | 11 | **115** | 87 |
| Other gains and (losses) | 12 | **(168)** | (234) |
| Finance costs | 13 | **(2,156)** | (1,902) |
| **Surplus/(deficit) for the financial year** | | **10,143** | (578) |
| Public dividend capital dividends payable | | **(5,603)** | (5,745) |
| **Retained surplus/(deficit) for the year** | | **4,540** | (6,323) |
| **Other Comprehensive Income** | | | |
| Impairments and reversals | | **5,027** | (1,609) |
| Net gain/(loss) on revaluation of property, plant & equipment | | **780** | 2,654 |
| **Total comprehensive income for the year** | | **10,347** | (5,278) |

| **Financial performance for the year** | |
|---|---|
| Retained surplus/(deficit) for the year | **4,540** |
| Prior period adjustment to correct errors | **0** |
| IFRIC 12 adjustment | **(640)** |
| Impairments and Reversals | **(2,395)** |
| Adjustments re donated asset/gov't grant reserve elimination | **(358)** |
| **Adjusted retained surplus/(deficit)** | **1,863** |

The Trust's reported NHS financial performance position is derived from its Retained Surplus/(Deficit), but adjusted in the statement above for the following:-

a) An IFRIC12 adjustment (£640,000) relating to the revenue impact of bringing PFI assets onto the balance sheet (due to the introduction of International Financial Reporting Standards (IFRS) accounting in 2009/10) which necessitates NHS Trusts' financial performance measurement being aligned with the guidance issued by HM Treasury for measuring departmental expenditure. Therefore, the incremental revenue impact resulting from the application of IFRS to PFI, which has no cash impact and is not chargeable for overall budgeting purposes, is reported as technical. This impact is not considered part of the organisation's operating position.

b) Reversal of previous impairments to fixed assets of £2,395,000 which are not considered part of the organisation's operating position.

c) The net impact of changes resulting from the elimination of Donated Asset and Government Grant Reserves.

On 1st April 2011, community services previously provided by Sandwell PCT as Sandwell Community Healthcare Services were transferred to Sandwell And West Birmingham Hospitals NHS Trust. These services contained a wide range of community based functions including district nursing and health visiting, therapies and rehabilitation and palliative care services. The annual value of the services transferred is approximately £35.4m. No non current assets were transferred in 2011-12 and the value of current assets and liabilities transferred was not material to the financial position of Sandwell And West Birmingham Hospitals.

The notes on pages 5 to 44 form part of this account.

## Statement of Financial Position as at 31 March 2012

| | NOTE | 31 March 2012 £000 | 1 April 2011 (restated) £000 | Merger adjustments £000 | 31 March 2011 (restated) £000 | 31 March 2010 (restated) £000 |
|---|---|---|---|---|---|---|
| **Non-current assets:** | | | | | | |
| Property, plant and equipment | 14 | **227,072** | 216,135 | 0 | 216,135 | 220,296 |
| Intangible assets | 15 | **1,075** | 1,077 | 0 | 1,077 | 426 |
| Investment property | | **0** | 0 | 0 | 0 | 0 |
| Other financial assets | | **0** | 0 | 0 | 0 | 0 |
| Trade and other receivables | 21.1 | **865** | 649 | 0 | 649 | 1,158 |
| **Total non-current assets** | | **229,012** | 217,861 | 0 | 217,861 | 221,880 |
| **Current assets:** | | | | | | |
| Inventories | 20 | **4,065** | 3,531 | 0 | 3,531 | 3,439 |
| Trade and other receivables | 21.1 | **14,446** | 11,784 | (868) | 12,652 | 19,289 |
| Other financial assets | | **0** | 0 | 0 | 0 | 0 |
| Other current assets | | **0** | 0 | 0 | 0 | 0 |
| Cash and cash equivalents | | **34,465** | 20,666 | 0 | 20,666 | 15,867 |
| **Total current assets** | | **52,976** | 35,981 | (868) | 36,849 | 38,595 |
| Non-current assets held for sale | 25 | **0** | 64 | 0 | 64 | 0 |
| **Total current assets** | | **52,976** | 36,045 | (868) | 36,913 | 38,595 |
| **Total assets** | | **281,988** | 253,906 | (868) | 254,774 | 260,475 |
| **Current liabilities** | | | | | | |
| Trade and other payables | 26 | **(33,751)** | (33,525) | (12) | (33,513) | (31,962) |
| Other liabilities | | **0** | 0 | 0 | 0 | 0 |
| Provisions | 32 | **(15,649)** | (4,943) | 0 | (4,943) | (5,338) |
| Borrowings | 28 | **(1,166)** | (1,262) | 0 | (1,262) | (1,698) |
| Other financial liabilities | | **0** | 0 | 0 | 0 | 0 |
| Working capital loan from Department | | **0** | 0 | 0 | 0 | 0 |
| Capital loan from Department | | **(2,000)** | 0 | 0 | 0 | 0 |
| **Total current liabilities** | | **(52,566)** | (39,730) | (12) | (39,718) | (38,998) |
| **Non-current assets plus/less net current assets/liabilities** | | **229,422** | 214,176 | (880) | 215,056 | 221,477 |
| **Non-current liabilities** | | | | | | |
| Trade and other payables | 26 | 0 | 0 | 0 | 0 | 0 |
| Other Liabilities | | 0 | 0 | 0 | 0 | 0 |
| Provisions | 32 | (2,532) | (1,357) | 880 | (2,237) | (2,175) |
| Borrowings | 28 | (29,995) | (31,271) | 0 | (31,271) | (32,476) |
| Other financial liabilities | | 0 | 0 | 0 | 0 | 0 |
| Working capital loan from Department | | 0 | 0 | 0 | 0 | 0 |
| Capital loan from Department | | (5,000) | 0 | 0 | 0 | 0 |
| **Total non-current liabilities** | | **(37,527)** | (32,628) | 880 | (33,508) | (34,651) |
| **Total Assets Employed:** | | **191,895** | 181,548 | 0 | 181,548 | 186,826 |
| **FINANCED BY:** | | | | | | |
| **TAXPAYERS' EQUITY** | | | | | | |
| Public Dividend Capital | | 160,231 | 160,231 | 0 | 160,231 | 160,231 |
| Retained earnings | | (18,622) | (24,314) | (52) | (24,262) | (19,008) |
| Revaluation reserve | | 41,228 | 36,573 | 52 | 36,521 | 36,545 |
| Other reserves | | 9,058 | 9,058 | 0 | 9,058 | 9,058 |
| **Total Taxpayers' Equity:** | | **191,895** | 181,548 | 0 | 181,548 | 186,826 |

The notes on pages 5 to 44 form part of this account.

The financial statements on pages 1 to 4 were approved by the Board on 7th June 2012 and signed on its behalf by

**Chief Executive:** Date:

## Statement of Changes in Taxpayers' Equity
## For the year ended 31 March 2012

| | Public Dividend capital | Retained earnings | Revaluation reserve | Other reserves | Total reserves |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2011** | 160,231 | (24,262) | 36,521 | 9,058 | **181,548** |
| Opening balance adjustments | 0 | (52) | 52 | 0 | **0** |
| Adjustments for Transforming Community Services transactions | 0 | 0 | 0 | 0 | **0** |
| **Restated balance at 1 April 2011** | 160,231 | (24,314) | 36,573 | 9,058 | **181,548** |
| | | | | | |
| **Changes in taxpayers' equity for 2011-12** | | | | | |
| Retained surplus/(deficit) for the year | 0 | 4,540 | 0 | 0 | **4,540** |
| Net gain / (loss) on revaluation of property, plant, equipment | 0 | 0 | 780 | 0 | **780** |
| Net gain / (loss) on revaluation of intangible assets | 0 | 0 | 0 | 0 | **0** |
| Net gain / (loss) on revaluation of financial assets | 0 | 0 | 0 | 0 | **0** |
| Net gain / (loss) on revaluation of assets held for sale | 0 | 0 | 0 | 0 | **0** |
| Impairments and reversals | 0 | 0 | 5,027 | 0 | **5,027** |
| Movements in other reserves | 0 | | | 0 | **0** |
| Transfers between reserves | 0 | 1,152 | (1,152) | 0 | **0** |
| Release of reserves to SOCI | 0 | | 0 | | **0** |
| Transfers to/(from) other bodies within the Resource Account boundary | 0 | 0 | 0 | 0 | **0** |
| Reclassification adjustment on disposal of available for sale financial assets | 0 | 0 | 0 | 0 | **0** |
| Reserves eliminated on dissolution | 0 | 0 | 0 | 0 | **0** |
| Originating capital for Trust established in year | 0 | 0 | 0 | 0 | **0** |
| New PDC Received | 0 | 0 | 0 | 0 | **0** |
| PDC Repaid In Year | 0 | 0 | 0 | 0 | **0** |
| PDC Written Off | 0 | 0 | 0 | 0 | **0** |
| Transferred to NHS Foundation Trust | 0 | 0 | 0 | 0 | **0** |
| Other Movements in PDC In Year | 0 | 0 | 0 | 0 | **0** |
| Net Actuarial Gain/(Loss) on Pension | 0 | 0 | 0 | 0 | **0** |
| Net recognised revenue/(expense) for the year | 0 | 5,692 | 4,655 | 0 | 10,347 |
| **Balance at 31 March 2012** | **160,231** | **(18,622)** | **41,228** | **9,058** | **191,895** |
| | | | | | |
| **Changes in taxpayers' equity for 2010-11** | | | | | |
| **Balance at 1 April 2010** | 160,231 | (19,008) | 36,545 | 9,058 | 186,826 |
| Retained surplus/(deficit) for the year | | (6,323) | | | (6,323) |
| Net gain / (loss) on revaluation of property, plant, equipment | | | 2,654 | | 2,654 |
| Net gain / (loss) on revaluation of intangible assets | | | 0 | | 0 |
| Net gain / (loss) on revaluation of financial assets | | | 0 | | 0 |
| Net gain / (loss) on revaluation of assets held for sale | | | | | 0 |
| Impairments and reversals | | | (1,609) | | (1,609) |
| Movements in other reserves | | | | 0 | 0 |
| Transfers between reserves | | 1,069 | (1,069) | 0 | 0 |
| Reclassification adjustment on disposal of available for sale financial assets | | | 0 | | 0 |
| Reserves eliminated on dissolution | | 0 | 0 | 0 | 0 |
| Originating capital for Trust established in year | 0 | | | | 0 |
| New PDC Received | 0 | | | | 0 |
| PDC Repaid In Year | 0 | | | | 0 |
| PDC Written Off | 0 | | | | 0 |
| Transferred to NHS Foundation Trust | 0 | 0 | 0 | 0 | 0 |
| Other Movements in PDC In Year | 0 | | | | 0 |
| Net Actuarial Gain/(Loss) on Pension | | 0 | | 0 | 0 |
| Net recognised revenue/(expense) for the year | 0 | (5,254) | (24) | 0 | (5,278) |
| **Balance at 31 March 2011** | **160,231** | **(24,262)** | **36,521** | **9,058** | **181,548** |

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED**
**31 March 2012**

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Operating Surplus/Deficit | 12,352 | 1,471 |
| Depreciation and Amortisation | 13,092 | 13,266 |
| Impairments and Reversals | (2,395) | 9,533 |
| Other Gains / (Losses) on foreign exchange | 0 | 0 |
| Donated Assets received credited to revenue but non-cash | 0 | 0 |
| Government Granted Assets received credited to revenue but non-cash | 0 | 0 |
| Interest Paid | (2,073) | (2,006) |
| Dividend paid | (5,603) | (5,026) |
| Release of PFI/deferred credit | 0 | 0 |
| (Increase)/Decrease in Inventories | (534) | (92) |
| (Increase)/Decrease in Trade and Other Receivables | (2,010) | 6,427 |
| (Increase)/Decrease in Other Current Assets | (382) | 0 |
| Increase/(Decrease) in Trade and Other Payables | (4,175) | 3,922 |
| (Increase)/Decrease in Other Current Liabilities | 0 | 0 |
| Provisions Utilised | (1,665) | (3,188) |
| Increase/(Decrease) in Provisions | 13,458 | 2,803 |
| **Net Cash Inflow/(Outflow) from Operating Activities** | **20,065** | **27,110** |
| | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Interest Received | 112 | 87 |
| (Payments) for Property, Plant and Equipment | (11,387) | (20,314) |
| (Payments) for Intangible Assets | (472) | (230) |
| (Payments) for Investments with DH | 0 | 0 |
| (Payments) for Other Financial Assets | 0 | 0 |
| (Payments) for Financial Assets (LIFT) | 0 | 0 |
| Proceeds of disposal of assets held for sale (PPE) | 64 | 417 |
| Proceeds of disposal of assets held for sale (Intangible) | 0 | 133 |
| Proceeds from Disposal of Investment with DH | 0 | 0 |
| Proceeds from Disposal of Other Financial Assets | 0 | 0 |
| Proceeds from the disposal of Financial Assets (LIFT) | 0 | 0 |
| Loans Made in Respect of LIFT | 0 | 0 |
| Loans Repaid in Respect of LIFT | 0 | 0 |
| Rental Revenue | 0 | 0 |
| **Net Cash Inflow/(Outflow) from Investing Activities** | **(11,683)** | **(19,907)** |
| | | |
| **NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING** | **8,382** | **7,203** |
| | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Public Dividend Capital Received | 0 | 0 |
| Public Dividend Capital Repaid | 0 | 0 |
| Loans received from DH - New Capital Investment Loans | 8,000 | 0 |
| Loans received from DH - New Working Capital Loans | 0 | 0 |
| Other Loans Received | 0 | 0 |
| Loans repaid to DH - Capital Investment Loans Repayment of Principal | (1,000) | 0 |
| Loans repaid to DH - Working Capital Loans Repayment of Principal | 0 | 0 |
| Other Loans Repaid | 0 | 0 |
| Cash transferred to NHS Foundation Trusts | 0 | 0 |
| Capital Element of Payments in Respect of Finance Leases and On-SoFP PFI and LIFT | (2,043) | (1,660) |
| Capital grants and other capital receipts | 460 | 0 |
| **Net Cash Inflow/(Outflow) from Financing Activities** | **5,417** | **(1,660)** |
| | | |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | **13,799** | **5,543** |
| | | |
| **Cash and Cash Equivalents ( and Bank Overdraft) at Beginning of the Period** | 20,666 | 15,123 |
| Opening balance adjustment - TCS transactions | 0 | |
| **Restated Cash and Cash Equivalents ( and Bank Overdraft) at Beginning of the Period** | 20,666 | 15,123 |
| Effect of Exchange Rate Changes in the Balance of Cash Held in Foreign Currencies | 0 | 0 |
| **Cash and Cash Equivalents (and Bank Overdraft) at year end** | 34,465 | 20,666 |

# NOTES TO THE ACCOUNTS

## 1. Accounting Policies

The Secretary of State for Health has directed that the financial statements of NHS trusts shall meet the accounting requirements of the NHS Trusts Manual for Accounts, which shall be agreed with HM Treasury. Consequently, the following financial statements have been prepared in accordance with the 2011-12 NHS Trusts Manual for Accounts issued by the Department of Health. The accounting policies contained in that manual follow International Financial Reporting Standards to the extent that they are meaningful and appropriate to the NHS, as determined by HM Treasury, which is advised by the Financial Reporting Advisory Board. Where the NHS Trusts Manual for Accounts permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the trust for the purpose of giving a true and fair view has been selected. The particular policies adopted by the trust are described below. They have been applied consistently in dealing with items considered material in relation to the accounts.

### 1.1 Accounting convention

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

### 1.2 Acquisitions and discontinued operations

Activities are considered to be ‘acquired’ only if they are taken on from outside the public sector. Activities are considered to be ‘discontinued’ only if they cease entirely. They are not considered to be ‘discontinued’ if they transfer from one public sector body to another.

### 1.3 Transforming Community Services (TCS) transactions

Under the TCS initiative, services historically provided by PCTs have transferred to other providers - notably NHS Trusts and NHS Foundation Trusts. Such transfers fall to be accounted for by use of merger accounting. The Treasury FREM provides that where a transfer takes place in 2011-12, the recipient of the transfer will account for transferred activity in full for the period (and the original provider for none) to reflect the position had the transfer always applied.

For TCS transactions specifically, it is impracticable to adjust the prior period's revenue account in each body and so restatement is effected by an adjustment to 1 April 2011 opening balances rather than by full restatement of comparators.

### 1.4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Trust’s accounting policies, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from those estimates and the estimates and underlying assumptions are continually reviewed. Revisions to accounting estimates are recognised in the period in which the estimate is updated if the revision affects only that period or in the period of the update and future periods if the revision affects both current and future periods.

**Notes to the Accounts - 1. Accounting Policies (Continued)**

### 1.4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below) that management has made in the process of applying the Trust's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

### 1.4.2 Key sources of estimation uncertainty

Asset lives used by the Trust are based on lives estimated during the revaluation of assets in 2011/2012 for assets which existed at that time. For assets acquired since this valuation, standard lives have been applied except where known events have taken place which change these lives.

Provisions included in the financial position at 31st March 2012 are estimated using appropriate professional advice and based on circumstances prevailing at the balance sheet date.

### 1.5 Revenue

Revenue in respect of services provided is recognised when, and to the extent that, performance occurs, and is measured at the fair value of the consideration receivable.  The main source of revenue for the trust is from commissioners for healthcare services.  Revenue relating to patient care spells that are part-completed at the year end are apportioned across the financial years on the basis of  the length of stay at the end of the reporting period compared to expected total length of stay.

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

The Trust receives income under the NHS Injury Cost Recovery Scheme, designed to reclaim the cost of treating injured individuals to whom personal injury compensation has subsequently been paid e.g. by an insurer.  The Trust recognises the income when it receives notification from the Department of Work and Pension's Compensation Recovery Unit that the individual has lodged a compensation claim. The income is measured at the agreed tariff for the treatments provided to the injured individual, less a provision for unsuccessful compensation claims and doubtful debts.

The Trust undertakes limited sale of healthcare related goods, primarily drugs. Revenue in respect of these sales is initially recognised at the point of sale.

### 1.6 Employee Benefits

**Short-term employee benefits**

Salaries, wages and employment-related payments are recognised in the period in which the service is received from employees.

The cost of leave earned but not taken by employees at the end of the period is recognised in the financial statements to the extent that employees are permitted to carry forward leave into the following period.

**Notes to the Accounts - 1. Accounting Policies (Continued)**

**Retirement benefit costs**

Past and present employees are covered by the provisions of the NHS Pensions Scheme. The scheme is an unfunded, defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to expenditure at the time the Trust commits itself to the retirement, regardless of the method of payment.

**1.7 Other expenses**

Other operating expenses are recognised when, and to the extent that, the goods or services have been received. They are measured at the fair value of the consideration payable.

**1.8 Property, plant and equipment**

**Recognition**

Property, plant and equipment is capitalised if:
● it is held for use in delivering services or for administrative purposes;
● it is probable that future economic benefits will flow to, or service potential will be supplied to, the trust;
● it is expected to be used for more than one financial year;
● the cost of the item can be measured reliably; and
● the item has cost of at least £5,000; or
● Collectively, a number of items have a cost of at least £5,000 and individually have a cost of more than £250, where the assets are functionally interdependent, they had broadly simultaneous purchase dates, are anticipated to have simultaneous disposal dates and are under single managerial control; or
● Items form part of the initial equipping and setting-up cost of a new building, ward or unit, irrespective of their individual or collective cost.

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

**Valuation**

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

Land and buildings used for the trust’s services or for administrative purposes are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any impairment. Revaluations are performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Fair values are determined as follows:
● Land and non-specialised buildings – market value for existing use
● Specialised buildings – depreciated replacement cost

**Notes to the Accounts - 1. Accounting Policies (Continued)**

Until 31 March 2008, the depreciated replacement cost of specialised buildings has been estimated for an exact replacement of the asset in its present location. HM Treasury has adopted a standard approach to depreciated replacement cost valuations based on modern equivalent assets and, where it would meet the location requirements of the service being provided, an alternative site can be valued.

Properties in the course of construction for service or administration purposes are carried at cost, less any impairment loss. Cost includes professional fees but not borrowing costs, which are recognised as expenses immediately, as allowed by IAS 23 for assets held at fair value. Assets are revalued and depreciation commences when they are brought into use.

Until 31 March 2008, fixtures and equipment were carried at replacement cost, as assessed by indexation and depreciation of historic cost. From 1 April 2008 indexation has ceased. The carrying value of existing assets at that date will be written off over their remaining useful lives and new fixtures and equipment are carried at depreciated historic cost as this is not considered to be materially different from fair value.

An increase arising on revaluation is taken to the revaluation reserve except when it reverses an impairment for the same asset previously recognised in expenditure, in which case it is credited to expenditure to the extent of the decrease previously charged there. A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit should be taken to expenditure. Gains and losses recognised in the revaluation reserve are reported as other comprehensive income in the Statement of Comprehensive Income.

**Subsequent expenditure**

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is capitalised. Where subsequent expenditure restores the asset to its original specification, the expenditure is capitalised and any existing carrying value of the item replaced is written-out and charged to operating expenses.

### 1.9 Intangible assets

**Recognition**

Intangible assets are non-monetary assets without physical substance, which are capable of sale separately from the rest of the trust’s business or which arise from contractual or other legal rights. They are recognised only when it is probable that future economic benefits will flow to, or service potential be provided to, the trust; where the cost of the asset can be measured reliably, and where the cost is at least £5000.

Intangible assets acquired separately are initially recognised at fair value. Software that is integral to the operating of hardware, for example an operating system, is capitalised as part of the relevant item of property, plant and equipment. Software that is not integral to the operation of hardware, for example application software, is capitalised as an intangible asset. Expenditure on research is not capitalised: it is recognised as an operating expense in the period in which it is incurred. Internally-generated assets are recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use
- the intention to complete the intangible asset and use it

**Notes to the Accounts - 1. Accounting Policies (Continued)**

- the ability to sell or use the intangible asset
- how the intangible asset will generate probable future economic benefits or service potential
- the availability of adequate technical, financial and other resources to complete the intangible asset and sell or use it
- the ability to measure reliably the expenditure attributable to the intangible asset during its development

**Measurement**

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the criteria above are initially met. Where no internally-generated intangible asset can be recognised, the expenditure is recognised in the period in which it is incurred.

Following initial recognition, intangible assets are carried at fair value by reference to an active market, or, where no active market exists, at amortised replacement cost (modern equivalent assets basis), indexed for relevant price increases, as a proxy for fair value. Internally-developed software is held at historic cost to reflect the opposing effects of increases in development costs and technological advances.

### 1.10 Depreciation, amortisation and impairments

Freehold land, properties under construction, and assets held for sale are not depreciated.

Otherwise, depreciation and amortisation are charged to write off the costs or valuation of property, plant and equipment and intangible non-current assets, less any residual value, over their estimated useful lives, in a manner that reflects the consumption of economic benefits or service potential of the assets. The estimated useful life of an asset is the period over which the Trust expects to obtain economic benefits or service potential from the asset. This is specific to the Trust and may be shorter than the physical life of the asset itself. Estimated useful lives and residual values are reviewed each year end, with the effect of any changes recognised on a prospective basis. Assets held under finance leases are depreciated over their estimated useful lives

At each reporting period end, the trust checks whether there is any indication that any of its tangible or intangible non-current assets have suffered an impairment loss. If there is indication of an impairment loss, the recoverable amount of the asset is estimated to determine whether there has been a loss and, if so, its amount. Intangible assets not yet available for use are tested for impairment annually.

A revaluation decrease that does not result from a loss of economic value or service potential is recognised as an impairment charged to the revaluation reserve to the extent that there is a balance on the reserve for the asset and, thereafter, to expenditure. Impairment losses that arise from a clear consumption of economic benefit should be taken to expenditure. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of the recoverable amount but capped at the amount that would have been determined had there been no initial impairment loss. The reversal of the impairment loss is credited to expenditure to the extent of the decrease previously charged there and thereafter to the revaluation reserve.

### 1.11 Donated assets

Following the accounting policy change outlined in the Treasury FREM for 2011-12, a donated asset reserve is no longer maintained. Donated non-current assets are capitalised at their fair value on receipt, with a matching credit to Income. They are valued, depreciated and impaired as described above for purchased assets. Gains and losses on revaluations, impairments and sales are as described above for purchased assets. Deferred income is recognised only where conditions attached to the donation preclude immediate recognition of the gain.

This accounting policy change has been applied retrospectively and consequently the 2010-11 results have been restated.

### 1.12 Government grants

Following the accounting policy change outlined in the Treasury FREM for 2011-12, a government grant reserve is no longer maintained. The value of assets received by means of a government grant are credited directly to income. Deferred income is recognised only where conditions attached to the grant preclude immediate recognition of the gain.

This accounting policy change has been applied retrospectively and consequently the 2010-11 results have been restated.

**Notes to the Accounts - 1. Accounting Policies (Continued)**

### 1.13 Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met when the sale is highly probable, the asset is available for immediate sale in its present condition and management is committed to the sale, which is expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Fair value is open market value including alternative uses.

The profit or loss arising on disposal of an asset is the difference between the sale proceeds and the carrying amount and is recognised in the Statement of Comprehensive Income. On disposal, the balance for the asset on the revaluation reserve is transferred to retained earnings. For donated and government-granted assets, a transfer is made to or from the relevant reserve to the profit/loss on disposal account so that no profit or loss is recognised in income or expenses. The remaining surplus or deficit in the donated asset or government grant reserve is then transferred to retained earnings.

Property, plant and equipment that is to be scrapped or demolished does not qualify for recognition as held for sale. Instead, it is retained as an operational asset and its economic life is adjusted. The asset is de-recognised when it is scrapped or demolished.

### 1.14 Leases

Leases are classified as finance leases when substantially all the risks and rewards of ownership are transferred to the lessee. All other leases are classified as operating leases.

**The trust as lessee**

Property, plant and equipment held under finance leases are initially recognised, at the inception of the lease, at fair value or, if lower, at the present value of the minimum lease payments, with a matching liability for the lease obligation to the lessor. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate on interest on the remaining balance of the liability. Finance charges are recognised in calculating the trust's surplus/deficit.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Lease incentives are recognised initially as a liability and subsequently as a reduction of rentals on a straight-line basis over the lease term.

Contingent rentals are recognised as an expense in the period in which they are incurred.

Where a lease is for land and buildings, the land and building components are separated and individually assessed as to whether they are operating or finance leases.

### 1.15 Private Finance Initiative (PFI) transactions

HM Treasury has determined that government bodies shall account for infrastructure PFI schemes where the government body controls the use of the infrastructure and the residual interest in the infrastructure at the end of the arrangement as service concession arrangements, following the principles of the requirements of IFRIC 12. The Trust therefore recognises the PFI asset as an item of property, plant and equipment together with a liability to pay for it. The services received under the contract are recorded as operating expenses.

**Notes to the Accounts - 1. Accounting Policies (Continued)**

The annual unitary payment is separated into the following component parts, using appropriate estimation techniques where necessary:

a) Payment for the fair value of services received;
b) Payment for the PFI asset, including finance costs; and
c) Payment for the replacement of components of the asset during the contract ‘lifecycle replacement’.

**Services received**

The fair value of services received in the year is recorded under the relevant expenditure headings within ‘operating expenses’.

**PFI Asset**

The PFI assets are recognised as property, plant and equipment, when they come into use. The assets are measured initially at fair value in accordance with the principles of IAS 17. Subsequently, the assets are measured at fair value, which is kept up to date in accordance with the Trust’s approach for each relevant class of asset in accordance with the principles of IAS 16.

**PFI liability**

A PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17.

An annual finance cost is calculated by applying the implicit interest rate in the lease to the opening lease liability for the period, and is charged to ‘Finance Costs’ within the Statement of Comprehensive Income.

The element of the annual unitary payment that is allocated as a finance lease rental is applied to meet the annual finance cost and to repay the lease liability over the contract term.

An element of the annual unitary payment increase due to cumulative indexation is allocated to the finance lease. In accordance with IAS 17, this amount is not included in the minimum lease payments, but is instead treated as contingent rent and is expensed as incurred. In substance, this amount is a finance cost in respect of the liability and the expense is presented as a contingent finance cost in the Statement of Comprehensive Income.

**Lifecycle replacement**

Components of the asset replaced by the operator during the contract (‘lifecycle replacement’) are capitalised where they meet the Trust’s criteria for capital expenditure. They are capitalised at the time they are provided by the operator and are measured initially at their fair value. To date, there are no elements of the trust's PFI scheme which have been treated in this way and all ongoing maintenance and replacement expenditure has been charged directly to the SOCI in line with the operator's original model.

Where the fair value of the lifecycle component is less than the amount determined in the contract, the difference is recognised as an expense when the replacement is provided. If the fair value is greater than the amount determined in the contract, the difference is treated as a ‘free’ asset and a deferred income balance is recognised. The deferred income is released to the operating income over the shorter of the remaining contract period or the useful economic life of the replacement component.

**Notes to the Accounts - 1. Accounting Policies (Continued)**

### 1.16 Inventories

Inventories are valued at the lower of cost and net realisable value using the first-in first-out cost formula. This is considered to be a reasonable approximation to fair value due to the high turnover of stocks.

### 1.17 Cash and cash equivalents

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

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

### 1.18 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of a past event, it is probable that the Trust will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the expenditure required to settle the obligation at the end of the reporting period, taking into account the risks and uncertainties. Where a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows using HM Treasury's discount rate of 2.2% in real terms (2.9% for employee early departure obligations).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursements will be received and the amount of the receivable can be measured reliably.

A restructuring provision is recognised when the Trust has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with ongoing activities of the entity.

### 1.19 Clinical negligence costs

The NHS Litigation Authority (NHSLA) operates a risk pooling scheme under which the trust pays an annual contribution to the NHSLA which in return settles all clinical negligence claims. The contribution is charged to expenditure. Although the NHSLA is administratively responsible for all clinical negligence cases the legal liability remains with the trust. The total value of clinical negligence provisions carried by the NHSLA on behalf of the trust is disclosed at note 32.

### 1.20 Non-clinical risk pooling

The Trust participates in the Property Expenses Scheme and the Liabilities to Third Parties Scheme. Both are risk pooling schemes under which the trust pays an annual contribution to the NHS Litigation Authority and, in return, receives assistance with the costs of claims arising. The annual membership contributions, and any excesses payable in respect of particular claims are charged to operating expenses as and when they become due.

### 1.21 EU Emissions Trading Scheme

EU Emission Trading Scheme allowances are accounted for as intangible assets if they are not expected to be realised within twelve months, and otherwise as other current assets. They are valued at open market value. As the NHS body makes emissions, a provision is recognised. The provision is settled on surrender of the allowances. The asset, provision and deferred income amounts are valued at fair value at the end of the reporting period.

### 1.22 Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the trust, or a present obligation that is not recognised because it is not probable that a payment will be required to settle the obligation or the amount of the obligation cannot be measured sufficiently reliably. A contingent liability is disclosed unless the possibility of a payment is remote.

**Notes to the Accounts - 1. Accounting Policies (Continued]**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the trust. A contingent asset is disclosed where an inflow of economic benefits is probable.

Where the time value of money is material, contingencies are disclosed at their present value.

**1.23 Financial assets**

Financial assets are recognised when the Trust becomes party to the financial instrument contract or, in the case of trade receivables, when the goods or services have been delivered. Financial assets are derecognised when the contractual rights have expired or the asset has been transferred.

Financial assets are initially recognised at fair value.

Financial assets are classified into the following categories: financial assets at fair value through profit and loss; held to maturity investments; available for sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

**Financial assets at fair value through profit and loss**

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial assets at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in calculating the trust's surplus or deficit for the year. The net gain or loss incorporates any interest earned on the financial asset.

**Held to maturity investments**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity, and there is a positive intention and ability to hold to maturity. After initial recognition, they are held at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

**Available for sale financial assets**

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that do not fall within any of the other three financial asset classifications. They are measured at fair value with changes in value taken to the revaluation reserve, with the exception of impairment losses. Accumulated gains or losses are recycled to surplus/deficit on de-recognition.

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial recognition, they are measured at amortised cost using the effective interest method, less any impairment. Interest is recognised using the effective interest method.

Fair value is determined by reference to quoted market prices where possible, otherwise by valuation techniques.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the initial fair value of the financial asset.

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

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

**Notes to the Accounts - 1. Accounting Policies (Continued**]

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through expenditure to the extent that the carrying amount of the receivable at the date of the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**1.24 Financial liabilities**

Financial liabilities are recognised on the statement of financial position when the trust becomes party to the contractual provisions of the financial instrument or, in the case of trade payables, when the goods or services have been received. Financial liabilities are de-recognised when the liability has been discharged, that is, the liability has been paid or has expired.

Loans from the Department of Health are recognised at historical cost. Otherwise, financial liabilities are initially recognised at fair value.

**Financial guarantee contract liabilities**

Financial guarantee contract liabilities are subsequently measured at the higher of:

The premium received (or imputed) for entering into the guarantee less cumulative amortisation.

The amount of the obligation under the contract, as determined in accordance with IAS 37*Provisions, Contingent Liabilities and Contingent Assets.*

**Financial liabilities at fair value through profit and loss**

Embedded derivatives that have different risks and characteristics to their host contracts, and contracts with embedded derivatives whose separate value cannot be ascertained, are treated as financial liabilities at fair value through profit and loss. They are held at fair value, with any resultant gain or loss recognised in the trust’s surplus/deficit. The net gain or loss incorporates any interest payable on the financial liability.

**Other financial liabilities**

After initial recognition, all other financial liabilities are measured at amortised cost using the effective interest method, except for loans from Department of Health, which are carried at historic cost. The effective interest rate is the rate that exactly discounts estimated future cash payments through the life of the asset, to the net carrying amount of the financial liability. Interest is recognised using the effective interest method.

**1.25 Value Added Tax**

Most of the activities of the trust are outside the scope of VAT and, in general, output tax does not apply and input tax on purchases is not recoverable. Irrecoverable VAT is charged to the relevant expenditure category or included in the capitalised purchase cost of fixed assets. Where output tax is charged or input VAT is recoverable, the amounts are stated net of VAT.

**1.26 Foreign currencies**

The Trust's functional currency and presentational currency is sterling. Transactions denominated in a foreign currency are translated into sterling at the exchange rate ruling on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the spot exchange rate on 31 March. Resulting exchange gains and losses for either of these are recognised in the trust’s surplus/deficit in the period in which they arise.

**1.27 Third party assets**

Assets belonging to third parties (such as money held on behalf of patients) are not recognised in the accounts since the trust has no beneficial interest in them. Details of third party assets are given in Note 41 to the accounts.

**Notes to the Accounts - 1. Accounting Policies (Continued)**

### 1.28 Public Dividend Capital (PDC) and PDC dividend

Public dividend capital represents taxpayers' equity in the NHS trust. At any time the Secretary of State can issue new PDC to, and require repayments of PDC from, the trust. PDC is recorded at the value received. As PDC is issued under legislation rather than under contract, it is not treated as an equity financial instrument.

An annual charge, reflecting the cost of capital utilised by the trust, is payable to the Department of Health as public dividend capital dividend. The charge is calculated at the real rate set by HM Treasury (currently 3.5%) on the average carrying amount of all assets less liabilities, except for donated assets and cash balances with the Office of the Paymaster General. The average carrying amount of assets is calculated as a simple average of opening and closing relevant net assets.

### 1.29 Losses and Special Payments

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

Losses and special payments are charged to the relevant functional headings in expenditure on an accruals basis, including losses which would have been made good through insurance cover had NHS trusts not been bearing their own risks (with insurance premiums then being included as normal revenue expenditure).

### 1.30 Subsidiaries

Material entities over which the Trust has the power to exercise control so as to obtain economic or other benefits are classified as subsidiaries and are consolidated. Their income and expenses; gains and losses; assets, liabilities and reserves; and cash flows are consolidated in full into the appropriate financial statement lines. Appropriate adjustments are made on consolidation where the subsidiary's accounting policies are not aligned with the Trust's or where the subsidiary's accounting date is before 1 January or after 30 June.

Subsidiaries that are classified as 'held for sale' are measured at the lower of their carrying amount or 'fair value less costs to sell'

For 2010-11 and 2011-12 in accordance with the directed accounting policy from the Secretary of State, the Trust does not consolidate the NHS charitable funds for which it is the corporate trustee.

**Notes to the Accounts - 1. Accounting Policies (Continued)**

### 1.31 Research and Development

Research and development expenditure is charged against income in the year in which it is incurred, except insofar as development expenditure relates to a clearly defined project and the benefits of it can reasonably be regarded as assured. Expenditure so deferred is limited to the value of future benefits expected and is amortised through the Operating Cost Statement on a systematic basis over the period expected to benefit from the project. It should be revalued on the basis of current cost. The amortisation is calculated on the same basis as depreciation, on a quarterly basis.

### 1.32 Accounting Standards that have been issued but have not yet been adopted

The Treasury FReM does not require the following Standards and Interpretations to be applied in 2011-12. The application of the Standards as revised would not have a material impact on the accounts for 2011-12, were they applied in that year:

IAS 1 Presentation of financial statements (Other Comprehensive Income) - subject to consultation
IAS 12 - Income Taxes (amendment) - subject to consultation
IAS 19 Post-employment benefits (pensions) - subject to consultation
IAS 27 Separate Financial Statements - subject to consultation
IAS 28 Investments in Associates and Joint Ventures - subject to consultation
IFRS 7 - Financial Instruments: Disclosures (annual improvements) - effective 2012-13
IFRS 9 Financial Instruments - subject to consultation - subject to consultation
IFRS 10 Consolidated Financial Statements - subject to consultation
IFRS 11 Joint Arrangements - subject to consultation
IFRS 12 Disclosure of Interests in Other Entities - subject to consultation
IFRS 13 Fair Value Measurement - subject to consultation
IPSAS 32 - Service Concession Arrangement - subject to consultation

## 2. Operating segments

The Board, as 'Chief Operating Decision Maker', has determined that the Trust operates in one material segment which is the provision of healthcare services. The segmental reporting format reflects the Trust's management and internal reporting structure. The management arrangements for services transferred from Sandwell PCT on 1st April 2011 (TCS) are not at this stage considered materially different from arrangements for other elements of the Trust and income and expenditure for these services is included within the generic category of "provision of healthcare".

The provision of healthcare (including medical treatment, research and education) is within one main geographical segment, the United Kingdom, and materially from Departments of HM Government in England.

Revenue from activities (medical treatment of patients) is analysed by customer type in Note 4 to the financial statements on Page 18. Other operating revenue is analysed in Note 5 to the financial statements on Page 18 and materially consists of revenues from healthcare research and development, medical education and the provision of services to other NHS bodies. Total revenue by individual customer within the whole of HM Government and considered material is disclosed in the related parties transactions Note 38 to the financial statements on Page 41.

The percentage of total revenue receivable in both 2011/12 and 2010/11 from within the whole of HM Government is 95% with 5% being received from elsewhere.

| | SWB Hospitals | | Other Segments | | Total | |
|---|---|---|---|---|---|---|
| | **2011-12** | 2010-11 | **2011-12** | 2010-11 | **2011-12** | 2010-11 |
| | **£000** | £000 | **£000** | £000 | **£000** | £000 |
| Income | **424,144** | **389,954** | **0** | 0 | **424,144** | 389,954 |
| Surplus/(Deficit) | | | | | | |
| Segment surplus/(deficit) | **4,540** | **(6,323)** | **0** | 0 | **4,540** | (6,323) |
| Common costs | **0** | **0** | **0** | 0 | **0** | 0 |
| Surplus/(deficit) before interest | **428,684** | **383,631** | **0** | **0** | **428,684** | 383,631 |
| Net Assets: | | | | | | |
| Segment net assets | **191,895** | **181,548** | **0** | 0 | **191,895** | 181,548 |

### 3. Income generation activities

The Trust does not undertake any income generation activities where full cost exceeded £1m or was material to the financial performance of the Trust.

### 4. Revenue from patient care activities

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| Strategic health authorities | **116** | 5,971 |
| NHS trusts | **9** | 2,001 |
| Primary care trusts - tariff | **248,908** | 218,537 |
| Primary care trusts - non-tariff | **132,149** | 116,643 |
| Primary care trusts - market forces factor | **0** | 0 |
| Foundation trusts | **904** | 53 |
| Local authorities | **0** | 0 |
| Department of Health | **230** | 733 |
| NHS other | **320** | 0 |
| Non-NHS: | | |
| Private patients | **91** | 80 |
| Overseas patients (non-reciprocal) | **182** | 90 |
| Injury costs recovery | **2,673** | 3,574 |
| Other | **463** | 684 |
| | **386,045** | 348,366 |

Injury cost recovery income is subject to a provision for impairment of receivables of 36.4% to reflect expected rates of collection.

Non NHS: Other income includes £237,000 for the provision of Occupational Health Services to GP and other external organisations.

### 5. Other operating revenue

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| Recoveries in respect of employee benefits | **1,755** | 1,522 |
| Patient transport services | **224** | 637 |
| Education, training and research | **20,526** | 19,942 |
| Charitable and other contributions to expenditure | **78** | 78 |
| Receipt of donations for capital acquisitions | **460** | 344 |
| Receipt of Government grants for capital acquisitions | **0** | 744 |
| Non-patient care services to other bodies | **7,258** | 7,701 |
| Income generation | **3,774** | 3,179 |
| Rental revenue from finance leases | **0** | 0 |
| Rental revenue from operating leases | **0** | 0 |
| Other revenue | **4,024** | 7,441 |
| | **38,099** | 41,588 |
| Total operating revenue | **424,144** | 389,954 |

Other revenue includes £1,897,000 in respect of Estates Service Level Agreements and £1,315,000 for Distinction Awards.

### 6. Revenue

Revenue is almost totally from the supply of services. Revenue from the sale of goods is immaterial.

## 7. Operating expenses (excluding employee benefits)

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| Services from other NHS trusts | **292** | 1,463 |
| Services from PCTs | **2,422** | 320 |
| Services from other NHS bodies | **0** | 298 |
| Services from foundation trusts | **374** | 0 |
| Purchase of healthcare from non NHS bodies | **632** | 937 |
| Trust chair and non executive directors | **62** | 70 |
| Supplies and services - clinical | **63,612** | 61,208 |
| Supplies and services - general | **5,608** | 5,633 |
| Consultancy services | **1,886** | 1,638 |
| Establishment | **5,067** | 4,089 |
| Transport | **1,243** | 1,341 |
| Premises | **16,228** | 15,921 |
| Impairments and Reversals of Receivables | **92** | 356 |
| Inventories write down | **106** | 82 |
| Depreciation | **12,906** | 13,138 |
| Amortisation | **186** | 128 |
| Impairments and reversals of property, plant and equipment | **(2,395)** | 9,532 |
| Impairments and reversals of intangible assets | **0** | 0 |
| Impairments and reversals of financial assets | **0** | 0 |
| Impairments and reversals of non current assets held for sale | **0** | 1 |
| Impairments and reversals of investment properties | **0** | 0 |
| Audit fees | **193** | 210 |
| Other auditor's remuneration | **125** | 105 |
| Clinical negligence | **7,916** | 7,529 |
| Research and development (excluding staff costs) | **143** | 291 |
| Education and Training | **972** | 753 |
| Other | **1,406** | 2,099 |
| | **119,076** | 127,142 |

### Employee benefits

| | | |
|---|---|---|
| Employee benefits excluding Board members | **291,771** | 260,407 |
| Board members | **945** | 934 |
| **Total employee benefits** | **292,716** | 261,341 |
| **Total operating expenses** | **411,792** | 388,483 |

Other costs include £380,000 in respect of insurance.

Other auditors remuneration relates primarily to the provision of Internal Audit services from the Coventry and Warwickshire Internal Audit Consortium (£107,000).

Consultancy Services includes £782,000 in respect of support for the Trust's Transformation Programme and £311,000 of legal fees in relation to litigation and risk management.

## 8. Operating Leases

The Trust does not hold a material value of operating leases as the majority of higher value leases are defined as finance leases. Residual operating leases relate to low value items of equipment.

### 8.1 Trust as lessee

| | Land | Buildings | Other | 2011-12 Total | 2010-11 |
|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 |
| **Payments recognised as an expense** | | | | | |
| Minimum lease payments | | | | 27 | 105 |
| Contingent rents | | | | 0 | 0 |
| Sub-lease payments | | | | 0 | 0 |
| **Total** | | | | 27 | 105 |
| **Payable**: | | | | | |
| No later than one year | 0 | 0 | 6 | 6 | 86 |
| Between one and five years | 0 | 0 | 8 | 8 | 6 |
| After five years | 13 | 0 | 0 | 13 | 13 |
| **Total** | 13 | 0 | 14 | 27 | 105 |

### 8.2 Trust as lessor

The Trust does not hold any leases where it acts as lessor.

## 9. Employee benefits and staff numbers

### 9.1 Employee benefits

| | Total £000 | Permanently employed £000 | Other £000 |
|---|---|---|---|
| **Employee Benefits 2011-12 - gross expenditure** | | | |
| Salaries and wages | 240,679 | 224,812 | 15,867 |
| Social security costs | 19,263 | 18,729 | 534 |
| Employer contributions to NHS Pensions scheme | 26,222 | 25,891 | 331 |
| Other pension costs | 0 | 0 | 0 |
| Other post-employment benefits | 0 | 0 | 0 |
| Other employment benefits | 0 | 0 | 0 |
| Termination benefits | 7,091 | 7,091 | 0 |
| **Total employee benefits** | 293,255 | 276,523 | 16,732 |
| **Less recoveries in respect of employee benefits (table below)** | (1,755) | (1,737) | (18) |
| **Total - Net Employee Benefits including capitalised costs** | 291,500 | 274,786 | 16,714 |
| **Employee costs capitalised** | 539 | 539 | 0 |
| **Employee Benefits gross of recoveries but excluding capitalised costs** | 292,716 | 275,984 | 16,732 |

| | | | |
|---|---|---|---|
| **Employee Benefits 2011-12 - income** | | | |
| Salaries and wages | 1,383 | 1,366 | 17 |
| Social Security costs | 122 | 121 | 1 |
| Employer Contributions to NHS BSA - Pensions Division | 250 | 250 | 0 |
| Other pension costs | 0 | 0 | 0 |
| Other Post Employment Benefits | 0 | 0 | 0 |
| Other Employment Benefits | 0 | 0 | 0 |
| Termination Benefits | 0 | 0 | 0 |
| **TOTAL excluding capitalised costs** | 1,755 | 1,737 | 18 |

| | Total £000 | Permanently employed £000 | Other £000 |
|---|---|---|---|
| **Employee Benefits 2010-11 - net expenditure** | | | |
| Salaries and wages | 219,371 | 203,823 | 15,548 |
| Social security costs | 17,429 | 16,841 | 588 |
| Employer contributions to NHS Pensions scheme | 23,530 | 23,230 | 300 |
| Other pension costs | 0 | 0 | 0 |
| Other post-employment benefits | 0 | 0 | 0 |
| Other employment benefits | 0 | 0 | 0 |
| Termination benefits | 1,311 | 1,311 | 0 |
| **Total employee benefits** | 261,641 | 245,205 | 16,436 |
| **Employee costs capitalised** | 300 | | |
| **Employee Benefits gross of recoveries but excluding capitalised costs** | 261,341 | | |

### 9.2 Staff Numbers

| | 2011-12 | | | 2010-11 |
|---|---|---|---|---|
| | Total Number | Permanently employed Number | Other Number | Total Number |
| **Average Staff Numbers** | | | | |
| Medical and dental | 783.3 | 737.4 | 45.9 | 776 |
| Ambulance staff | 0.0 | 0.0 | 0.0 | 0 |
| Administration and estates | 1,556.0 | 1,468.2 | 87.8 | 1,448 |
| Healthcare assistants and other support staff | 1,415.7 | 1,280.1 | 135.6 | 1,323 |
| Nursing, midwifery and health visiting staff | 2,161.5 | 2,035.3 | 126.2 | 1,893 |
| Nursing, midwifery and health visiting learners | 0.0 | 0.0 | 0.0 | 0 |
| Scientific, therapeutic and technical staff | 1,188.4 | 1,161.8 | 26.6 | 992 |
| Social Care Staff | 0.0 | 0.0 | 0.0 | 0 |
| Other | 0.0 | 0.0 | 0.0 | 0 |
| **TOTAL** | 7,104.9 | 6,682.8 | 422.1 | 6,432 |
| Of the above - staff engaged on capital projects | 8.3 | 8.3 | 0.0 | 6 |

### 9.3 Staff Sickness absence and ill health retirements

| | 2011-12 Number | 2010-11 Number |
|---|---|---|
| Total Days Lost | 53,309 | 56,782 |
| Total Staff Years | 6,050 | 6,095 |
| Average working Days Lost | 8.81 | 9.32 |

Staff sickness data is provided on a national basis by the Department of Health and covers the calendar year ended 31st December 2011.

| | 2011-12 Number | 2010-11 Number |
|---|---|---|
| Number of persons retired early on ill health grounds | 9 | 10 |
| | £000s | £000s |
| Total additional pensions liabilities accrued in the year | 800 | 910 |

**9.4 Exit Packages agreed in 2011-12**

| | **2011-12** | | | 2010-11 | | |
|---|---|---|---|---|---|---|
| **Exit package cost band (including any special payment element)** | **Number of compulsory redundancies** | **Number of other departures agreed** | **Total number of exit packages by cost band** | **Number of compulsory redundancies** | **Number of other departures agreed** | **Total number of exit packages by cost band** |
| | **Number** | **Number** | **Number** | **Number** | **Number** | **Number** |
| Less than £10,000 | **1** | 4 | **5** | 5 | 2 | **7** |
| £10,001-£25,000 | **3** | 2 | **5** | 2 | 5 | **7** |
| £25,001-£50,000 | **1** | 6 | **7** | 5 | 6 | **11** |
| £50,001-£100,000 | **1** | 6 | **7** | 1 | 3 | **4** |
| £100,001 - £150,000 | **0** | 0 | **0** | 0 | 0 | **0** |
| £150,001 - £200,000 | **0** | 0 | **0** | 0 | 0 | **0** |
| >£200,000 | **0** | 0 | **0** | 0 | 0 | **0** |
| **Total number of exit packages by type (total cost** | **6** | **18** | **24** | **13** | **16** | **29** |
| **Total resource cost (£000s)** | 185 | 694 | **879** | 312 | 515 | 827 |

Redundancy and other departure costs have been paid in accordance with the provisions of the NHS Pension Scheme and Agenda for Change. Exit costs in this note are accounted for in full in the year of departure. Where the Trust has agreed early retirements, the additional costs are met by the Trust and not by the NHS pensions scheme. Ill-health retirement costs are met by the NHS pensions scheme and are not included in the table.

### 9.5 Pension costs

Past and present employees are covered by the provisions of the NHS Pensions Scheme. Details of the benefits payable under these provisions can be found on the NHS Pensions website at www.nhsbsa.nhs.uk/pensions. The scheme is an unfunded, defined benefit scheme that covers NHS employers, GP practices and other bodies, allowed under the direction of the Secretary of State, in England and Wales. The scheme is not designed to be run in a way that would enable NHS bodies to identify their share of the underlying scheme assets and liabilities. Therefore, the scheme is accounted for as if it were a defined contribution scheme: the cost to the NHS Body of participating in the scheme is taken as equal to the contributions payable to the scheme for the accounting period.

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

#### a) Full actuarial (funding) valuation

The purpose of this valuation is to assess the level of liability in respect of the benefits due under the scheme (taking into account its recent demographic experience), and to recommend the contribution rates. Consequently, a formal actuarial valuation would have been due for the year ending 31 March 2008. However, formal actuarial valuations for unfunded public service schemes have been suspended by HM Treasury on value for money grounds while consideration is given to recent changes to public service pensions, and while future scheme terms are developed as part of the reforms to public service pension provision. Employer and employee contribution rates are currently being determined under the new scheme design.

#### b) Accounting valuation

A valuation of the scheme liability is carried out annually by the scheme actuary as at the end of the reporting period. Actuarial assessments are undertaken in intervening years between formal valuations using updated membership data and are accepted as providing suitably robust figures for financial reporting purposes. However, as the interval since the last formal valuation now exceeds four years, the valuation of the scheme liability at 31 March 2012 is based on detailed membership data as at 31 March 2010 updated to 31 March 2012 with summary global member and accounting data. In undertaking this actuarial assessment, the methodology prescribed in IAS 19, relevant FReM interpretations and the discount rate prescribed by HM Treasury have been used.

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

#### c) Scheme provisions

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

The Scheme is a “final salary” scheme. Annual pensions are normally based on 1/80th for the 1995 section and of the best of the last three years pensionable pay for each year of service, and 1/60th for the 2008 section of reckonable pay per year of membership. Members who are practitioners as defined by the Scheme Regulations have their annual pensions based upon total pensionable earnings over the relevant pensionable service.

With effect from 1 April 2008 members can choose to give up some of their annual pension for an additional tax free lump sum, up to a maximum amount permitted under HMRC rules. This new provision is known as “pension commutation”.

Annual increases are applied to pension payments at rates defined by the Pensions (Increase) Act 1971, and are based on changes in retail prices in the twelve months ending 30 September in the previous calendar year. From 2011-12, the Consumer Price Index (CPI) will be used to replace the Retail Price index (RPI).

Early payment of a pension, with enhancement, is available to members of the scheme who are permanently incapable of fulfilling their duties effectively through illness or infirmity. A death gratuity of twice final year’s pensionable pay for death in service, and five times their annual pension for death after retirement is payable

For early retirements other than those due to ill health the additional pension liabilities are not funded by the scheme. The full amount of the liability for the additional costs is charged to the employer.

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

## 10. Better Payment Practice Code

| 10.1 Measure of compliance | 2011-12 Number | 2011-12 £000 | 2010-11 Number | 2010-11 £000 |
|---|---|---|---|---|
| **Non-NHS Payables** | | | | |
| Total Non-NHS Trade Invoices Paid in the Year | **93,910** | **95,504** | 91,331 | 93,476 |
| Total Non-NHS Trade Invoices Paid Within Target | **86,510** | **86,754** | 70,090 | 70,001 |
| Percentage of NHS Trade Invoices Paid Within Target | 92.12% | 90.84% | 76.74% | 74.89% |
| | | | | |
| **NHS Payables** | | | | |
| Total NHS Trade Invoices Paid in the Year | **2,513** | **26,294** | 2,272 | 25,721 |
| Total NHS Trade Invoices Paid Within Target | **1,417** | **17,836** | 1,120 | 15,635 |
| Percentage of NHS Trade Invoices Paid Within Target | 56.39% | 67.83% | 49.30% | 60.79% |

The Better Payment Practice Code requires the Trust to aim to pay all valid invoices by the due date or within 30 days of receipt of a valid invoice, whichever is later.

### 10.2 The Late Payment of Commercial Debts (Interest) Act 1998

The Trust did not make any payments in respect of this act in 2011/12 or 2010/11.

## 11. Investment Income

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| **Interest Income** | | |
| Bank interest | **115** | 87 |
| **Total investment income** | **115** | 87 |

## 12. Other Gains and Losses

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| Gain/(loss) on disposal of property, plant and equipment | **(168)** | 0 |
| Gain/(loss) on disposal of financial assets | **0** | (234) |
| **Total** | **(168)** | (234) |

## 13. Finance Costs

| | 2011-12 £000 | 2010-11 £000 |
|---|---|---|
| **Interest** | | |
| Interest on loans and overdrafts | **34** | 0 |
| Interest on obligations under finance leases | **69** | 131 |
| Provisions - unwinding of discount | **71** | 52 |
| Interest on obligations under PFI contracts: | | |
| - main finance cost | **1,572** | 1,613 |
| - contingent finance cost | **398** | 262 |
| **Total interest expense** | **2,144** | 2,058 |
| Other finance costs | **12** | (156) |
| **Total** | **2,156** | 1,902 |

**14.1 Property, plant and equipment**

| 2011-12 | Land | Buildings excluding dwellings | Dwellings | Assets under construction & payments on account | Plant & machinery | Transport equipment | Information technology | Furniture & fittings | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | **£000** |
| **Cost or valuation:** | | | | | | | | | |
| **At 31 March 2011** | 34,938 | 177,328 | 2,795 | 0 | 97,022 | 3,401 | 19,295 | 1,463 | **336,242** |
| Prior period adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Merger adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 1 April 2011 restated** | 34,938 | 177,328 | 2,795 | 0 | 97,022 | 3,401 | 19,295 | 1,463 | **336,242** |
| Additions Purchased | 3,637 | 5,414 | 65 | 0 | 3,729 | 494 | 2,001 | 0 | **15,340** |
| Additions Donated | 0 | 0 | 0 | 0 | 439 | 0 | 21 | 0 | **460** |
| Additions Government Granted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassifications as Held for Sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Disposals other than for sale | 0 | 0 | 0 | 0 | (2,939) | (272) | 0 | 0 | **(3,211)** |
| Upward revaluation/positive indexation | 603 | 18,249 | 66 | 0 | 0 | 0 | 0 | 0 | **18,918** |
| Impairments/negative indexation | (815) | (556) | (653) | 0 | 0 | 0 | 0 | 0 | **(2,024)** |
| Reversal of Impairments | 0 | 6,980 | 71 | 0 | 0 | 0 | 0 | 0 | **7,051** |
| Transfers (to)/from NHS Bodies | | | | | | | | | |
| Transfers to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Cumulative dep'n adjustment following revaluation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2012** | **38,363** | **207,415** | **2,344** | **0** | **98,251** | **3,623** | **21,317** | **1,463** | **372,776** |
| | | | | | | | | | |
| **Depreciation** | | | | | | | | | |
| **At 31 March 2011** | 2,480 | 22,483 | 211 | | 74,415 | 2,736 | 16,921 | 861 | **120,107** |
| Prior period adjustments | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | **0** |
| Merger adjustments | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | **0** |
| **At 1 April 2011 restated** | 2,480 | 22,483 | 211 | | 74,415 | 2,736 | 16,921 | 861 | **120,107** |
| Reclassifications | | 0 | 0 | | 0 | 0 | 0 | 0 | **0** |
| Reclassifications as Held for Sale | 0 | 0 | 0 | | 0 | 0 | 0 | 0 | **0** |
| Disposals other than for sale | 0 | 0 | 0 | | (2,780) | (272) | 0 | 0 | **(3,052)** |
| Upward revaluation/positive indexation | 1 | 18,071 | 66 | | 0 | 0 | 0 | 0 | **18,138** |
| Impairments | 85 | 2,860 | 955 | 0 | 0 | 0 | 0 | 0 | **3,900** |
| Reversal of Impairments | (1) | (6,280) | (14) | 0 | 0 | 0 | 0 | 0 | **(6,295)** |
| Charged During the Year | 0 | 6,894 | 136 | | 4,573 | 183 | 991 | 129 | **12,906** |
| Transfers to NHS Bodies | | | | | | | | | |
| Transfers to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Cumulative dep'n adjustment following revaluation | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2012** | **2,565** | **44,028** | **1,354** | **0** | **76,208** | **2,647** | **17,912** | **990** | **145,704** |
| **Net book value at 31 March 2012** | 35,798 | 163,387 | 990 | 0 | 22,043 | 976 | 3,405 | 473 | **227,072** |
| | | | | | | | | | |
| Purchased | 35,798 | 161,729 | 990 | 0 | 20,409 | 976 | 3,367 | 473 | **223,742** |
| Donated | 0 | 526 | 0 | 0 | 1,634 | 0 | 38 | 0 | **2,198** |
| Government Granted | 0 | 1,132 | 0 | 0 | 0 | 0 | 0 | 0 | **1,132** |
| **Total at 31 March 2012** | **35,798** | **163,387** | **990** | **0** | **22,043** | **976** | **3,405** | **473** | **227,072** |
| | | | | | | | | | |
| **Asset financing:** | | | | | | | | | |
| Owned | 35,798 | 142,904 | 990 | 0 | 21,739 | 768 | 3,405 | 473 | **206,077** |
| Held on finance lease | 0 | 0 | 0 | 0 | 304 | 208 | 0 | 0 | **512** |
| On-SOFP PFI contracts | 0 | 20,483 | 0 | 0 | 0 | 0 | 0 | 0 | **20,483** |
| PFI residual: interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Total** | **35,798** | **163,387** | **990** | **0** | **22,043** | **976** | **3,405** | **473** | **227,072** |

**Revaluation Reserve Balance for Property, Plant & Equipment**

| | Land | Buildings | Dwellings | Plant & machinery | Transport equipment | Information technology | Furniture & fittings | **Total** |
|---|---|---|---|---|---|---|---|---|
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's | **£000's** |
| **At 31 March 2011** | 15,800 | 19,113 | 1,064 | 513 | 0 | 0 | 31 | **36,521** |
| Prior period adjustments | 0 | 52 | 0 | 0 | 0 | 0 | 0 | **52** |
| Merger adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 1 April 2011 restated** | 15,800 | 19,165 | 1,064 | 513 | 0 | 0 | 31 | **36,573** |
| Movements (specify) | (213) | 5,725 | (648) | (199) | 0 | 0 | (10) | **4,655** |
| **At 31 March 2012** | 15,587 | 24,890 | 416 | 314 | 0 | 0 | 21 | **41,228** |

**14.2 Property, plant and equipment**

| 2010-11 | Land | Buildings excluding dwellings | Dwellings | Assets under construction & payments on account | Plant & machinery | Transport equipment | Information technology | Furniture & fittings | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | **£000** |
| **Cost or valuation:** | | | | | | | | | |
| **At 1 April 2010** | 31,293 | 156,484 | 2,803 | 543 | 96,403 | 3,093 | 18,665 | 1,457 | **310,741** |
| Additions - purchased | 4,735 | 7,453 | 0 | 1,960 | 2,792 | 308 | 630 | 6 | **17,884** |
| Additions - donated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Additions - government granted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassifications | 0 | 2,503 | 0 | (2,503) | 0 | 0 | 0 | 0 | **0** |
| Reclassified as held for sale | (97) | 0 | (218) | 0 | 0 | 0 | 0 | 0 | **(315)** |
| Disposals other than by sale | (4) | 0 | 0 | 0 | (2,173) | 0 | 0 | 0 | **(2,177)** |
| Revaluation & indexation gains | 70 | 11,376 | 210 | 0 | 0 | 0 | 0 | 0 | **11,656** |
| Impairments | (1,059) | (488) | 0 | 0 | 0 | 0 | 0 | 0 | **(1,547)** |
| Reversals of impairments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| In-year transfers to/from NHS bodies | | | | | | | | | |
| Transfers to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2011** | **34,938** | **177,328** | **2,795** | **0** | **97,022** | **3,401** | **19,295** | **1,463** | **336,242** |
| | | | | | | | | | |
| **Depreciation** | | | | | | | | | |
| **At 1 April 2010** | 0 | 0 | 0 | | 71,417 | 2,547 | 15,749 | 732 | **90,445** |
| Reclassifications | | 0 | 0 | | 0 | 0 | 0 | 0 | **0** |
| Reclassifications as Held for Sale | 0 | 0 | (50) | | 0 | 0 | 0 | 0 | **(50)** |
| Disposals other than for sale | 0 | 0 | 0 | | (1,960) | 0 | 0 | 0 | **(1,960)** |
| Upward revaluation/positive indexation | 0 | 8,893 | 109 | | 0 | 0 | 0 | 0 | **9,002** |
| Impairments | 2,480 | 11,019 | 0 | 0 | 0 | 0 | 0 | 0 | **13,499** |
| Reversal of Impairments | 0 | (3,961) | (6) | 0 | 0 | 0 | 0 | 0 | **(3,967)** |
| Charged During the Year | 0 | 6,532 | 158 | | 4,958 | 189 | 1,172 | 129 | **13,138** |
| Transfers to NHS Bodies | | | | | | | | | |
| Transfers to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2011** | 2,480 | 22,483 | 211 | 0 | 74,415 | 2,736 | 16,921 | 861 | 120,107 |
| **Net book value** | **32,458** | **154,845** | **2,584** | **0** | **22,607** | **665** | **2,374** | **602** | **216,135** |
| | | | | | | | | | |
| Purchased | 32,458 | 153,285 | 2,584 | 0 | 21,020 | 665 | 2,343 | 602 | **212,957** |
| Donated | 0 | 465 | 0 | 0 | 1,587 | 0 | 31 | 0 | **2,083** |
| Government Granted | 0 | 1,095 | 0 | 0 | 0 | 0 | 0 | 0 | **1,095** |
| **Total at 31 March 2011** | 32,458 | 154,845 | 2,584 | 0 | 22,607 | 665 | 2,374 | 602 | **216,135** |
| | | | | | | | | | |
| **Asset financing:** | | | | | | | | | |
| Owned | 32,458 | 135,895 | 2,584 | 0 | 22,607 | 326 | 2,374 | 602 | **196,846** |
| Held on finance lease | 0 | 0 | 0 | 0 | 0 | 339 | 0 | 0 | **339** |
| On-SOFP PFI contracts | 0 | 18,950 | 0 | 0 | 0 | 0 | 0 | 0 | **18,950** |
| PFI residual: interests | | | | | | | | | |
| | 32,458 | 154,845 | 2,584 | 0 | 22,607 | 665 | 2,374 | 602 | **216,135** |

**Revaluation Reserve Balance for Property, Plant & Equipment**

| | Land | Buildings | Dwellings | Plant & machinery | Transport equipment | Information technology | Furniture & fittings | **Total** |
|---|---|---|---|---|---|---|---|---|
| | £000's | £000's | £000's | £000's | £000's | £000's | £000's | **£000's** |
| **At 1 April 2010 restated** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Movements (specify) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2011** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |

**14.2 (cont). Property, plant and equipment**

The Trust received donated assets to the value of £460,000 during the year. A donation of £419,000 was made via Sandwell And West Birmingham Hospital's charitable funds, primarily in respect of medical equipment and £41,000 was received from the League of Friends, again in respect of medical equipment.

The Trust's property assets (land and buildings) were revalued during the year by the District Valuation Service and using Modern Equivalent Asset valuation techniques. Valuation was undertaken at the effective date of 1st January 2012. Valuation was undertaken with reference to the size, location and function of existing buildings and the basis on which they would be replaced by Modern Equivalent Assets as well as with reference to changes in the building cost index.

Asset lives for currently held assets are as follows:

Buildings excluding dwellings 0-82 years
Dwellings 2-43 years
Plant and machinery 0-13 years
Transport equipment 0-7 years
Information technology 0-5 years
Furniture and fittings 0-8 years

**15.1 Intangible non-current assets**

| 2011-12 | Software internally generated | Software purchased | Licences & trademarks | Patents | Development expenditure | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** |
| **Cost or valuation:** | | | | | | |
| **At 31 March 2011** | 0 | 2,009 | 0 | 549 | 0 | **2,558** |
| Prior period adjustments | 0 | 0 | 0 | 0 | 0 | **0** |
| Merger adjustments | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 1 April 2011 restated** | 0 | 2,009 | 0 | 549 | 0 | **2,558** |
| Additions - purchased | 0 | 472 | 0 | 0 | 0 | **472** |
| Additions - internally generated | 0 | 0 | 0 | 0 | 0 | **0** |
| Additions - donated | 0 | 0 | 0 | 0 | 0 | **0** |
| Additions - government granted | 0 | 0 | 0 | 94 | 0 | **94** |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassified as held for sale | 0 | 0 | 0 | 0 | 0 | **0** |
| Disposals other than by sale | 0 | 0 | 0 | (382) | 0 | **(382)** |
| Revaluation & indexation gains | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments charged to reserves | 0 | 0 | 0 | 0 | 0 | **0** |
| Reversal of impairments charged to reserves | 0 | 0 | 0 | 0 | 0 | **0** |
| Transfers to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | **0** |
| Cumulative amortisation adjustment following revaluatio | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2012** | 0 | 2,481 | 0 | 261 | 0 | **2,742** |
| | | | | | | |
| **Amortisation** | | | | | | |
| **At 31 March 2011** | 0 | 1,481 | 0 | 0 | 0 | **1,481** |
| Prior period adjustments | 0 | 0 | 0 | 0 | 0 | **0** |
| Merger adjustments | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 1 April 2010** | 0 | 1,481 | 0 | 0 | 0 | **1,481** |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassified as held for sale | 0 | 0 | 0 | 0 | 0 | **0** |
| Disposals other than by sale | 0 | 0 | 0 | 0 | 0 | **0** |
| Revaluation or indexation gains | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments charged to operating expenses | 0 | 0 | 0 | 0 | 0 | **0** |
| Reversal of impairments charged to operating expenses | 0 | 0 | 0 | 0 | 0 | **0** |
| Charged during the year | 0 | 186 | 0 | 0 | 0 | **186** |
| Transfers to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | **0** |
| Cumulative amortisation adjustment following revaluatio | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2012** | 0 | 1,667 | 0 | 0 | 0 | **1,667** |
| | | | | | | |
| **NBV at 31 March 2012** | 0 | 814 | 0 | 261 | 0 | 1,075 |
| | | | | | | |
| **Net book value at 31 March 2012 comprises:** | | | | | | |
| Purchased | 0 | 804 | 0 | 0 | 0 | **804** |
| Donated | 0 | 10 | 0 | 0 | 0 | **10** |
| Government Granted | 0 | 0 | 0 | 261 | 0 | **261** |
| **Total at 31 March 2012** | 0 | 814 | 0 | 261 | 0 | **1,075** |

**15.2 Intangible non-current assets**

| 2010-11 | Software internally generated | Software purchased | Licences & trademarks | Patents | Development expenditure | Total |
|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | **£000** |
| **Cost or valuation:** | | | | | | |
| At 1 April 2010 | 0 | 1,779 | 0 | 0 | 0 | **1,779** |
| Additions - purchased | 0 | 230 | 0 | 0 | 0 | **230** |
| Additions - internally generated | 0 | 0 | 0 | 0 | 0 | **0** |
| Additions - donated | 0 | 0 | 0 | 0 | 0 | **0** |
| Additions - government granted | 0 | 0 | 0 | 744 | 0 | **744** |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassified as held for sale | 0 | 0 | 0 | 0 | 0 | **0** |
| Disposals other than by sale | 0 | 0 | 0 | (133) | 0 | **(133)** |
| Revaluation & indexation gains | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments | 0 | 0 | 0 | (62) | 0 | **(62)** |
| Reversal of impairments | 0 | 0 | 0 | 0 | 0 | **0** |
| Transferred to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2011** | 0 | 2,009 | 0 | 549 | 0 | **2,558** |
| | | | | | | |
| **Amortisation** | | | | | | |
| At 1 April 2010 | 0 | 1,353 | 0 | 0 | 0 | **1,353** |
| Reclassifications | 0 | 0 | 0 | 0 | 0 | **0** |
| Reclassified as held for sale | 0 | 0 | 0 | 0 | 0 | **0** |
| Disposals other than by sale | 0 | 0 | 0 | 0 | 0 | **0** |
| Revaluation or indexation gains | 0 | 0 | 0 | 0 | 0 | **0** |
| Impairments charged to operating expenses | 0 | 0 | 0 | 0 | 0 | **0** |
| Reversal of impairments charged to operating expenses | 0 | 0 | 0 | 0 | 0 | **0** |
| Charged during the year | 0 | 128 | 0 | 0 | 0 | **128** |
| Transfers to Foundation Trusts | 0 | 0 | 0 | 0 | 0 | **0** |
| **At 31 March 2011** | 0 | 1,481 | 0 | 0 | 0 | **1,481** |
| | | | | | | |
| **Net book value at 31 March 2010** | 0 | 528 | 0 | 549 | 0 | **1,077** |
| | | | | | | |
| **Net book value at 31 March 2010 comprises:** | | | | | | |
| Purchased | 0 | 512 | 0 | 0 | 0 | **512** |
| Donated | 0 | 16 | 0 | 0 | 0 | **16** |
| Government Granted | 0 | 0 | 0 | 549 | 0 | **549** |
| **Total at 31 March 2011** | 0 | 528 | 0 | 549 | 0 | **1,077** |

**15.3 Intangible non-current assets**

Asset lives for intangible assets (purchased computer software) range from 0 to 5 years. Assets are initially recognised at cost and amortised over the expected life of the asset. They have not been revalued.

An intangible asset in respect of Carbon Emission Credits is included in the Trust's accounts to reflect the receipt and consumption of these credits. They are valued at market price at 31st March 2012.

The Trust does not hold any revaluation reserve balances in respect of intangible assets.

| **16. Analysis of impairments and reversals recognised in 2011-12** | **2011-12 Total £000** |
|---|---|
| **Property, Plant and Equipment impairments and reversals taken to SoCI** | |
| Loss or damage resulting from normal operations | **0** |
| Over-specification of assets | **0** |
| Abandonment of assets in the course of construction | **0** |
| **Total charged to Departmental Expenditure Limit** | **0** |
| | |
| Unforeseen obsolescence | **0** |
| Loss as a result of catastrophe | **0** |
| Other | **0** |
| Changes in market price | **(2,395)** |
| **Total charged to Annually Managed Expenditure** | **(2,395)** |
| | |
| **Property, Plant and Equipment impairments and reversals charged to the revaluation reserve** | |
| Loss or damage resulting from normal operations | **0** |
| Over Specification of Assets | **0** |
| Abandonment of assets in the course of construction | **0** |
| Unforeseen obsolescence | **0** |
| Loss as a result of catastrophe | **0** |
| Other | **0** |
| Changes in market price | **(5,027)** |
| **Total impairments for PPE charged to reserves** | **(5,027)** |
| | |
| **Total Impairments of Property, Plant and Equipment** | **(7,422)** |
| | |
| **Total Impairments charged to Revaluation Reserve** | **(5,027)** |
| **Total Impairments charged to SoCI - DEL** | **0** |
| **Total Impairments charged to SoCI - AME** | **(2,395)** |
| **Overall Total Impairments** | **(7,422)** |

All valuations of land and buildings were carried out on behalf of the Trust during 2011/12 by the District Valuations Service (DVS). Revaluation of assets, impairment and reversal of impairments are based on the professional valuation by the DVS. Valuation was undertaken of the whole of the Trust estate and did not include any material individual properties.

**17. Investment property**

The Trust did not hold any investment property in 2011-12 or in 2010-11.

**18. Commitments**

**18.1 Capital commitments**

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

| | **31 March 2012** | 31 March 2011 |
|---|---|---|
| | **£000** | £000 |
| Property, plant and equipment | **1,614** | 486 |
| Intangible assets | **0** | 0 |
| **Total** | **1,614** | 486 |

**18.2 Other financial commitments**

The trust has entered into any non-cancellable contracts (which are not leases or PFI contracts or other service concession arrangements).

| **19. Intra-Government and other balances** | **Current receivables £000s** | **Non-current receivables £000s** | **Current payables £000s** | **Non-current payables £000s** |
|---|---|---|---|---|
| Balances with other Central Government Bodies | 8,012 | 0 | 5,676 | 0 |
| Balances with Local Authorities | 0 | 0 | 0 | 0 |
| Balances with NHS Trusts and Foundation Trusts | 2,076 | 0 | 1,023 | 0 |
| Balances with Public Corporations and Trading Funds | 0 | 0 | 0 | 0 |
| Balances with bodies external to government | 4,358 | 865 | 27,052 | 0 |
| **At 31 March 2012** | **14,446** | **865** | **33,751** | **0** |
| **prior period:** | | | | |
| Balances with other Central Government Bodies | 6,583 | 0 | 2,326 | 0 |
| Balances with Local Authorities | 0 | 0 | 0 | 0 |
| Balances with NHS Trusts and Foundation Trusts | 2,394 | 0 | 1,164 | 0 |
| Balances with Public Corporations and Trading Funds | 0 | 0 | 0 | 0 |
| Balances with bodies external to government | 3,675 | 649 | 30,023 | 0 |
| **At 31 March 2011** | **12,652** | **649** | **33,513** | **0** |

| 20. Inventories | Drugs £000 | Consumables £000 | Energy £000 | Work in progress £000 | Loan Equipment £000 | Other £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 April 2011** | 1,764 | 1,487 | 280 | 0 | 0 | 0 | **3,531** |
| Prior period adjustment | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Merger adjustment | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Restated at 1 April 2011** | 1,764 | 1,487 | 280 | 0 | 0 | 0 | **3,531** |
| Additions | 26,602 | 31,990 | 0 | 0 | 0 | 0 | **58,592** |
| Inventories recognised as an expense in the period | (26,318) | (31,606) | (28) | 0 | 0 | 0 | **(57,952)** |
| Write-down of inventories (including losses) | (106) | 0 | 0 | 0 | 0 | 0 | **(106)** |
| Reversal of write-down previously taken to SoCI | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Transfers (to)/from other bodies | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Transfers (to) Foundation Trusts | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance at 31 March 2012** | 1,942 | 1,871 | 252 | 0 | 0 | 0 | **4,065** |

| 21.1 Trade and other receivables | Current | | Non-current | |
|---|---|---|---|---|
| | **31 March 2012 £000** | 31 March 2011 £000 | **31 March 2012 £000** | 31 March 2011 £000 |
| NHS receivables - revenue | **10,088** | 8,977 | **0** | 0 |
| NHS prepayments and accrued income | **0** | 14 | **0** | 0 |
| Non-NHS receivables - revenue | **1,539** | 1,379 | **0** | 0 |
| Non-NHS prepayments and accrued income | **1,023** | 743 | **0** | 0 |
| Provision for the impairment of receivables | **(1,477)** | (1,814) | **(518)** | (272) |
| VAT | **558** | 414 | **0** | 0 |
| Other receivables | **2,715** | 2,939 | **1,383** | 921 |
| **Total** | **14,446** | 12,652 | **865** | 649 |
| **Total current and non current** | **15,311** | 13,301 | | |
| Included in NHS receivables are prepaid pension contributions: | **0** | 0 | | |

The great majority of trade is with Primary Care Trusts, as commissioners for NHS patient care services. As Primary Care Trusts are funded by Government to buy NHS patient care services, no credit scoring of them is considered necessary.

There are no material individual receivables which are neither past due nor impaired.

| 21.2 Receivables past their due date but not impaired | **31 March 2012 £000** | 31 March 2011 £000 |
|---|---|---|
| By up to three months | **409** | 1,283 |
| By three to six months | **244** | 256 |
| By more than six months | **10** | 172 |
| **Total** | **663** | 1,711 |

| 21.3 Provision for impairment of receivables | **2011-12 £000** | 2010-11 £000 |
|---|---|---|
| **Balance at 1 April 2011** | **(2,086)** | (2,924) |
| Adjustments | **0** | 0 |
| **Restated balance at 1 April 2011** | **(2,086)** | (2,924) |
| Amount written off during the year | **183** | 1,194 |
| Amount recovered during the year | **964** | 2,031 |
| (Increase)/decrease in receivables impaired | **(1,056)** | (2,387) |
| Transfer to NHS Foundation Trust | **0** | 0 |
| **Balance at 31 March** | **(1,995)** | **(2,086)** |

Impairment of receivables is based on an assessment of individual amounts receivable taking into account the age of the debt and other known circumstances regarding the debt or the debtor.

## 22. Other financial assets

The Trust does not hold any other financial assets.

## 23. Other current assets

The Trust does not hold any other current assets.

## 24. Cash and Cash Equivalents

| | 31 March 2012 £000 | 31 March 2011 £000 |
|---|---|---|
| **Opening balance at** | **20,666** | 15,867 |
| Opening balance adjustment | **0** | |
| Merger adjustments | **0** | |
| **Restated** | **20,666** | 15,867 |
| Net change in year | **13,799** | 4,799 |
| **Closing balance** | **34,465** | 20,666 |
| | | |
| **Made up of** | | |
| Cash with Government Banking Service | **34,407** | 20,632 |
| Commercial banks | **29** | 9 |
| Cash in hand | **29** | 25 |
| Current investments | **0** | 0 |
| **Cash and cash equivalents as in statement of financial position** | **34,465** | 20,666 |
| Bank overdraft - Government Banking Service | **0** | 0 |
| Bank overdraft - Commercial banks | **0** | 0 |
| **Cash and cash equivalents as in statement of cash flows** | **34,465** | 20,666 |
| | | |
| Patients' money held by the Trust, not included above | 1 | 2 |

| 25. Non-current assets held for sale | Land | Buildings, excl. dwellings | Dwellings | Asset Under Construction and Payments on Account | Plant and Machinery | Transport and Equipment | Information Technology | Furniture and Fittings | Intangible Assets | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 1 April 2011** | 24 | 0 | 40 | 0 | 0 | 0 | 0 | 0 | 0 | **64** |
| Merger adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Restated at 1 April 2011** | 24 | 0 | 40 | 0 | 0 | 0 | 0 | 0 | 0 | **64** |
| Plus assets classified as held for sale in the year | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Less assets sold in the year | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Less impairment of assets held for sale | (24) | 0 | (40) | 0 | 0 | 0 | 0 | 0 | 0 | **(64)** |
| Plus reversal of impairment of assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Less assets no longer classified as held for sale, for reasons other than disposal by sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Transfers (to)/from other bodies | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance at 31 March 2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Liabilities associated with assets held for sale at 31 March 2012** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| **Balance at 1 April 2010** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Plus assets classified as held for sale in the year | 97 | 0 | 168 | 0 | 0 | 0 | 0 | 0 | 0 | **265** |
| Less assets sold in the year | (73) | 0 | (127) | 0 | 0 | 0 | 0 | 0 | 0 | **(200)** |
| Less impairment of assets held for sale | 0 | 0 | (1) | 0 | 0 | 0 | 0 | 0 | 0 | **(1)** |
| Plus reversal of impairment of assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| Less assets no longer classified as held for sale, for reasons other than disposal by sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** |
| **Balance at 31 March 2011** | **24** | **0** | **40** | **0** | **0** | **0** | **0** | **0** | **0** | **64** |
| **Liabilities associated with assets held for sale at 31 March 2011** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## 26. Trade and other payables

| | Current | | Non-current | |
|---|---|---|---|---|
| | **31 March 2012 £000** | 31 March 2011 £000 | **31 March 2012 £000** | 31 March 2011 £000 |
| Interest payable | **0** | 0 | | |
| NHS payables - revenue | **6,699** | 2,854 | **0** | 0 |
| NHS payables - capital | **0** | 636 | **0** | 0 |
| NHS accruals and deferred income | **0** | 4,146 | **0** | 0 |
| Non-NHS payables - revenue | **10,912** | 7,278 | **0** | 0 |
| Non-NHS payables - capital | **6,197** | 1,148 | **0** | 0 |
| Non NHS accruals and deferred income | **9,806** | 17,176 | **0** | 0 |
| Social security costs | **12** | 19 | | |
| VAT | **0** | 0 | **0** | 0 |
| Tax | **9** | 23 | | |
| Payments received on account | **0** | 0 | **0** | 0 |
| Other | **116** | 233 | 0 | 0 |
| **Total** | **33,751** | 33,513 | **0** | 0 |
| **Total payables (current and non-current)** | **33,751** | **33,513** | | |

**Included above:**

| | | |
|---|---|---|
| to Buy Out the Liability for Early Retirements Over 5 Years | 0 | 0 |
| number of Cases Involved (number) | 0 | 0 |
| outstanding Pension Contributions at the year end | 0 | 0 |

## 27. Other liabilities

The Trust does not hold any other liabilities.

## 28. Borrowings

| | Current | | Non-current | |
|---|---|---|---|---|
| | **31 March 2012 £000** | 31 March 2011 £000 | **31 March 2012 £000** | 31 March 2011 £000 |
| Loans from Department of Health | **2,000** | 0 | **5,000** | 0 |
| **PFI liabilities:** | | | | |
| Main liability | **906** | 797 | **29,767** | 30,782 |
| Lifecycle replacement received in advance | **0** | 0 | **0** | 0 |
| Finance lease liabilities | **260** | 465 | **228** | 489 |
| Other (describe) | **0** | 0 | **0** | 0 |
| **Total** | **3,166** | **1,262** | **34,995** | **31,271** |
| **Total other liabilities (current and non-current)** | **38,161** | **32,533** | | |

**Loans - repayment of principal falling due in:**

| | **31 March 2012 DH £000** | **Other £000** | **Total £000** |
|---|---|---|---|
| 0-1 years | 2,000 | 0 | 2,000 |
| 1 - 2 Years | 2,000 | 0 | 2,000 |
| 2 - 5 Years | 3,000 | 0 | 3,000 |
| Over 5 Years | 0 | 0 | 0 |
| **TOTAL** | 7,000 | 0 | 7,000 |

**29. Other financial liabilities**

The Trust does not hold any other financial liabilities.

**30. Deferred income**

| | Current | | Non-current | |
|---|---|---|---|---|
| | **31 March 2012** | 31 March 2011 | **31 March 2012** | 31 March 2011 |
| | **£000** | £000 | **£000** | £000 |
| **Opening balance at 01/04/11** | **8,223** | 8,846 | **0** | 0 |
| Deferred income addition | **963** | 0 | **0** | 0 |
| Transfer of deferred income | **(5,902)** | (623) | **0** | 0 |
| **Current deferred Income at 31 March 2012** | **3,284** | 8,223 | **0** | 0 |
| Total other liabilities (current and non-current) | **3,284** | **8,223** | | |

**31. Finance lease obligations as lessee**

The only material finance lease held by the Trust relates to the Birmingham Treatment Centre which was funded under the Private Finance Initiative. Other finance lease are short term, generally five years or less, and relate to items of medical equipment or vehicles.

Contingent rentals are calculated only for the Birmingham Treatment Centre and are derived by considering the variation in payments between the base value and the value uplifted to reflect general price changes which is the basis on which lease rentals are chargeable.

Future minimum lease payments are discounted using the Treasury discount rate of 2.2% to generate the present value of lease payments

| **Amounts payable under finance leases** | Minimum lease payments | | Present value of minimum lease | |
|---|---|---|---|---|
| | **31 March 2012** | 31 March 2011 | **31 March 2012** | 31 March 2011 |
| | **£000** | £000 | **£000** | £000 |
| Within one year | **260** | 465 | **260** | 465 |
| Between one and five years | **234** | 508 | **228** | 489 |
| After five years | **0** | 0 | **0** | 0 |
| Less future finance charges | **(6)** | (19) | | |
| Present value of minimum lease payments | **488** | 954 | **488** | 954 |
| Included in: | | | | |
| Current borrowings | | | **260** | 465 |
| Non-current borrowings | | | **228** | 489 |
| | | | **488** | 954 |

## 32. Provisions

Comprising:

| | Total | Pensions to Former Directors | Pensions Relating to Other Staff | Legal Claims | Restructuring | Continuing Care | Equal Pay | Agenda for Change | Other | Redundancy |
|---|---|---|---|---|---|---|---|---|---|---|
| | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** | **£000s** |
| **Balance at "01/04/11"** | 7,180 | 0 | 812 | 1,174 | 0 | 0 | 110 | 0 | 3,034 | 2,050 |
| Prior period adjustment | (880) | 0 | 0 | (880) | 0 | 0 | 0 | 0 | 0 | 0 |
| Merger adjustments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Restated Balance 01/04/11** | 6,300 | 0 | 812 | 294 | 0 | 0 | 110 | 0 | 3,034 | 2,050 |
| Arising During the Year | 14,130 | 0 | 79 | 419 | 7,084 | 0 | 0 | 0 | 6,548 | 0 |
| Utilised During the Year | (1,665) | 0 | (90) | (234) | 0 | 0 | 0 | 0 | (470) | (871) |
| Reversed Unused | (655) | 0 | 0 | (203) | 0 | 0 | (102) | 0 | (350) | 0 |
| Unwinding of Discount | 71 | 0 | 24 | 0 | 0 | 0 | 0 | 0 | 47 | 0 |
| Change in Discount Rate | 0 | 0 | 0 | | | | | | 0 | |
| **Balance as at "31/03/12"** | **18,181** | **0** | **825** | **276** | **7,084** | **0** | **8** | **0** | **8,809** | **1,179** |
| **Expected Timing of Cash Flows:** | | | | | | | | | | |
| No Later than One Year | **15,649** | **0** | **90** | **276** | **7,084** | **0** | **8** | **0** | **7,012** | **1,179** |
| Later than One Year and not later than Five Years | **886** | **0** | **417** | **0** | **0** | **0** | **0** | **0** | **469** | **0** |
| Later than Five Years | **1,646** | **0** | **318** | **0** | **0** | **0** | **0** | **0** | **1,328** | **0** |

**Amount Included in the Provisions of the NHS Litigation Authority in Respect of Clinical Negligence Liabilities:**

| | |
|---|---|
| As at "31/03/12" | 54,421 |
| As at "31/03/11" | 38,297 |

Provisions relating to other staff covers pre 1995 early retirement costs. Liabilities and the timing of liabilities are based on pensions provided to individual ex employees and projected life expectancies using government actuarial tables. The major uncertainties rest around life expectancies assumed for the cases.

Legal claims cover the Trust's potential liabilities for public and employer liability. Potential liabilities are calculated using professional assessment of individual cases by the Trust's insurers. The Trust's maximum liability for any individual case is £10,000 with the remainder being covered by insurers.

Other provisions cover Injury Benefits £1,804,000, transitional enabling programme £1,000,000, employment tribunals and litigation claims £403,000, other contractual obligations £278,000 and £88,000 for carbon emission credits repayable.

Injury benefit provisions are calculated with reference to the NHS Pensions Agency and actuarial tables for life expectancy.

Staff litigation claims represent potential liabilities to the Trust in respect of claims made by current or former employees.

The timing and amount of the cashflows is shown above but it must be pointed out that, in the case of provisions, there will always be a measure of uncertainty. However, the values listed are best estimates taking all the relevant information and professional advice into consideration.

£54,421,424 is included in the provisions of the NHS Litigation Authority at 31 March 2012 in respect of clinical negligence liabilities of the NHS Trust (31 March 2011 £38,296,567).

## 33. Contingencies

The Trust does not hold any contingent assets.

Contingent liabilities held by the Trust relate to employers and public liability claims (£156,000) and injury benefits (£711,000). These values relate to the difference between the maximum potential value of claims and the amount included by the Trust as a provision based on professional notification of the likelihood of the success of claims.

## 34. PFI and LIFT - additional information

The information below is required by the Department of Heath for inclusion in national statutory accounts

| | 2001-12 £000 | 2010-11 £000 |
|---|---|---|
| **Charges to operating expenditure and future commitments in respect of ON and OFF SOFP PFI** | | |
| Total charge to operating expenses in year - OFF SOFP PFI | **0** | 0 |
| Service element of on SOFP PFI charged to operating expenses in year | **1,067** | 1,094 |
| **Total** | **1,067** | 1,094 |
| | | |
| **Payments committed to in respect of off SOFP PFI and the service element of on SOFP PFI** | | |
| No Later than One Year | **1,383** | 1,045 |
| Later than One Year, No Later than Five Years | **4,656** | 5,773 |
| Later than Five Years | **37,463** | 35,809 |
| **Total** | **43,502** | 42,627 |

The estimated annual payments in future years are not expected to be materially different from those which the Trust is committed to make during the next year.

**Imputed "finance lease" obligations for on SOFP PFI contracts due**

| | 2001-12 £000 | 2010-11 £000 |
|---|---|---|
| No Later than One Year | **2,436** | 2,410 |
| Later than One Year, No Later than Five Years | **9,420** | 12,096 |
| Later than Five Years | **40,295** | 41,736 |
| **Subtotal** | **52,151** | 56,242 |
| Less: Interest Element | **(21,478)** | (24,663) |
| **Total** | **30,673** | 31,579 |

## 35. Impact of IFRS treatment - current year

The information below is required by the Department of Heath for budget reconciliation purposes

| | Total £000 |
|---|---|
| **Revenue costs of IFRS: Arrangements reported on SoFP under IFRIC12 (e.g. PFI / LIFT)** | |
| Depreciation charges | 525 |
| Interest Expense | 1,970 |
| Impairment charge - AME | 0 |
| Impairment charge - DEL | 0 |
| Other Expenditure | 1,067 |
| Revenue Receivable from subleasing | 0 |
| Impact on PDC dividend payable | (438) |
| **Total IFRS Expenditure (IFRIC12)** | 3,124 |
| Revenue consequences of PFI / LIFT schemes under UK GAAP / ESA95 (net of any sublease income) | (3,764) |
| **Net IFRS change (IFRIC12)** | (640) |
| | |
| **Capital Consequences of IFRS : LIFT/PFI and other items under IFRIC12** | |
| Capital expenditure 2011-12 | 0 |
| Average net assets relating to IFRIC12 schemes - IFRS | (10,728) |
| Average net assets relating to IFRIC12 schemes - UKGAAP | 1,778 |
| UK GAAP capital expenditure 2011-12 (Reversionary Interest) | 179 |
| | |
| **Revenue costs of IFRS: all other expenditure associated with IFRS (e.g. finance leases)** | |
| Depreciation charge | 433 |
| Interest expense | 69 |
| Impairment charge - AME | 0 |
| Impairment charge - DEL | 0 |
| Other expenditure | 12 |
| Impact on PDC dividend payable | (2) |
| **Total IFRS expenditure (non IFRIC12)** | **512** |
| Revenue consequences under UK GAAP | (540) |
| **Net IFRS change (non IFRIC12)** | **(28)** |
| | |
| **Capital consequences of IFRS all other expenditure associated with IFRS** | |
| Capital expenditure 2011-12 | 0 |
| Net assets relating to non-IFRIC12 IFRS - IFRS basis | (50) |
| Net assets relating to non-IFRIC12 IFRS - UKGAAP basis | 0 |
| UK GAAP capital expenditure 2011-12 (Reversionary Interest) | 0 |

## 36. Financial Instruments

### 36.1 Financial risk management

Financial reporting standard IFRS 7 requires disclosure of the role that financial instruments have had during the period in creating or changing the risks a body faces in undertaking its activities. Because of the continuing service provider relationship that the NHS trust has with primary care trusts and the way those primary care trusts are financed, the NHS trust is not exposed to the degree of financial risk faced by business entities. Also financial instruments play a much more limited role in creating or changing risk than would be typical of listed companies, to which the financial reporting standards mainly apply. The NHS trust has limited powers to borrow or invest surplus funds and financial assets and liabilities are generated by day-to-day operational activities rather than being held to change the risks facing the NHS trust in undertaking its activities.

The trust's treasury management operations are carried out by the finance department, within parameters defined formally within the trust's standing financial instructions and policies agree by the board of directors. Trust treasury activity is subject to review by the trust's internal auditors.

**Currency risk**

The trust is principally a domestic organisation with the great majority of transactions, assets and liabilities being in the UK and sterling based. The trust has no overseas operations. The trust therefore has low exposure to currency rate fluctuations.

**Interest rate risk**

The trust borrows from government for capital expenditure, subject to affordability as confirmed by the strategic health authority. The borrowings are for 1 – 25 years, in line with the life of the associated assets, and interest is charged at the National Loans Fund rate, fixed for the life of the loan. The trust therefore has low exposure to interest rate fluctuations.

**Credit risk**

Because the majority of the trust's income comes from contracts with other public sector bodies, the trust has low exposure to credit risk. The maximum exposures as at 31 March 2012 are in receivables from customers, as disclosed in the trade and other receivables note.

**Liquidity risk**

The trust's operating costs are incurred under contracts with primary care trusts, which are financed from resources voted annually by Parliament The trust funds its capital expenditure from funds obtained within its prudential borrowing limit. The trust is not, therefore, exposed to significant liquidity risks.

### 36.2 Financial Assets

| | At 'fair value through profit and loss' £000 | Loans and receivables £000 | Available for sale £000 | Total £000 |
|---|---|---|---|---|
| Embedded derivatives | 0 | 0 | 0 | 0 |
| Receivables - NHS | 0 | 0 | 0 | 0 |
| Receivables - non-NHS | 0 | 865 | 0 | 865 |
| Cash at bank and in hand | 0 | 34,465 | 0 | 34,465 |
| Other financial assets | 0 | 0 | 0 | 0 |
| **Total at 31 March 2012** | 0 | 35,330 | 0 | 35,330 |
| Embedded derivatives | 0 | 0 | 0 | **0** |
| Receivables - NHS | 0 | 0 | 0 | **0** |
| Receivables - non-NHS | 0 | 649 | 0 | **649** |
| Cash at bank and in hand | 0 | 20,668 | **0** | **20,668** |
| Other financial assets | 0 | 0 | **0** | **0** |
| **Total at 31 March 2011** | **0** | **21,317** | **0** | **21,317** |

### 36.3 Financial Liabilities

| | At 'fair value through profit and loss' £000 | Other £000 | Total £000 |
|---|---|---|---|
| Embedded derivatives | 0 | 0 | 0 |
| NHS payables | 0 | 2,281 | 2,281 |
| Non-NHS payables | 0 | 0 | 0 |
| Other borrowings | 0 | 0 | 0 |
| PFI & finance lease obligations | 0 | 30,901 | 30,901 |
| Other financial liabilities | 0 | 0 | 0 |
| **Total at 31 March 2012** | 0 | 33,182 | 33,182 |
| Embedded derivatives | 0 | 0 | **0** |
| NHS payables | 0 | 2,382 | **2,382** |
| Non-NHS payables | 0 | 0 | **0** |
| Other borrowings | 0 | 0 | **0** |
| PFI & finance lease obligations | 0 | 32,068 | **32,068** |
| Other financial liabilities | 0 | 0 | **0** |
| **Total at 31 March 2011** | **0** | **34,450** | **34,450** |

## 37. Events after the end of the reporting period

There are no events occurring after the end of the reporting period which would have a material effect on the reported financial position.

cutting through complexity™

# Sandwell and West Birmingham Hospitals NHS Trust

**Draft: ISA260 Audit Highlights Memorandum**

**2011/12**

7th June 2012

# Contents

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This report is addressed to Sandwell and West Birmingham NHS Trust ('the Trust') and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the Trust. We draw your attention to this document.

External auditors do not act as a substitute for the Trust's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andy Bostock, who is the engagement lead to the Trust, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, text phone (minicom) 020 7630 0421.

## Background

The Audit Commission's Code of Audit Practice (the Code) requires us to report on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We report these areas to those charged with governance (in this case the Audit Committee) at the time you are considering the financial statements. International Standard on Auditing (ISA) 260 requires us to provide a summary of the work we have carried out to discharge our statutory audit responsibilities to those charged with governance at the time they are considering the financial statements. ISA 260 requires that we consider the audit matters detailed in Appendix D and we do this by exception through this report. We are also required to communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties. This report summarises the key issues we have identified during our audit of the financial statements and will be presented to the Audit Committee on 7th June 2012.

As auditors we have a responsibility for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management, those charged with management or those charged with governance of their responsibilities.

| | |
|---|---|
| **Accounts** | We audit the financial statements and provide our opinion as to whether they give a true and fair view of your financial position and expenditure and income, and whether they have been prepared in accordance with the relevant accounting policies directed by the Secretary of State. |
| **Use of Resources (UoR)** | Sandwell and West Birmingham NHS Trust ('the Trust') is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing the adequacy and effectiveness of these arrangements.<br><br>Our responsibility is to satisfy ourselves that you have proper arrangements in place by reviewing and examining evidence relevant to your corporate performance management and financial management arrangements and reporting on these arrangements.<br><br>We reflect our judgements from the use of resources work in the value for money (VfM) conclusion. Our conclusion provides assurance on the Trust's arrangements for achievement economy, efficiency and effectiveness in its use of resources.<br><br>The Trust is responsible for putting in place systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that give a true and fair view of its financial position and its expenditure and income. It must also publish an Annual Governance Statement (AGS) with its Annual Report. |

## Structure of report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 outlines our findings and final conclusions on the Use of Resources work.
- Section 4 sets out our findings on the audit of the financial statements.

The table below summarises the work we have completed throughout the year and the results of the audit.

| | |
|---|---|
| **Accounts, unadjusted audit differences and management representations** | ■ We intend to issue an unqualified audit opinion on the accounts following the Audit Committee adopting the accounts and receipt of the signed management representation letter.<br>■ We are required to certify that we have completed the audit of the Trust financial statements in accordance with the requirements of the Code. If there are any circumstances under which we cannot issue a certificate, then we must report this to those charged with governance. Our ongoing work on the Trust's quality accounts will delay the issue of our certificate. Following completion of this work we will issue our certificate of completion of the audit.<br>■ We have completed our audit of the financial statements. We have also read the content of the draft Annual Report (including the auditable sections such as the remuneration report) and reviewed the draft Annual Governance Statement. Our key findings are:<br>– There are two unadjusted audit differences relating to the treatment of transformation funding from commissioners as provisions. These balances had previously been accounted for as deferred income. The total value of these balances is £4.121m. We do not consider that these provisions meet the requirements of *IAS 37 - Provisions, Contingent Liabilities and Contingent Assets*. Appendix C provides further details.<br>– We have identified several minor presentational changes to the accounts that ensure compliance with the NHS Manual for Accounts. The majority of these have been implemented by management.<br>– We have requested specific management representations over the treatment of transformation funding balances and also on legality of payments in line with updated sector guidance. Section four provides further details.<br>– The Trust integrated Community Services into the its operations on 1st April 2011. The transfer of income and assets has been accounted for correctly in the Trust's financial statements. We have requested additional disclosure that has been included by management. |
| **Use of Resources** | ■ We are required to give a statutory VfM conclusion based on two reporting criteria specified by the Audit Commission which consider whether the Trust has proper arrangements for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness.<br>■ Our VfM opinion is informed by:<br>– our structured risk based assessment of the Trust's general VfM arrangements;<br>– follow up of our 2010/11 review of Quality and Efficiency Programme (QuEP) arrangements, the results of which were reported to you in our Interim Report in May 2012;<br>– our follow up review of data quality and governance arrangements, and indicator testing, in respect of your Quality Account, for which a separate report will be issued to you in June 2012; and<br>– Our testing of the calculation and VfM of 81 proposed redundancy payments prior to SHA submission.<br>■ We note that at the time of this report our work in respect of your Quality Account is ongoing. However, at this stage there are no issues arising from our Quality Account work that we anticipate will impact adversely on our Use of Resources opinion. We intend to conclude that the Trust has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. |

# Headlines (cont.)



| | |
|---|---|
| **Recommendations** | ■ We have made three recommendations for improvement as a result of our 2011/12 audit work:<br>– The Trust should review the appropriateness of employing long term consultants to ensure it complies with fiscal regulations for social security contributions;<br>– The Trust should ensure it enters into formal lease agreements with other NHS bodies for sublet properties, and ensure that contractual obligations and costs are agreed upfront; and<br>– The Trust should undertake an exercise as part of the closedown process to ensure that all intra-NHS balances that are outside the scope of the agreement of balances Debtors and Creditors exercise (including provisions, deferred income and accruals) are correctly classified.<br>■ We reviewed the Trust's progress against prior year recommendations and found that management had fully implemented two of our recommendations, with the third superseded by the integration of the Community Services. |
| **Whole of Government Accounts** | ■ We intend to issue an unqualified confirmation to the NAO regarding the Whole of Government accounts submission, made through the Trust's submission of the summarisation schedules to the Department of Health. We currently anticipate that we will report two differences over the £250k reporting threshold relating to balances held with Sandwell PCT (£1m) and Heart of Birmingham PCT (£3.121m). We have set out in Appendix E our proposed return. |
| **Quality Accounts** | We are near completion of our audit of the Trust's 2011/12 Quality Accounts. Currently, based on the work performed:<br>■ You are on track to achieve a clean limited assurance opinion on the content of your Quality Report. Content of the draft reviewed was in compliance with Quality Account Regulations, and could be referenced to supporting information and evidence provided by the Trust.<br>■ This year we are in the process of testing 62 day cancer referrals, pressure ulcers and VTE assessments as the three quality indicators.<br>■ Our detailed findings following the audit of the Quality Report will be presented to you in under separate cover. |
| **Public Interest Reporting** | ■ We have a duty to refer any matter to the Secretary of State if we have a reason to believe that the Trust is about to make, or has made, a decision involving unlawful expenditure, or is about to take, or has taken, unlawful action likely to cause a loss or deficiency. We also have a duty to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be considered by the Trust or brought to the attention of the public.<br>■ We do not intend to issue a report to the Secretary of State or a report in the public interest in 2011/12. |
| **Fraud** | ■ We have a responsibility to consider fraud and we addressed this in our assessment of your controls framework. We have also reviewed your arrangements for the prevention and detection of fraud and corruption, alongside our use of resources work.<br>■ This work is complete and has not identified any matters which we wish to draw to your attention. |

Section Three

# Use of Resources

## Introduction

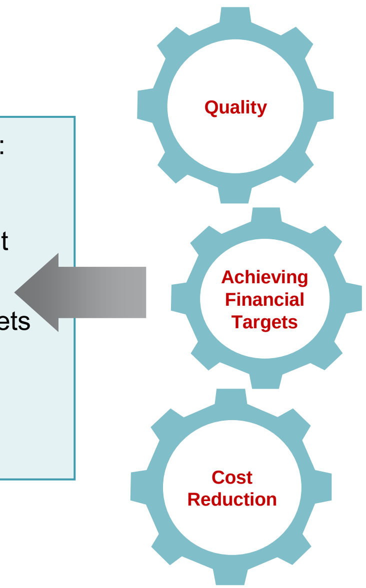
We have a responsibility to satisfy ourselves that you have put in place proper arrangements to secure economy, efficiency and effectiveness in your use of resources. In meeting this responsibility we are required to review and, where appropriate, examine evidence and report on your overall governance, corporate performance management and financial management arrangements. We will also follow up recommendations from previous years to assess progress.

For 2011/12, auditors are required to give their statutory VFM conclusion based on two reporting criteria specified by the Audit Commission which consider whether the Trust has proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness. Our work therefore centred around assessing the Trust's arrangements in these areas. Based on a local risk assessment, we reviewed the deliverability of the Trust's efficiency savings targets for 2011/12 and formed a view on the robustness of the Trust's plans to deliver recurrent financial balance.

As a result of our work, we are satisfied that the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2012.

## Key Findings

In the table below, we have summarised the scope of our work along with our key findings. The results of this work will be reflected in our VFM conclusion.

| Key findings from our work | Your challenges |
|---|---|
| **Securing Financial Resilience and Economy, Efficiency and Effectiveness**<br>■ The arrangements in place for identifying, implementing and monitoring CIPs were sufficient to ensure the Trust achieved its financial targets in 2011/12. Follow up of our 2010/11 review of Quality and Efficiency Programme (QuEP) arrangements, indicated that all of our recommendations had been and implemented.<br>■ We have not identified any areas through our audit testing that suggest the Trust has not implemented appropriate measures to secure economy, efficiency and effectiveness in the Trust's use of resources. Our risk based assessment of the Trust's general VfM arrangements identified one additional specific risk around redundancies (see Page 6).<br>■ Our follow up review of data quality and governance arrangements in respect of your Quality Account is ongoing. We have identified no issues to date that impact upon our VfM opinion.<br>■ Review of performance reports identified that all CQUiN and national priority targets had been met overall for 2011/12<br>■ Two inspections by the CQC which occurred in 2011 reported concerns over compliance with Outcomes 1 and 5 at Sandwell Hospital. This prompted the development of robust action plans, progress with the delivery of which was given close Trust Board oversight. Compliance with the outcomes was confirmed following the Care Quality Commission's visit in December 2011. | Our work considered:<br>■ Financial Targets<br>■ Cost Improvement Programmes<br>■ Performance targets<br>■ CQC and other external reviews<br>■ Quality Accounts<br><br> |

# Use of Resources (cont.)



## Key findings from our work

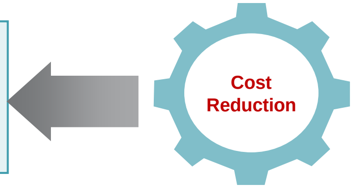
### Review of Redundancy Calculations

- Appropriate analysis and approvals have been undertaken by the Trust in order to identify the required Full Time Equivalent (FTE) savings as part of the Transformation Plan.
- The 81 sampled cases had all been calculated accurately and appropriately approved.

## Your challenges

Our work considered:

- Basis for redundancies
- Accuracy of calculations



To review your financial statements we perform tasks split between those which are undertaken before, during and after the accounts production. These are summarised below:

| Work Performed | Accounts production stage | | |
|---|---|---|---|
| | Before | During | After |
| **1. Business Understanding:** review your operations. | ✓ | ✓ | - |
| **2. Audit Plan:** presented to Audit Committee | ✓ | | |
| **3. Controls:** assess the control framework. | ✓ | - | - |
| **4. Interim Report:** presented to Audit Committee | | | |
| **5. Prepared by Client Request (PBC):** issue our prepared by client request. | ✓ | - | - |
| **6. Accounting standards:** agree the impact of any new accounting standards. | ✓ | ✓ | - |
| **7. Accounts Production:** review the accounts production process. | ✓ | ✓ | ✓ |
| **8. Testing:** test and confirm material or significant balances and disclosures. | - | ✓ | - |
| **9. Representations and opinions :** seek and provide representations before issuing our opinions. | - | - | ✓ |

We have completed the first 8 stages of the process. We reported the key findings from the first 3 stages in our Interim Report. In the remainder of this section, we report our findings from stages 5 to 9.

| | |
|---|---|
| **Prepared by Client Request** | ■ We produced this document to summarise the working papers and evidence we asked you to collate as part of the preparation of the financial statements.<br>■ We discussed our request with the Director of Finance and this was issued as a final document to the finance team. |
| **Accounting Standards** | ■ We work with you to understand the changes to accounting standards and other technical issue. |

| | |
|---|---|
| **Accounts Production** | ■ We received complete draft accounts on 23 April 2012 in accordance with the Department of Health's deadline. There were some minor presentational amendments made to these accounts before the audit started. However, none of these amendments significantly hindered the progress of the audit.<br>■ The Trust's working papers to support the financial statements were of high quality, available on the shared drive and our prepared by client list had been followed. Trust finance staff were available throughout the audit visit to answer our queries as they arose.<br>■ The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Department of Health.<br>– Significant changes in accounting policies to the prior year that we would like to bring to your attention are the removal of the donated assets and government grants from the financial statements.<br>– Significant estimates have been made in relation to restructuring and redundancy provisions.<br>■ We thank the finance team for their co-operation throughout the visit which allowed the audit to progress smoothly and complete within the allocated timeframe.<br>■ As in previous years, we will debrief with the Finance team to share views on the accounts production and audit process to support continuous improvement and further efficiencies. |
| **Testing** | ■ There are two significant unadjusted audit differences relating to the treatment of transformation funding from commissioners as provisions. These balances had previously been accounted for as deferred income. The total value of these balances is £4.121m. We do not consider that these provisions meet the requirements of IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. Appendix C provides further details.<br>■ There are two further items that have not been adjusted as they are clearly trivial and have no material effect on the financial statements. These relate to the Trust's redundancy provisions (£24k) and miscalculation of the net gain and loss on an asset disposal (£28k).<br>■ Our findings related to areas of high audit risk are shown on page 9. |
| **Representations and Opinions** | ■ You are required to provide us with representations on specific matters such as your financial standing and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Finance Director on 31st May 2012.<br>■ This year we are asking management to provide a specific representation on the accounting treatment of transitional funding balances. |
| **Other Matters** | ■ We are required under ISA260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest.<br>■ We have not identified any other matters to specifically report. |

### Next Steps

Following consideration of the issues highlighted in this report, the Audit Committee will recommend that the Board sign the management representations letter at the Board meeting on 7th June 2012.

Once we have received your representations we will issue our audit opinion. For 2011/12 this provides confirmation that:

- your financial statements present a true and fair view;
- you have complied with the Department of Health's disclosure requirements set out in the Manual For Accounts in the preparation of your Annual Governance Statement and we are not aware of any inconsistencies with the information that you have recorded within this statement and our other work;
- we have read your draft Annual Report and in our view it does not contain information which is inconsistent with your financial statements. We will review the final document as it becomes available; and
- the numerical part of your Remuneration Report has been presented in a way which complies with the accounting requirements as set out in the NHS Manual for Accounts.

Except for the uncorrected misstatement outlined in Appendix C, we do not have any other matters that we wish to draw to your attention prior to issuing this opinion.

### Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors. We have provided this declaration at Appendix D.

### Audit Fees

Our fee for the audit in 2011/12 was £171,361 plus VAT. This fee was in line with that highlighted within our audit plan and was communicated to the Audit Committee. We will also provide the audit of the Charitable Funds for a fee of £14,500, and the audit of the Quality Accounts £12,500 plus VAT.

We have also completed the following pieces of non audit work at the Trust during the year:

| | |
|---|---|
| **Redundancy calculations** | ■ Testing of redundancy cost calculations in May and June 2012, and going forwards.<br>■ We are completing this work on a time and materials basis using the Audit Commission scale rates. Costs to date total £3,045 plus VAT. Final fee to be confirmed with the Director of Finance and Performance on completion of work. |
| **Payment By Results** | ■ Review of implementation of PBR data assurance recommendations raised in previous audits.<br>■ £5,135 plus VAT - Costs covered by the Audit Commission. |

# Accounts (cont.)



| Areas of HIGH audit risk | | Summary of findings |
|---|---|---|
| Financial Standing/CIP | **Audit areas affected:**<br>▪ Financial standing<br>▪ Business planning | We reviewed the Trust's full year performance against Cost Improvement Plans as part of our Value for Money audit work.<br><br>The Trust has achieved savings of £21.4m against an original plan of £21.9 million. The shortfall against target was reported prior to year end, and the shortfall of £0.5m relates replacement savings plans introduced following underperformance in the first part of the financial year. A Transformation Plan cost savings target of £25.7m has been approved for 2012/13.<br><br>Audit testing has been performed over accruals and expenditure as part of our final accounts, including testing over the year-end cut-off, with no material adjustments to report. |
| New MfA requirements | **Audit areas affected:**<br>▪ Income / expenditure<br>▪ Reserves<br>▪ Agreement of balances | We reviewed the Trust's financial statements in light of the 2011/12 version of the Manual for Accounts and found that accounting policies are compliant with updated requirements.<br><br>Audit testing was performed over the restatement exercise undertaken to remove the donated asset reserve during our interim visit and no issues were identified. The associated year-end balances were reviewed during our final accounts visit and no issues were identified. |
| Transforming Community Services | **Audit areas affected:**<br>▪ Income / expenditure<br>▪ Opening Balances | The Trust acquired circa £30m of Community Services from Sandwell PCT on 1st April 2011.<br><br>We performed audit testing over the assets and income transferred and identified no material misstatements. Throughout our on site visit, we have liaised with the KPMG audit team for Sandwell PCT to ensure that accounting treatment across the two bodies is consistent.<br><br>Per the Statement of Comprehensive Income, revenue from patient care activities has risen by £34m, of which circa £30m is attributable to the Community Services acquired. |

# Accounts (cont.)

| Areas of HIGH audit risk | Summary of findings |
|---|---|
| **Income Recognition**<br><br>**Audit areas affected**<br>Income<br>Agreement of balances | The Trust has received several non-recurrent income streams in the last several years relating to:<br>− 'Transformation Monies' in respect of specific activities under 'Right Care, Right Here';<br>− TFF funding from commissioners to compensate for restricted activity (within the block contract); and<br>− DH loan for the purchase of land for the proposed site redevelopment.<br><br>The DH loan has not yet been spent, and has been appropriately accounted for in 2011/12. The TFF funding has been recognised in year in full.<br><br>However, some of the 'Transformation Monies' are accounted for in provisions at year-end. These balances were previously accounted for as deferred income. We do not consider that these provisions meet the requirements of *IAS 37 - Provisions, Contingent Liabilities and Contingent Assets and* we have recommended audit adjustments to release these monies to the SOCI. These are unadjusted audit differences.<br><br>Appendix C provides further details. |
| **Valuation of Fixed Assets**<br><br>**Audit areas affected**<br>Property, Plant and Equipment<br>Depreciation | A valuation of the Trust's assets was performed by the District Valuer in the year with revised net book values and asset lives reflected in the Fixed Asset Register during Quarter 3 of the financial year.<br><br>We have reviewed the methodology used to value the Trust's Fixed Assets and agreed updated valuations as per the District Valuer report to the CARS Fixed Asset Register. We did not identify any issues.<br><br>We evaluated the Trust's impairment review and assessed the adequacy of the assumptions made in light of the Capital Programme and plans to develop the Midland Metropolitan Hospital. We have not identified any issues. |

# Appendix A: Key issues and recommendations

| # | Risk | Issue, Impact and Recommendation | Management Response/ Responsible Officer/Due Date |
|---|---|---|---|
| 1 | 2 | **Identification and classification of Deferred Income and Accruals**<br>During our audit testing we have identified classification errors in relation to deferred income, accruals and provisions.<br>The Trust should undertake an exercise as part of the closedown process to ensure that all intra-NHS balances that are outside the scope of the agreement of balances exercise are correctly classified.<br>This should include understanding the purpose of the income received, when the associated expenditure is likely to be incurred and whether the Trust has a right to defer the income.<br>An assessment should then be made on the correct treatment and presentation under IAS18 Revenue Recognition and IAS 37 Provisions. Where possible this treatment should be agreed by the counterparty to ensure consistency. | |
| 2 | 3 | **Long term provision of consultancy services**<br>As part of our review of Consultancy costs accounted for as other operating expenditure, we noted payments totaling £138,000 to one consultant over a 12 month period.<br>There is a risk that self employed consultants could be deemed to be Trust employees by HMRC, rendering the Trust liable for tax and social security contributions for such individuals.<br>Whilst a significant proportion of expenditure in this instance was offset by SHA income, the Trust must ensure that it adheres to fiscal and employment regulations for all staff when such arrangements are entered into. This is of particular importance where a consultant is being paid through their own company, rather than as an individual, as appropriate Social Security payments may not be being made. | |
| 3 | 3 | **Formalisation of subletting arrangements**<br>During audit testing performed over fixed assets, it was noted that there is no formal agreement in place for a property sublet from Sandwell PCT.<br>The lease payments of £75,000 were inconsequential in the context of the Trust's accounts but we note that but no contract or agreement on fee could be provided as audit evidence.<br>The Trust should ensure that formal contracts are drawn up for such arrangements, to protect both the lessee and lessor in case of dispute. | |

*Key:*

*High Risk* 1 *Medium Risk* 2 *Low Risk* 3

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# Appendix B: Follow up of prior year recommendations

| Number of Prior Year Recommendations | Number of Recommendations implemented / superseded | Number outstanding |
| --- | --- | --- |
| 3 | 3 | 0 |

| # | Risk | Issue and Recommendation | Officer Responsible and Due Date | Status as at May 2012 |
| --- | --- | --- | --- | --- |
| 1 | 2 | **Annual Report**<br><br>As at 8th June 2011, we had not received a final version of the Trust's full annual report so were unable to perform a consistency review between the Annual Report and the financial statements.<br><br>We recommended that the Trust review the production timetable to ensure the document is available to the audit team during the first week on site, facilitating timely submission to the regulator. | **Head of Communications and Engagement**<br><br>**June2012** | The production of the annual report was co-ordinated with the statutory accounts and a draft was provided to the audit team for review on 10 May 2012.<br><br>This provided an adequate timeframe for amendments to be communicated and incorporated into a second draft.<br><br>The Communications team are currently in discussion around the production of a newsletter style summary report to accompany the statutory Annual Report.<br><br>**Implemented** |
| 2 | 3 | **Better Payments Practice Code**<br><br>Our audit review of the Trust's calculations identified that reported figure was an approximation based on invoice date plus 3 days. This was due to data being unavailable and invoices not passed to the finance team in a timely manner.<br><br>We recommended that the Trust should continue its work to improve the accuracy and timeliness of invoice registering and recording, including encouraging invoices to be forwarded to finance in the first instance. | **Director of Finance and Performance**<br><br>**Ongoing** | Further progress has been made in the calculation of the Better Payment Practice Code.<br><br>Receipt date of invoices is now logged in the AP system, and used in the calculation.<br><br>The calculation basis was amended in February 2012 and is now based on recorded receipt date which has improved reported performance.<br><br>**Implemented** |

# Appendix B: Follow up of prior year recommendations

| # | Risk | Issue and Recommendation | Officer Responsible and Due Date | Status as at May 2012 |
|---|---|---|---|---|
| 3 | ❸ | **Segmental Reporting**<br><br>While the Trust's decision to report as a single "SWB Hospitals" segment in 2010/11 is appropriate, this is unlikely to be the case in 2011/12 particularly following the Trust's acquisition of community services from Sandwell PCT under "Transforming Community Services (TCS)". These non-acute services will likely be reported separately to the Trust Board (the Chief Operating Decision Maker).<br><br>Following its ongoing implementation and embedding of Service Line Reporting and the impact of the acquisition of community services the Trust should prepare a paper for Audit Committee that sets out the Trust's position against the criteria outlined in IFRS 8. This should then inform the decision as to whether the Trust should disclose segmental performance. | **Director of Finance and Performance**<br><br>**September 2011** | For the 2011/12 financial statements, the Trust continues to present one operating segment, being Healthcare.<br><br>A paper on segmental reporting was presented to the Audit Committee for agreement in February 2012 which stated that the Community Services acquired by the Trust are not managed as a distinct operating segment and that the Trust does not consider that it has any operating segments that would meet the 10% of total revenue criteria under IFRS 8.<br><br>This view concurs with our understanding.<br><br>**Superseded** |

# Appendix C: ISA260 Communication of Audit Differences

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

This appendix sets out the audit differences that we identified following the completion of our audit of the Trust for the year ended 31 March 2012.

### Unadjusted audit differences

We note that there were no material unadjusted audit differences arising from the audit. There are two significant audit differences that have not been adjusted in relation provisions. In accordance with ISA 260 we are required to communicate uncorrected misstatements to the Audit Committee:

*Transformation Funding*

In prior years the Trust held deferred income in respect of transformation funding in respect of the Right Care Right Here programme. These monies had been deferred forward by the Trust to match delayed expenditure associated with the programme. At 31 March 2011 the Trust had a deferred income balance of £4,288,000 relating to monies provided by Heart of Birmingham PCT and Sandwell PCT. However, we were unable to identify evidence to support the approval by the contributing parties of the right to defer and detailed expenditure plans. Given the delays in the new hospital scheme and the impending demise of the PCTs we recommended in 2010/11 that the income be released to the SOCI as there was no liability to repay. This resulted in a £4.3m unadjusted audit difference in the 2010/11 ISA260.

In 2011/12 the Trust transferred residual deferred income balances totalling £4,121,000 from deferred income to provisions. We do not consider that these provisions meet the requirements of *IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.* The monies should therefore be released to the SOCI.

| Issue | SOFP(£)/ SOCI(£) | |
|---|---|---|
| | Adverse Impact (Dr) | Favourable Impact (Cr) |
| Release of Provisions (Dr Provisions, Cr SOCI)<br>• Heart of Birmingham PCT<br>• Sandwell PCT | | £3,121<br>£1,000 |

### Adjusted audit differences

Our audit did not identify any material audit differences which require correction by management in the financial statements.

### Presentational Issues

We identified a number of minor presentational issues during our audit and these have all been amended by the Trust.

# Appendix D: Declaration of Independence and Objectivity

Auditors appointed by the Audit Commission must comply with the Code of Audit Practice (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired"

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Annual Letter of Guidance and Standing Guidance (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 Integrity, Objectivity and Independence ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of Audit Matters with Those Charged with Governance' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing;

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence;
- The related safeguards in place; and
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require auditors to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

# Appendix D: Declaration of Independence and Objectivity (cont.)

## General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of the principles. To facilitate this, a hard copy of the Manual is provided to staff annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff must follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

## Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit of the accounts.

ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm’s independence and the integrity and objectivity of the audit engagement lead and audit staff.
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements.
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Trust’s financial statements.
- The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Trust’s financial statements.
- Material uncertainties related to event and conditions that may cast significant doubt on the Trust’s ability to continue as a going concern.
- Disagreements with management about matters that, individually or in aggregate, could be significant to the Trust’s financial statements or the auditor’s report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter.
- Expected modifications to the auditor’s report.

# Appendix D: Declaration of Independence and Objectivity (cont.)

## Audit matters (cont.)

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management.
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at audit committees, commentary and annual audit letter and, in the case of uncorrected misstatements, through our request for management representations.

## Auditor Declaration

In relation to the audit of the financial statements of Sandwell and West Birmingham Hospitals NHS Trust for the financial year ending 31 March 2012, we confirm that there were no relationships between KPMG LLP and the Trust, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

# Appendix E: National Audit Office Group Assurance

As auditors of the Trust we are required to report to the National Audit Office ('NAO') in connection with the audit of the Department of Health Resource Account, NHS Summarised Accounts and the Whole of Government Accounts (WGA). We intend to issue an unqualified confirmation to the NAO regarding the WGA submission, made through the Trust's submission of the summarisation schedules to Department of Health.

We are required to report any inconsistencies greater than £250k between the signed audited accounts and the consolidation data and details of any unadjusted errors or uncertainties in the data provided for intra-group and intra-government balances and transactions. We have provided details of the inconsistencies that we are reporting to the NAO below:

<table>
<tr><th>Counter party</th><th>Type of balance/transaction</th><th>Balance as per SWBH (£)</th><th>Balance as per counter party (£)</th><th>Difference (£)</th><th>Comments on Difference</th></tr>
<tr><td>Heart of Birmingham PCT</td><td>Provision (previously Deferred Income)</td><td>3,121,000</td><td>0</td><td>3,121,000</td><td rowspan="2">These balances have been transferred from deferred income to provisions following advice from the SHA on how to resolve differences with other bodies in the Agreement of Balances exercise.<br><br>Balances relate to monies provided by Heart of Birmingham PCT and Sandwell PCT to fund developments in respect of the Right Care Right Here programme. These monies had been previously deferred forward by the Trust to match delayed expenditure associated with the programme.<br><br>The income was received and expensed by the counter party prior to 31 March 2011, therefore there is no equivalent balance in the PCT accounts.</td></tr>
<tr><td>Sandwell PCT</td><td>Provision (previously Deferred Income)</td><td>1,000,000</td><td>0</td><td>1,000,000</td></tr>
</table>

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# ANNUAL GOVERNANCE STATEMENT 2011/12

# SANDWELL AND WEST BIRMINGHAM HOSPITALS NHS TRUST

## 1. SCOPE OF RESPONSIBILITY

1.1 The Board is accountable for internal control. As Accountable Officer, and Chief Executive of this Board, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives. I also have responsibility for safeguarding the public funds and the organisation's assets for which I am personally responsible as set out in the Accountable Officer Memorandum.

1.2 In my role as Chief Executive of the Trust I fulfil my own responsibilities as its Accountable Officer in close association with the Chief Executive and senior officers of the Strategic Health Authority, the Chief Executives of the local Primary Care Trusts and the Council Leaders of the local authorities. Governance and risk issues are regularly discussed at a variety of Health Economy wide fora, including formal review meetings with the Strategic Health Authority, monthly meetings of Chief Executives and via the Partnership Board for the Health Economy-wide development plan, known as 'Right Care, Right Here'.

## 2. THE GOVERNANCE FRAMEWORK OF THE ORGANISATION

2.1 The organisation is led by the Trust Board, which in turn is supported in its duties by five committees, as follows:

**Audit Committee**

**Chair: Non –Executive Director**

- Considers the annual plans and reports of both the External and Internal Auditors
- Provides an overview and advises the Board of Directors on the internal control arrangements put in place by the Trust Board
- Acts as the co-ordinator of all support documentation in relation to assurance to the Chief Executive for the sign off of the Annual Governance Statement
- Reviews all matters of internal control
- Reviews the annual work plan and monitors progress with the work of the Local Counter Fraud Specialist function
- Liaises with the Quality and Safety Committee as appropriate
- After due process of review recommends the adoption of the Annual Accounts to the Trust Board

**Frequency:** Five times a year, including a specific meeting to review and approve the annual accounts

**Membership:** all Non Executive directors (excluding the Chair). The CEO and Director of Finance attend as required.

## Quality and Safety Committee

### Chair: Non –Executive Director

- Monitors and provides assurance to the Board that clinical services are appropriately delivered in terms of quality, effectiveness and safety
- Ensures that the Trust has effective and efficient arrangements in place for quality assessment, quality improvement and quality assurance
- Where quality and performance falls below acceptable standards, ensures that action is taken to bring it back in line with expectations, and to promote improvement and excellence
- Ensures that service user and carer perspectives on quality are at the heart of the Trust's quality assurance framework

**Frequency:** Six times per year

**Membership:** Four Non-Executive Directors and six of the Executive Directors with specialist advisers in attendance when required.

## Finance and Performance Management Committee

### Chair: Non –Executive Director

- Considers regular financial reports and forecasts, including prime statement of accounts and supporting analyses and forecasts
- Reviews the performance of the Trust's major clinical and corporate divisions and considers remedial action plans in the case of significant variances/deviations
- Reviews the annual financial plan and budget, prior to submission to the Trust Board for approval
- Monitors performance against external targets set by the Department of Health, Strategic Health Authority, commissioners and Monitor
- Monitors performance against a range of internally developed clinical, financial and operational indicators
- Considers plans and business cases in support of significant investment, prior to presentation to the Trust Board for approval

**Frequency:** Monthly

**Membership:** Four Non Executive directors, CEO, Director of Finance and Chief Operating Officer

## Remuneration and Terms of Service Committee

### Chair: Trust Chair

- Sets the pay and conditions of senior managers
- Recommends the remuneration and terms and conditions of employment for any employees who are not subject to national terms and conditions of service
- Scrutinises and agree any termination payments made to the Chief Executive and Executive Directors
- Ensures the consistent application of the Trust policy on remuneration and terms and conditions of employment for the Chief Executive and the Executive Directors

**Frequency:** The committee meets as required

**Membership:** All Non Executive Directors.

**Charitable Funds Committee**

**Chair: Non Executive Director**

- Monitors the safeguarding of those assets donated or bequeathed in cash or other forms to the Trust's charitable funds
- Ensures as far as is practical that the expressed wishes of donors or benefactors are met in the deployment of funds.
- Monitors and reviews banking and audit arrangements
- Monitors the performance of the Trust's Charitable Funds portfolio
- Advises on the appointment of investment brokers

**Frequency:** Four times per year

**Membership:** All voting Directors

2.2 The Trust Board and its committees are administered by a Trust Secretary who maintains the Directors' Register of Interests and a register of attendance at meetings.

2.3 On an annual basis, the Trust Board is asked to consider and approve a proposed cycle of business for the forthcoming year, which is largely based on the best practice guidelines suggested in the Dr Foster publication, 'The Intelligent Board' and the National Leadership Council's report, 'The Healthy Board'. The reporting cycle is customised with items of local interest and significance to the Board, with matters being categorised into Quality, Safety and Governance; Strategy & Development; Performance Management; and Operational Management sections.

2.4 Integral to the preparation for the Trust's application for Foundation Trust status, is a number of Board development activities and opportunities. An independent facilitation of this work involved a comprehensive assessment of the skills and capabilities of Board members and the associated output has informed a development plan. Given the thoroughness of the external scrutiny and the Board's close engagement with the work, a formal internal self-assessment has not been necessary this year. The Board development work also included observations and feedback sessions on a series of Board and Committee meetings, a review of the Trust's Integrated Business Plan and a preparatory mock Board to Board meeting in advance of formal assessments. Again, the outcome from these processes has been carefully considered by the Board and informed the action plan to address areas in need of development. Finally, the development plan is monitored by the Board on a routine basis.

2.5 The Board considers that the Trust has, throughout the 2011/12 reporting year, applied the principles and met the requirements of the Code of Governance. In summary, the Trust has been headed throughout the by an effective board of directors, which has taken collective responsibility for leading the organisation, exercising its statutory powers and setting the strategic direction of the Trust.

2.6 A particular area of development within the last year has been a revised approach for reporting to the Trust Board on the activities of and matters considered by the Trust's committees. In addition to the minutes of the Committee meetings being presented to the Trust Board as a matter of course, a comprehensive verbal update is provided by the relevant sub-committee Chair following the most recent Committee meeting. Annual reports on the work of each of the Committees are also presented as part of the annual reporting cycle of the Trust Board.

2.7 The publicly held Trust Board meetings cover the full gamut of clinical, corporate and business risk and discuss and monitor the delivery of corporate objectives and the detail of the Assurance Framework. Members of the Trust Board are encouraged to make as wide a range of public contributions in such discussions as possible and a representative from the Local Involvement Networks (LINks) regularly sits with the Trust Board during its monthly public meeting. For major service changes, more targeted work is undertaken to include the patient and public perspective within the decision-making process and associated risk assessments.

2.8 The Board's routine reporting includes a review of performance against the priorities of the Operating Framework, principally through the consideration of an assessment against the NHS Performance Framework. The assessment reported the Trust to be classified as a 'Performing' organisation throughout the year. As part of the work to meet the priorities, good progress has been made in a number of key areas, including the Trust's application for Foundation Trust status. The Trust was also successful in meeting its recruitment and expansion target for Health Visitors and as a result, has been identified as a national pilot site for Health Visitor improvement. In conjunction with this, the Trust is regarded as one of the regional leaders in respect of Family Nurse Partnerships, having delivered a number of measurable improvements for families as a consequence. In terms of Dementia care, a Rapid Assessment Interface and Discharge (RAID) service is fully embedded at the City Hospital site, which has proved highly successful in establishing a good practice model of care for patients with Mental Health difficulties within the Trust.

2.9 In support of the 'Right Care, Right Here' Programme and service reconfiguration proposals, the Trust has met frequently with the Joint Local Authority Overview and Scrutiny Committees in Birmingham and Sandwell. The risk associated with this project and wider Trust objectives is assessed in the context of external influences from patients, public, ministers and the DH and wider societal interests.

2.10 Control measures are in place to ensure that all the organisation's obligations under equality, diversity and human rights legislation are complied with. The Trust's compliance with equality and diversity issues is also monitored through the Equality and Diversity Steering Group, which reports quarterly to the Trust Board. During 2011/12, new Trust services, policies and functions have been subjected to an equality impact assessment, the details of which are publicly available on the Trust's internet site.

2.11 As an employer with staff entitled to membership of the NHS Pension scheme, control measures are in place to ensure all employer obligations contained within the Scheme regulations are complied with. This includes ensuring that deductions from salary, employer's contributions and payments in to the Scheme are in accordance with the Scheme rules, and that member pension Scheme records are accurately updated in accordance with the timescales detailed in the Regulations.

2.12 The Trust has undertaken risk assessments and Carbon Reduction Delivery plans are in place in accordance with emergency preparedness and civil contingency requirements, as based on UKCIP 2009 weather projects, to ensure that this organisation's obligations under the Climate Change Act and the Adaptation Reporting requirements are complied with.

2.13 The Trust is fully compliant with the CQC essential standards of quality and safety. However within the year, the Trust has been subject to a responsive review of compliance by the CQC in connection with Outcome 17, Complaints. An action plan developed to address the shortfalls identified against the requirements was implemented and has been provided to the CQC for its consideration which recently confirmed its satisfaction with the measures taken. Additionally, within the year, the Trust's position was assessed for compliance against Outcomes 1 and 5, covering the Trust's responsibilities for privacy, dignity and nutrition. Following an initial inspection which reported major concerns at Sandwell Hospital in respect of compliance with Outcome 1, and later moderate concerns, a robust action plan was developed to address the issues raised, which received close Trust Board and Executive oversight. Compliance with the outcomes was confirmed following a third visit by the Care Quality Commission in December 2011.

## 3. RISK ASSESSMENT AND THE RISK & CONTROL FRAMEWORK

***Management of risk and leadership***

3.1 Sandwell and West Birmingham Hospitals NHS Trust has a comprehensive, trustwide system for managing risk, based on approved policies and strategies available on the Trust intranet.

3.2 The Trust has a Board approved Risk Management Strategy which identifies that the Chief Executive has overall responsibility for risk management within the Trust. The Chief Executive is supported with his responsibilities by the Director of Governance. All managers and clinicians accept the management of risks as one of their fundamental duties. Additionally the Strategy recognises that every member of staff must be committed to identifying and reducing risks. In order to achieve this the Trust promotes an environment of accountability to encourage staff at all levels to report when things go wrong, allowing open discussion to prevent their re-occurrence.

3.3 In Clinical Directorates, Clinical Directors, supported by Divisional Directors, General Managers and Heads of Nursing are responsible for managing risk. In all non-clinical directorates and departments, the appropriate Executive Director is responsible for managing risk through the chain of reporting.

3.4 The Trust has a designated Head of Risk Management within the Governance Directorate.

***Risk management process***

3.5 The risk management process is an integral part of the Trust's business planning process and budget setting and performance review frameworks.

3.6 At a strategic level, risks are identified by the nominated directors against the Trust's strategic objectives and Annual Priorities. These identified risks provide information to support the Board Assurance Framework and where risks are identified as being 'serious', these are escalated to the Corporate (Trust) Risk Register and are monitored by the Trust Board and its delegated committees.

3.7 At an operational level, risks are maintained in appropriate local risk registers. Where a risk cannot be managed locally (requiring a supporting business case), has a major impact on service capability or Trust reputation or may result in major litigation, this will be presented for inclusion on the Corporate Risk Register.

3.8 Actions identified from risk assessments are mitigated at the appropriate level, and where actions require escalation, the risk will be escalated to the next tier of risk management.

3.9 The process is to be strengthened within the next year to ensure that those risks that are presented for addition to the corporate risk register will be presented monthly to the Trust Board. The Trust Board will be asked to decide whether a risk should be tolerated or treated. This information will be communicated to the 'owner' of the risk who will provide quarterly updates for the Trust risk register. An overview of the current status of risks on the Corporate Risk Register will be made available to the Trust Board on a quarterly basis.

3.10 The decision to treat a risk will be based on the actions required to mitigate that risk, its resource implications balanced against the possible financial penalty if the risk is realised. Every risk identified is backed up by a full risk assessment which covers the points above and an action plan to enable risk reduction, avoidance, transfer or elimination. The action plan defines the time for completion and who is responsible for carrying out the action. The status of the action plan will be monitored at intervals determined by the risk rating and be presented to the Board in a quarterly report. Any difficulties in meeting the deadlines of the actions or in securing resources to enable mitigation will be reported on the monthly risk register update that the Board receives.

***Quality and Risk Profile (QRP)***

3.11 The Trust routinely receives its Quality and Risk Profile (QRP), which is used by the Care Quality Commission to assist with identifying areas of potential non-compliance by producing a set of 'risk estimates' of non- compliance, one for each of the 16 essential standards. The QRP is presented to the Trust's Quality and Safety Committee at the soonest opportunity following publication. To date, there have been no matters of significance or concern to draw to the Committee's or Trust Board's attention.

***Quality Account***

3.12 The Trust has in place robust processes to develop its annual Quality Account. Following the preparation of the Quality Account for 2010 and 2011, a comprehensive action plan was developed to address recommendations raised within the External Auditor's review of Quality Account and to pick up local matters of improvement identified. The progress with the action plan has received significant oversight and scrutiny, both at an Executive level and by the Trust Board via a report to the Audit Committee which is communicated upwards as part of the routine Committee updates.

***Transformation Plan Quality Impact Assessment***

3.13 A major piece of work undertaken within 2011/12 has been the development of the Transformation Plan, a five year view of how the Trust means to achieve the required cost savings within the period 2012/13 – 2016/17 in line with national efficiency requirements and local strategy. Although acknowledging that efficiency savings within the NHS are an integral part of the yearly cycle of business and financial recovery planning, over the past few years it has become more important than ever to ensure that plans, whilst having the desired efficiency saving element, do not pose a risk to the quality of patient care that the Trust wishes to and does provide. As such, Quality Impact Assessment of plans put forward as part of the 2012/13 element of the Transformation Plan was undertaken, which highlighted some schemes where quality of care may be impacted and in these cases mitigation plans were produced, to minimise the effects of any risk realised. Responsibility for monitoring the actions has been devolved to divisions and where a risk is no longer controlled by those mitigating actions, the matter will be escalated.

***NHSLA accreditation***

3.14 Building on the successful accreditation against the NHSLA Risk Management general standards at Level 2 in February 2011, work continues to prepare for the reassessment against general standards in February 2013 and the assessment against CNST maternity standards at Level 2 also planned for February 2013.

***Corporate risks***

3.15 The Trust Board operates a comprehensive risk management system, one of the outputs of which is the corporate risk register. During the financial year risks have been identified which include, but are not limited to, a delay in the approval of the new hospital outline business case, adherence to the essential standards for quality and safety, financial risks associated with any shortfalls in savings plans, new GP led commissioning processes, service line economics, and general staff engagement issues during a period of change. Of these, the most significant new risks concern savings plans as related to the five year Transformation Plan as well as preparing for the introduction of new GP led commissioning arrangements. In each case, detailed consideration of the risk has been undertaken by the Board including approval of the Risk treatment plan, accountabilities, severity (pre and post mitigation) and expected date of completion. The overall risk management processes are designed to capture new risks alongside the monitoring and management of existing risks ensuring that these are mitigated in accordance with the treatment plan.

***Board Assurance Framework***

3.16 The Trust has a Board Assurance Framework which includes all key components required, including objectives, risks, controls, positive assurance, gaps in control and/or assurance and remedial action. In a recent review by Internal Audit, it was determined that **Significant Assurance** was provided by the Board Assurance Framework, with further areas for development identified to assist the Trust with continued improvement to the effectiveness of the processes in 2012/13.

The Board Assurance Framework is considered on a quarterly basis by the Trust's Governance Board, Quality and Safety Committee and Trust Board.

The Board Assurance Framework informs the declarations made in this Governance Statement.

Gaps in controls and assurance of the management of the risks associated with the delivery of a number of the Trust's objectives were identified, however the Trust has taken remedial action to address them which is reported in the quarterly update of the Board Assurance Framework.

***Information security***

3.17 Senior responsibility for information security, risks and incidents rests with the Chief Executive, as supported by the Interim Chief Information Officer. The Information Security Senior Responsible Owner (SRO) is supported by the Information Governance Manager and Head of Risk Management. The Information Governance Manager manages information security risk and incidents on a day to day basis and seeks support from the Head of Risk Management and SRO.

Regular reports are produced to identify information security incidents and the appropriate action planned to reduce the risk impact or likelihood of reoccurrence. These incidents are reviewed by the Information Governance Steering Committee to ensure appropriate action is taken and are also reported on a quarterly basis to the Governance Board through the IM & T governance update.

3.18 Within the year, two serious data security breaches were reported.

In October 2011 a clinical operating diary was found to be missing from a consultant's office but was recovered in February 2012 when it was found inside a set of healthcare records. The Information Commissioner's Office was informed that the diary had been recovered.

In February 2012 a community midwife's car was stolen whilst undertaking a community clinic. The car contained a number of maternity records. The police were informed at the time of the incident and there is an ongoing police investigation. The Trust has controls in place, which have been reinforced to ensure all mobile staff groups are aware of their responsibilities. In parallel, the Trust, as part of the development of an agile working solution, is exploring the use of mobile devices to support this staff group with patient management in the community.

Both incidents were promptly reported to the Information Commissioners Office and Strategic Health Authority.

***Counterfraud and Whistleblowing***

3.19 The Trust is supported through its Internal Audit function by a Counter Fraud service, that reports routinely to the Audit Committee. The service, whose annual workplan is approved by the Audit Committee, is proactive in its role deterring fraudulent activity within the Trust. A whistleblowing policy also exists and may be accessed by staff via the Trust's intranet, which provides the basis by which legitimate concerns can be fairly, effectively and speedily aired and responded to by the use of internal mechanisms. The policy sets out that concerns should initially be raised at a local level with the facility for employees to register concerns directly with a designated Non Executive Director if necessary. This provides the Trust with the opportunity to address concerns and for remedial action to be taken where appropriate.

***Alignment with the local context***

3.20 The Trust is working closely with emerging Clinical Commissioning Groups to ensure alignment with their strategies and objectives these bodies have for improving the health, intervention, experience and outcomes for their patients within the overall context of the 'Right Care, Right Here' programme.

***Internal Audit opinion***

3.21 The **Internal Auditor's Year End Report** and opinion on the effectiveness of the system of internal control is commented on below. The internal auditor's overall opinion is that **Significant Assurance** can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently.

The weighted opinion considers specific audit reviews and the level of assurance assigned to each. In addition to this, the overall arrangements put in place by the Board for conducting its own assessment of the system of internal control is reviewed. The principal tool for such an assessment is the Board Assurance Framework (BAF) and the internal auditor concluded that the BAF has been designed and is operating to meet the requirements of the 2011/12 Governance Statement and provides reasonable assurance that there is an effective system of internal control to manage the principal risks to the organisation.

The internal auditor concluded that in his view, taking account of the respective levels of assurance provided for each audit review, an assessment of the relevant weighting of each individual assignment and the extent to which agreed actions have been implemented, that the Trust has a generally sound system of internal control.

## 5. REVIEW OF EFFECTIVENESS

5.1 As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed in a number of ways. The head of internal audit provides me with an opinion on the overall arrangements for gaining assurance through the

Board Assurance Framework and on the controls reviewed as part of the internal audit work. The overall level of assurance provided by the Head of Internal Audit Opinion for 2011/12 is **Significant**. Executive managers within the organisation who have responsibility for the development and maintenance of the system of internal control provide me with assurance. The Board Assurance Framework itself provides me with evidence that the effectiveness of controls that manage the risks to the organisation achieving its principal objectives have been reviewed. My review is also informed by reports and comments made by the external auditor, the Care Quality Commission and the NHS Litigation Authority, clinical auditors, accreditation bodies and peer reviews.

5.2 I have been advised on the implications of the result of my review of the effectiveness of the system of internal control by the Trust Board, Audit Committee, Finance and Performance Management Committee, Quality & Safety Committee, Clinical Quality Review Group, Governance Board, Health and Safety Committee and the Adverse Events Committee**.** A plan to address weaknesses and ensure continuous improvement of the system is in place.

5.3 The Trust Board is responsible for reviewing the effectiveness of internal control and the Board is supported in this by its corporate committees.

5.4 The Trust Board has received a quarterly update from the Director of Infection Prevention and Control (a role currently within the remit of the Chief Nurse) on performance against national infection rate targets, together with effectiveness of structures in place to support infection control and measures to ensure continuous improvement in this area

5.5 Individual Executive Directors and managers are responsible for ensuring the adequacy and effectiveness of internal control within their sphere of responsibility.

5.6 Internal Audit carries out a continuous review of the internal control system and report the result of their reviews and recommendations for improvements in control to management and the Trust's Audit Committee.

5.7 Specific reviews have been undertaken by Internal Audit, External Audit, NHS Litigation Authority as well as various external bodies.

## 6 Significant control issues

6.1 Within the year, two serious data security breaches were reported, the detail of which is included in section 3.18. In both instances, the incidents were promptly reported to the Information Commissioners Office and Strategic Health Authority.

6.2 Two inspections by the Care Quality Commission which occurred within the year reported that there were concerns over compliance with Outcomes 1 and 5 at Sandwell Hospital, prompting the development of robust action plans to address the issues raised, progress with the delivery of which was given close Trust Board and Executive management and oversight. Compliance with the outcomes was confirmed following the Care Quality Commission's visit in December 2011.

**7 Concluding remarks**

7.1 With the exception of the internal control issues that I have outlined in this statement, my review confirms that Sandwell & West Birmingham Hospitals NHS Trust has a generally sound system of internal controls that supports the achievement of its policies, aims and objectives and that those control issues have been or are being addressed.

Signed ……………………………. Chief Executive (On behalf of the Board)

Date …………………………….

**FINANCE DIVISION**
**EXECUTIVE OFFICES**

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7th June 2011

Dear Andrew,

This representation letter is provided in connection with your audit of the financial statements of Sandwell and West Birmingham Hospitals NHS Trust ("the Trust"), for the year ended 31 March 2012, for the purpose of expressing an opinion as to:

i. whether these financial statements give a true and fair view of the state of the Trust's affairs as at 31 March 2012 and of its income and expenditure for the year then ended; and

ii. whether the financial statements have been prepared properly in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England.

These financial statements comprise the statement of financial position as at 31 March 2012, the statements of comprehensive income, changes in taxpayers' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Board confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

**Financial statements**

1. The Board has fulfilled its responsibilities, as set out in the Secretary of State's directions, for the preparation of financial statements that:

- give a true and fair view of the state of the Trust's affairs as at 31 March 2012 and of its income and expenditure for the financial year then ended; and

- have been properly prepared in accordance with the accounting policies directed by the Secretary of State with the consent of the Treasury as relevant to the National Health Service in England.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Board in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.

4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

5. In respect of the restatement made to correct a material misstatement in the prior period financial statements, the Board confirms that the restatement is appropriate.

**Information provided**

6. The Board has provided you with:

   - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;

   - additional information that you have requested from the Board for the purpose of the audit; and

   - unrestricted access to persons within the Trust from whom you determined it necessary to obtain audit evidence.

7. All transactions have been recorded in the accounting records and are reflected in the financial statements.

8. The Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

   The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

9. The Board has disclosed to you all information in relation to:

   (a) Fraud or suspected fraud that it is aware of and that affects the Trust and involves:
   - management;
   - employees who have significant roles in internal control; or
   - others where the fraud could have a material effect on the financial statements; and

   (b) allegations of fraud, or suspected fraud, affecting the Trust's financial statements communicated by employees, former employees, analysts, regulators or others.

10. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

11. Further, the Board has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

    The Board acknowledges in particular the provisions balance of £4,121,000 reclassified from deferred income in year, relating to monies received from Heart of Birmingham PCT (£3.121m) and Sandwell PCT (£1m) in prior periods for the Right Care Right Here programme. The Trust confirms that in its view a potential liability exists and therefore it is not appropriate to release these monies to the Statement of Comprehensive Income.

12. The Board has disclosed to you the identity of the Trust's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Board understands them and as defined in IAS 24.

13. The Board confirms that all intra-NHS balances included in the Statement of Financial Position (SOFP) at 31 March 2012 in excess of £250,000 have been disclosed to you and that the Trust has complied with the requirements of the Intra NHS Agreement of Balances Exercise as set out in Chapter 4 of the NHS Manual For Accounts 2011/12 and Joint Supplementary Accounting Guidance issued by the Department of Health and Monitor on 4 April 2012. The Board confirms that intra-NHS balances includes all balances with NHS counterparties, regardless of whether these balances are reported within those SOFP classifications formally deemed to be included within the Agreement of Balances exercise.

14. The Board confirms that:

(a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Trust's ability to continue as a going concern as required to provide a true and fair view.

(b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Trust to continue as a going concern.

This letter was tabled and agreed at the meeting of the Board of Directors on 7th June 2011.

Yours faithfully,

**Robert White** ______________________________________________
**[Director of Finance]**

**John Adler** ______________________________________________
**[Chief Executive]**

C.C. Audit Committee

**Appendix A to the Board Representation Letter of [name of Trust]: Definitions**

**Financial Statements**

IAS 1.10 states that a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- a statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

**Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

**Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

**Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

(a) was available when financial statements for those periods were authorised for issue; and
(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

**Management**

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

**Related parties**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the “reporting entity”).

a) A person or a close member of that person’s family is related to a reporting entity if that person:
   i. has control or joint control over the reporting entity;
   ii. has significant influence over the reporting entity; or
   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
b) An entity is related to a reporting entity if any of the following conditions applies:
   i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
   ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
   iii. Both entities are joint ventures of the same third party.
   iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
   v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
   vi. The entity is controlled, or jointly controlled by a person identified in (a).
   vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

a) a government that has control, joint control or significant influence over the reporting entity; and
b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity.

**Related party transaction**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.